

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K/A  
(Amendment No. 1)

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
COMMISSION FILE NUMBER - 000-23599

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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 MASSACHUSETTS  
(Address of principal executive offices)

01824  
(Zip code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12 (b) OF THE  
SECURITIES EXCHANGE ACT OF 1934:  
None

SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE  
SECURITIES EXCHANGE ACT OF 1934:  
Common Stock, Par Value \$.01 Per Share

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this Form 10-K.

Aggregate market value of Registrant's voting stock held by non-affiliates of the Registrant as of August 30, 2002: \$487,854,273.

Shares of Common Stock outstanding as of August 30, 2002: 21,133,227 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its special meeting in lieu of the 2002 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

Exhibits Index on Page 49

EXPLANATORY NOTE

This Amendment is filed for the sole purpose of correcting a typographical error under the column heading "Wireless Communications and Other Segment" on Page 38.

## ITEM 1. BUSINESS

## OVERVIEW

Mercury Computer Systems, Inc. (the "Company" or "Mercury") designs, manufactures and markets high-performance, real-time digital signal and image processing computer systems. These multicomputer systems are heterogeneous, meaning they can be comprised of multiple types of microprocessors, and scalable from a few to hundreds of microprocessors within a single system. Mercury's system architecture is primarily designed for digital signal processing ("DSP") and image processing applications, which are typically computation-intensive and require input/output ("I/O") capacity and interprocessor communication bandwidth not available on a general-purpose Personal Computer ("PC") or workstation.

Mercury's primary markets are defense electronics, medical imaging and OEM solutions, the latter of which is comprised mainly of the semiconductor imaging equipment market and the high-end airport baggage scanning market. Each of these markets has applications with computing needs that benefit from the unique system architecture developed by the Company. Mercury's computer systems are generally used to transform the tremendous, unrelenting stream of real-world, sensor-generated data produced in these applications into usable information in real time. Product application examples include a radar system to enable a military commander to "see" the battle space through natural barriers such as clouds, darkness, water or foliage, so that the position and strength of the enemy can be determined; a magnetic resonance imaging ("MRI") machine in a hospital to enable a physician to "see" within the body instead of performing invasive surgery; or a semiconductor wafer inspection system to enable the machine to detect a minute defect in a wafer's surface, increasing the yield of the production line.

During the past several years, the majority of the Company's revenues have been generated from sales of its products to the defense electronics market. The products are embedded in intelligence, surveillance and reconnaissance gathering systems for radar, sonar and signals intelligence ("SIGINT") applications. The Company's activities in this area have focused on selling its products into the proof of concept, development and deployment phases of these advanced military applications. The Company has established relationships with many of the major prime contractors in the worldwide defense industry, including Lockheed Martin Corporation, Raytheon Company, Northrop Grumman Corporation, L3 Communications, Boeing Company, Alenia Marconi Systems, Ericsson Microwave Systems AB, Mitsubishi Electronics, BAE Systems and NEC. In addition, the Company sells its systems directly to leading organizations in the advanced technology research and development community including MIT Lincoln Laboratory.

Medical imaging is another primary market currently served by the Company. Mercury's computer systems are embedded in MRI, computed tomography ("CT"), positron emission tomography ("PET"), and digital x-ray machines. Mercury has supplied computer systems for use in several of GE Medical Systems' imaging systems since 1987 and has established relationships with Siemens Medical Systems, Inc. and Philips Medical Systems Nederland BV.

Mercury's systems are currently embedded within semiconductor photomask generation systems manufactured by Micronic Laser Systems AB of Sweden. In addition, Mercury has secured multiple design wins in next-generation semiconductor imaging applications including wafer inspection and reticle inspection systems. The Company is also currently designed into the high-end airport baggage scanning system, the CTX 9000 Dsi, (TM) from InVision Technologies.

Over the last two years, the Company has invested in both product and market development in an attempt to penetrate the wireless communications infrastructure market. Initially targeting the next-generation, or "3G," wireless base station market, the Company has expanded its focus to adjacent applications within the telecommunications infrastructure market and into highly related applications within the defense market for applications within Signals Intelligence ("SIGINT"), Communications Intelligence ("COMINT") and Software Defined Radio ("SDR").

Due to the nature of the applications in which many of Mercury's computer systems are embedded, they are frequently confined in limited spaces and therefore are designed to generate a minimum amount of heat. The Company employs the RACEway Interconnect, an industry standard system area network developed by Mercury, which allows for high interprocessor communication, data processing bandwidth and I/O capacity. The Company uses its proprietary Application-Specific Integrated Circuits ("ASICs") to integrate microprocessors, memory and related components into the RACEway Interconnect fabric to provide optimum system performance. The Company uses multiple industry standard processors, such as Motorola's PowerPC(R) microprocessor, in the same system. The Company believes that the RACEway Interconnect and its proprietary ASICs, working together with a group of mixed microprocessors in the same system, allow for the most efficient use of space and power with an optimal price/performance ratio.

## INDUSTRY BACKGROUND

### Defense Electronics

Digital signal and image processing computer systems are embedded into air, sea and land-based platforms for processing radar, sonar and SIGINT data. The Company believes that an important factor underlying the development of the defense electronic market is a continuing desire by military commanders for increased real-time battle space information, which can be obtained through radar, sonar, SIGINT and image intelligence systems. Military commanders also need more powerful computers with similar attributes in order to conduct dynamic battle simulations and mission planning tasks utilizing today's complex weapons systems.

Another important trend in the defense electronics marketplace is the move toward the use of systems which incorporate selected commercial off-the-shelf ("COTS") hardware and software components to save money and development time. The U.S. Department of Defense ("DoD") leaders and federal regulations have mandated widespread use of COTS components in defense electronics applications. All of Mercury's computer systems are eligible for use in defense electronics applications as COTS components.

### Medical Imaging

The principal modalities of medical imaging systems include MRI, CT, digital x-ray, PET, single photon emission computed tomography ("SPECT") and ultrasound devices. The Company believes demand for medical imaging equipment will increase modestly over the next few years, fueled by the introduction of next-generation devices, together with the anticipated future development by the major medical imaging manufacturers of new international markets for their imaging equipment. The Company believes medical imaging equipment manufacturers will continue to replace in-house designed digital signal and image processing systems with commercially available systems designed by the Company and others.

Demand in the medical imaging market is driven in part by the need to provide physicians with rapid, sharp and clear images of a patient's body suspected to be diseased or injured. These images provide a significant diagnostic tool for the physician, who can more readily understand the patient's malady and prescribe appropriate corrective action. In order to provide such images, medical imaging machines must be capable of processing a continuous stream of data on a real-time basis. A parallel concern in the health care industry is the need to reduce costs. Hospitals, in particular, continue to be under significant pressure to contain costs and, at the same time, maintain quality of care. Such pressures are forcing hospitals to be as technologically efficient as possible. Toward this end, hospitals seek to reduce the time patients must spend in medical imaging machines, increasing the number of patients who can be diagnosed with this expensive equipment during a given period of time. One way to reduce patient time in medical imaging machines and improve image quality is to utilize more powerful signal processing computers, such as those supplied by Mercury.

### OEM Solutions

The principal applications within the OEM solutions area are in the semiconductor imaging equipment market, including photomask generation, reticle inspection and wafer inspection systems, as well as in the high end airport baggage scanning market. The requirements of the semiconductor equipment market can best be looked at from the perspective of the demands of customers for imaging equipment. Semiconductor manufacturers are under constant pressure to produce chips that are faster and smaller. This demand drives the need for new semiconductor imaging equipment that can create chips with reduced line widths and that can perform critical inspections at each development step to provide the yield necessary to meet financial objectives. As line widths shrink, previous imaging techniques become obsolete and new technology and techniques are required. This places constant demands on the imaging system OEMs to increase system performance. The new geometries and the industry drive for greater sensitivity is causing an increase in the amount of data systems must process. This is the result of pixel sizes getting smaller (image sizes are getting bigger) and algorithms getting more complex to compensate for the artifacts caused by dealing with smaller features.

Increasing competition among semiconductor imaging OEMs is driving an increased focus on time-to-market of higher performance and new processing algorithms. To meet time-to-market demands and have the ability to deploy more complex algorithms efficiently, the industry is moving away from traditional hard-coded solutions and adopting off-the-shelf programmable solutions.

Checked baggage screening at airports has been mandated by the U.S. Congress, and since the tragedy of 9/11/01, has been a concern in airports around the world. As a result of the need to improve efficiency of scanning to avoid passenger delays, and reduce the number of false-positives and missed contraband items, algorithms are likely to continue to be improved. The demand for higher-performance scanning systems that will be designed directly into the baggage-handling systems in major and regional airports could be expected to increase as the necessary redesign and construction required is completed.

### Wireless Communications

The telecommunications infrastructure market has many entry points for computer systems products. The Company has focused primarily on the 3G wireless base station market. The application requirements are similar to those in our traditional markets, demanding high-performance embedded computer systems and system design and algorithm expertise. Since the spectrum available for wireless

communications is a finite resource, increasing demand resulting from more subscriptions to wireless operators will eventually require new technological approaches. However, the current downturn within the wireless industry has resulted in significant reductions in infrastructure investments. Therefore, while the Company continues to pursue business in the wireless base station market, it has begun to refocus some of its resources into adjacent telecommunications infrastructure application areas where investments continue to be made and there is a greater potential for revenue in the near-term. In addition, some resources from the wireless team are focusing on highly related applications within the defense market, including SIGINT, COMINT and SDR applications.

## MARKETS AND CUSTOMERS

### Defense Electronics

Mercury provides high-performance embedded computer systems as standard products to the defense electronics market by using commercial and selected rugged components and by working closely with defense contractors to complete a design that matches the specified requirements of military applications. The Company engages in frequent, detailed communication with the system end users, military executives, and program managers in government and defense contractors regarding the technical capabilities of Mercury's advanced signal processing computers and the successful incorporation of its computers in numerous military programs.

Mercury employs industry application specialists to monitor the defense programs and emerging applications in each major branch of the United States armed services and in Europe and Japan to keep abreast of developments in their respective regions. This approach provides relevant information to Mercury regarding major military procurements worldwide. Mercury maintains sales and technical support groups to service defense industry participants in regional offices in the United States, and through Mercury's subsidiary offices or distributors in at least 11 other countries. At Mercury's headquarters in Chelmsford, Massachusetts, a group of systems engineers specializing in radar, sonar and surveillance applications provides support on an as-needed basis to the remote offices to assist in securing program wins in targeted military programs.

During the past several years, the majority of the Company's revenues have been generated from sales of its products to the defense electronics market. The products are embedded in intelligence, surveillance and reconnaissance gathering systems, such as radar, sonar and SIGINT applications. The Company's activities in this area have focused on selling its products into the proof of concept, development and deployment phases of these advanced military applications. The Company has established relationships with many of the major prime contractors in the worldwide defense industry, including Lockheed Martin Corporation, Raytheon Company, Northrop Grumman Corporation, L3 Communications, Boeing, Alenia Marconi Systems, Ericsson Microwave Systems AB, Mitsubishi Electronics, BAE Systems and NEC. In addition, the Company sells its systems directly to leading organizations in the advanced technology research and development community including MIT Lincoln Laboratory.

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

### Medical Imaging

Mercury strives to provide a superior combination of high performance and competitively priced embedded computer systems to the medical imaging market. The Company focuses on establishing strong relationships with its customers, the medical equipment manufacturers. By maintaining frequent, in-depth communications with its customers and working closely with their engineering groups, the Company is able to understand their needs and provide appropriate solutions. In addition, the Company intends to continue its efforts to install its computer systems in place of alternative designs created by the in-house design teams employed by the medical imaging equipment manufacturers and other competitors within the market.

The Company has recently begun to experience erosion in revenues derived from sales of systems to its three CT OEM customers due to introductions by these customers of CT systems that do not contain Mercury products. At the time of the last design phase, each of these customers stipulated a choice of processor for their systems. The Company did not offer products based on the customers' processor choices, and based on its business analysis, decided against building custom systems. Therefore, these customers made alternative design choices, and in two of the cases, the customer chose to build the solution internally. The Company is preparing to compete for the next design cycle of CT systems.

The Company currently is working closely with a major medical equipment company to design the next generation of its MRI product line, another medical equipment company on a next-generation PET system, and an OEM in the development of a new digital x-ray product line. The Company believes these developments will lead to faster time-to-market and competitive advantages for the medical equipment companies that use Mercury's systems in their imaging machines. Mercury's industrial-class hardware system provides the medical imaging industry with increased performance densities at lower costs and an architecture that accommodates performance upgrades as new technology becomes available. Integrating the high-bandwidth RACEway Interconnect architecture within the PCI environment results in highly scalable systems. This allows medical equipment suppliers to design systems that can satisfy a broad range of price/performance

requirements and meet the needs of global markets, all with the same Mercury architecture.

Mercury's medical OEM customers consist of the leading manufacturers of medical imaging equipment. They include GE Medical, headquartered in Wisconsin, GE Medical Systems Europe in France, Siemens Medical in Germany, and Philips Medical Systems in the Netherlands and Israel. These companies have adopted Mercury's PCI or VME computer systems as part of their developments in either MRI, PET, CT or digital x-ray systems and, in the case of some companies, multiple types of systems. The Company has supplied GE Medical with computer systems for use in three successive generations of its MRI machines from 1987 through the present, as well as for use in other GE Medical equipment, such as PET and digital x-ray.

The Company believes the principal reason for its medical imaging design wins is its experienced team of systems and applications engineers who work closely with the medical equipment designers and with the Company's product development engineers. This joint design effort frequently precedes the first production orders by approximately two to three years. However, once selected, the production contracts typically continue for the life of the medical imaging system. In addition, the equipment manufacturers typically offer computer system upgrades to their customers, potentially resulting in additional sales of Mercury's products.

#### OEM Solutions

Within the broadly defined OEM solutions market, Mercury is currently working with multiple semiconductor imaging OEMs, having achieved design wins in each of the primary application areas of photomask generation, reticle inspection and wafer inspection. Mercury's current customers range from relatively new start-up companies to top-tier OEMs. The Company's business approach is to provide a compelling combination of high-performance and competitively priced embedded computer systems with application engineering expertise. The Company focuses on establishing strong relationships with its OEM customers by maintaining frequent, in-depth communications and working closely with their engineering groups. The Company intends to continue its efforts to earn new design wins for its computer systems in place of alternative designs employed by the semiconductor imaging equipment manufacturers and other competitors within the market.

In addition, the Company has been supplying systems to InVision Technologies for use in their high-end airport checked-baggage system for a number of years. Mercury's systems are currently designed into their high-end CTX 9000 DSI(TM) system.

The Company believes it is one of a very few suppliers of off-the-self embedded computers that has products capable of meeting the demanding processing and I/O bandwidth requirements of the OEM marketplace. Mercury's OEM business and support model fits well with the OEM's needs for faster time-to-market. The Company believes the principal reason for its semiconductor imaging design wins is Mercury's experienced team of systems and applications engineers who work closely with the OEMs and with the Company's product development engineers to ensure the optimum configuration for the customer. This joint design effort frequently precedes the first production orders by approximately one to three years. However, once selected, the production contracts are anticipated to continue for the life of the semiconductor imaging system. In addition, the equipment manufacturers typically offer computer system upgrades to their customers, potentially resulting in additional sales of Mercury products.

#### Wireless Communications

During the fourth quarter of fiscal 1999, the Company announced it would pursue wireless communications opportunities internally, offering its technology and expertise to manufacturers for incorporation within next generation base stations that require substantially more flexible and powerful signal processing capabilities. The Company does not expect that shipments of products incorporating wireless communications technology will commence before fiscal 2005.

The Company remains optimistic on the long-term potential of this market because fundamentally, spectrum is a finite resource and ultimately new technology will be required to maximize the revenue-generating capacity of this valuable resource. The Company believes its unique products and competencies provide a compelling business case for embedding its technologies in future infrastructure designs. However, the downturn in the telecommunications industry has resulted in significant reductions in infrastructure investments. Therefore, while the Company's wireless team continues to pursue business within the commercial wireless base station market, the Company has begun to refocus some of its wireless communications resources into adjacent telecom application areas where investments continue to be made and there is a greater potential for revenue in the nearer-term. Also, within the defense communications area, there are significant opportunities in SIGINT and COMINT applications, and in software-defined radio ("SDR"), to leverage Mercury's investments in wireless product developments and the competencies within the wireless team. There is increased focus in these application areas since 9/11, and Mercury plans to capture a significant share of the opportunities anticipated over the coming years.

#### KEY TECHNOLOGY COMPETENCIES

Many of Mercury's customers share a common requirement: the need to process high-volume, real-time digital data streams. The computer must have the ability to process incoming data as quickly as it is received, whether from an antenna in a defense application or from a medical scanner. Data rates can range from a few to several hundreds of megabytes per second (or several billion bits per second). The ability to process this continuous flow of high-bandwidth data is a fundamental difference between the majority of computing systems in the world (such as personal computers, workstations and servers) and the computers built by Mercury.





Mercury has developed a set of core technical strengths specifically targeted to, and defined by, the application areas of signal, image and digital media processing. These technical strengths are pivotal to Mercury's success in the real-time market segments of defense electronics, medical imaging, OEM solutions (including semiconductor imaging), and the developing markets within wireless communications and have resulted in the following developments and capabilities:

**Switch Fabric Interconnects.** Mercury connects different microprocessor types (reduced instruction set computers ["RISC"], DSP and specialized computing devices) and I/O devices in a bus-less, high-bandwidth manner based on multi-stage switches in its system area network. Among the engineering developments which distinguish Mercury's systems are the RACEway Interconnect built using the multi-port RACEway crossbar chip, which supports high-bandwidth, point-to-point data transfers and fibre channel chassis-to-chassis extensions for RACEway in large system configurations.

**Heterogeneous Processor Integration.** Mercury has developed several ASICs that integrate standard microprocessors and special-purpose mathematics and graphics processors into a single heterogenous environment. Mercury develops systems consisting of different microprocessor types with a single-system software model. Mercury's processor-independent software offers a consistent set of software tools and interfaces that can drive a heterogeneous mix of microprocessor types, such as Motorola's PowerPC processor and Analog Devices' SHARC DSP processor.

**Performance Density.** The Company's thermal analysis expertise allows it to design products that optimize the dissipation of heat from the system to meet the environmental constraints imposed by many of its customers' applications. The Company's modular hardware and software building blocks allow it to design systems that best meet the application's specific data profiles. Altogether, these attributes combine to deliver the maximum performance in processing, reliability and bandwidth in the smallest possible space.

**Scalable Software.** Mercury's software has been designed to scale to hundreds of processors used in real-time environments while maintaining a high-bandwidth capability. Regardless of the number of processors, the Company's software provides the same programming environment for a software developer working with Mercury's computer systems, allowing faster time-to-market and lower life-cycle maintenance costs for its customers.

**Optimized Algorithm Development.** Mercury specializes in algorithm development for single- and multi-processor implementations. The Company believes that using the mathematical algorithms in Mercury's scientific algorithm library (SAL) significantly increases the performance of customers' applications, reduces development time and minimizes life-cycle support costs.

**Systems Engineering Expertise.** Mercury has established a core competency in providing total system solutions to its customers. The Company has the knowledge and technical staff to act as an extension of the customer's engineering organization to develop solutions for some of the world's most demanding real-time, signal-processing applications. Mercury has partnered with its customers to understand and resolve the challenging problems encountered in applications as diverse as radar, sonar and SIGINT for the military and medical imaging for MRI, CT, PET and digital x-ray in the medical imaging market. The Company also provides an integration and development service to meet the demands of its customers with advanced applications that cannot be satisfied with standard products. This service combines the variety of standard products with custom hardware and software to meet the specific configuration demands of an application.

**Leverage and Creation of Standards.** Mercury uses existing standards where applicable and has been successful in developing new standards. For example, Mercury adheres to VME and PCI standard bus interfaces and form factors. RACEway Interconnect system area network that Mercury developed was adopted as an ANSI/VITA standard in 1995, and since then has been adopted by numerous companies offering products and services for embedded real-time applications. Together with Motorola, Mercury created the RapidIO Interconnect as a next-generation, switch fabric standard. Now governed by the RapidIO Trade Association, the RapidIO standard is being widely adopted in embedded computer applications that extend beyond the Company's traditional markets. Participation in the RapidIO Trade Association currently includes the major microprocessor developers and the major telecom OEMs - some 90 companies in all.

## PRODUCTS

### HARDWARE PRODUCTS

Mercury offers three classes of systems to meet the full range of requirements in signal and image processing applications.

**High-Performance Class.** Mercury offers a family of high-performance systems for demanding defense electronics applications that are compute-intensive and require a high I/O capacity and interprocessor bandwidth. These applications include space time adaptive processing ("STAP"), ground-penetrating and foliage-penetrating radar ("GPEN") and synthetic aperture radar ("SAR"). These high-performance systems, known as MultiPort(TM) and PowerStream(TM), can scale to hundreds of processors and today include compute modules based on the PowerPC processors.

**VME Class.** The VME bus has been the traditional standard for many embedded applications. Mercury's VME systems each support RACEway Interconnect. Systems contain modules based primarily on the PowerPC processors and can scale to several hundred processors. Mercury's VME-based systems and components are primarily used in the defense market where backward and forward compatibility is required for the long system life cycles of military equipment. This class of



computing speed, bandwidth and scalability requirements of many of today's medium-performance radar, sonar and SIGINT applications. Advanced and future radar systems are more likely to use the high performance class systems.

**Industrial Class.** Based on the PCI bus standard and the CompactPCI ("cPCI") standard, these systems use the RACEway Interconnect to provide the extended bandwidth required for real-time applications. Currently, Mercury provides compute modules based on the PowerPC processors. The VantageRT(TM) PCI-based systems scale to 64 processors and are directed to the medical imaging and OEM solutions markets, which are moving from VME- to PCI- based designs. Mercury offers the motherboard ("MB") ImpactRT(TM) cPCI-based systems: the ImpactRT MB uses the same daughtercards as Mercury's VME-based products, both processor daughtercards and I/O daughtercards, scaling up to 12 microprocessors and offering high performance and flexibility. The ImpactRT S500 is a complete multiprocessor system that can operate as a single-board solution or scale up to a 24-processor configuration, delivering a level of performance that is unique in the 6U cPCI form factor.

#### SOFTWARE PRODUCTS

Mercury has developed a comprehensive line of software products that enable accelerated development and running of digital signal and image processing applications on Mercury hardware. The MC/OS Multicomputing run-time environment is bundled with each system. The Company separately licenses software products, and licenses a development software package that includes a development version of the MC/OS operating environment, scientific algorithm libraries, debugging tools and compilers.

Following are certain software products offered by the Company.

**MC/OS Multicomputing Environment.** The MC/OS operating environment allows maximum use of the RACE heterogeneous multicomputer architecture in a single-system model, incorporating a consistent set of system and application programming interfaces and a common development environment. MC/OS is supported on the high performance, VME and industrial classes of Mercury hardware systems.

**Scientific Algorithm Library (SAL).** SAL comprises more than 400 assembly language routines optimized for specific target processors including Motorola's PowerPC processor with AltiVec technology. These SAL routines include functions for vector processing, FFTs and data conversion.

**Vector Signal and Image Processing Library (VSIPL).** A subset of the SAL library has been restructured to conform to the VSIPL Standard. VSIPL-Lite implements the VSIPL Core Lite function profile of the standard, which contains the 125 most common functions for real-time signal processing. With a performance that nearly equals SAL, VSIPL-Lite is a prime example of how Mercury maintains a focus on performance while achieving portability through standards.

**PixL(TM) Image Processing Algorithm Library (PixL).** Image processing applications must frequently perform intensive integer-based mathematics as part of inner-loop processing. The PixL(TM) library addresses this need with high-performance integer routines, optimized for the AltiVec family of microprocessors. Applications coded with PixL library routines frequently operate from 8 to 16 times faster than traditional scalar operations.

**Parallel Acceleration System (PAS(TM)).** PAS is a set of high-performance libraries that form a complete programming environment for developing parallel applications in a distributed memory multicomputer system. The libraries speed the development of advanced applications using many processors in parallel.

**MULTI(R) Integrated Development Environment (IDE).** The RACE++ Series MULTI IDE brings mainstream software development tools to the challenge of developing real-time multicomputing solutions. With the MULTI IDE, developers can create real-time multiprocessing routines using familiar, industry-leading, graphical tools from Green Hills Software, the leader in embedded mainstream software development tools and languages. The MULTI IDE features integrated tools including the Language-Sensitive Text Editor, Project Builder, and Source-Level Debugger, and supports open standards including ELF/DWARF, ANSI C and C++, and PowerPC EABI.

**TATL(TM) Trace Analysis Tool and Library.** TATL is a system-level performance analyzer and debugger that provides insight into complex multiprocessor interactions in real-time systems. TATL works through the use of a low-overhead event logging library during runtime and a powerful visualization tool for off-line analysis of the dynamic communications, control and dependencies in the system. Because TATL is both powerful and easy to use, there is a very short "time to insight."

#### ENGINEERING, RESEARCH AND DEVELOPMENT

The Company's engineering, research and development efforts are focused on developing new products as well as enhancing existing products. Mercury's research and development goal is to fully exploit and maintain its technological lead in the high-performance, real-time, signal processing industry.

Mercury is involved with researchers from other companies and government organizations to contribute to the definition, standardization and implementation of a software framework for use inside programmable radios. Similar cooperative developments are underway to develop



technology to optimize software code portability and reusability. This latter research is focused on developing generic software components that can be targeted to Mercury's products through the use of industry standard tools with Mercury-specific libraries. Some of these research areas benefit from cost sharing through Defense Advanced Research Projects Agency ("DARPA") grants in those areas where the DoD will obtain benefit from the development.

As of June 30, 2002, the Company had 222 people primarily engaged in engineering, research and development, including hardware and software architects and design engineers. During fiscal years 2002, 2001 and 2000, the Company's total research and development costs were approximately \$34.4 million, \$30.5 million, and \$28.9 million, respectively.

#### CUSTOMER SUPPORT AND INTEGRATION

Mercury's Customer Services organization is engaged in a full range of support functions, including training, technical program management, integration and design services, custom software code application work, host porting services and traditional maintenance and support services. The Company has invested in the range of tools, analyzers, simulators, instruments and workstations to provide a rapid response to both development and customer support requirements. Within the Customer Services organization, the Solution Alliance team has developed many custom interfaces, reviewed customers' designs, developed special hardware and software components and provided program management on behalf of defense, medical and OEM customers. The capabilities of this team enable the Company to respond to the demanding individuality of many programs and have resulted in Mercury being selected for both development, high-volume production and deployed programs.

#### MANUFACTURING AND TESTING

The Company has received the International Standard Organization ("ISO") 9001 certification for quality. The Company's manufacturing operations consist primarily of materials planning and procurement, final assembly, burn-in, final system testing and quality control. The Company designs all of the hardware sub-assemblies for its products and uses the services of contract manufacturers in the U.S. to build these sub-assemblies and certain of its products to the Company's specifications. The Company uses automated testing equipment and burn-in procedures, as well as comprehensive inspection and testing by technicians, to assure the quality and reliability of its products.

Although the Company generally uses standard parts and components for its products, certain components including custom designed ASICs, SRAM, and PowerPC processors are presently available only from a single source or from limited sources. The Company has no supply commitments from its vendors and generally purchases components on a purchase order basis as opposed to entering into long-term procurement agreements with vendors. The Company has generally been able to obtain adequate supplies of components in a timely manner from current vendors or, when necessary to meet production needs, from alternate vendors. The Company believes that, in most cases, alternate vendors can be identified if current vendors are unable to fulfill needs. However, delays or failure to identify alternate vendors, if required, or a reduction or interruption in supply or a significant increase in the price of components could adversely affect the Company's revenues and financial results and could impact customer relations.

#### COMPETITION

The markets for the Company's products are highly competitive and are characterized by rapidly changing technology, frequent product performance improvements and evolving industry standards. Competition typically occurs at the design stage of a prospective customer's product, where the customer evaluates alternative design approaches. The principal competition within the non-defense markets comes from internal development organizations, though from time to time the Company does compete with other commercial companies for the design win. A design win usually ensures, but does not always guarantee, that a customer will purchase the Company's product until the next-generation system is developed. The Company believes that its future ability to compete effectively will depend, in part, upon its ability to continue to improve product and process technologies, develop new technologies to maintain the performance advantages of products and processes relative to competitors, to adapt products and processes to technological changes, to identify and adopt emerging industry standards and to adapt to customer needs.

The principal bases for selection in sales of digital signal processing systems to the defense electronics industry are performance (measured primarily in terms of processing speed, I/O capacity and interprocessor bandwidth, processing density per cubic foot, power consumption and heat dissipation), systems engineering support, overall quality of products and associated services, use of industry standards, ease of use and price. Competitors in the defense electronics industry include a relatively small number of companies that design, manufacture and market embedded digital signal processing board-level products and in-house design teams employed by prime defense contractors. In-house design efforts historically have provided a significant amount of competition to the Company. However, competition from in-house design teams has diminished significantly in recent years due to the increasing use of COTS products and the trend toward greater use of outsourcing. Despite this recent change, there can be no assurance that in-house developments will not re-emerge as a major competitive force in the future. Prime contractors are much larger than Mercury and have substantially more resources to invest in research and development. Increased use of in-house design teams by defense contractors in the future would have a material adverse effect on the Company's business, financial condition and results of operations. Within the defense electronics market, occasionally, the Company competes with workstation vendors, all of whom have substantially greater research and development resources, long-term guaranteed supply capacity, marketing and financial resources, manufacturing

capability and customer support organizations than those of the Company.

In the medical imaging industry, the principal basis for selection is performance (measured primarily in terms of processing speed, I/O capacity and interprocessor bandwidth and power consumption), price, systems engineering support, overall quality of products and associated services, use of industry standards and ease of use. Competitors in the medical imaging market include in-house design teams and a small number of companies that design, manufacture and market DSP board-level products, and workstation manufacturers. Workstations have become a competitive factor primarily in the market for low-end MRI and CT machines. There can be no assurance that workstation manufacturers and other low-end single-board computer, and merchant board computer companies will not attempt to penetrate the high-performance market for medical imaging machines. The evolution of microprocessor technology makes it possible to run the same algorithm on smaller configurations creating more alternatives for designing an embedded solution. Workstation manufacturers typically have greater resources than does Mercury and their entry into markets historically targeted by Mercury may have a material adverse effect on the Company's business, financial condition and results of operations.

In other commercial and industrial markets, the primary basis for selection are performance (measured in terms of processing performance, I/O speed, and interprocessor communications bandwidth), price, systems engineering support, quality of products and service, and on-time delivery.

Some of the Company's competitors have greater financial and other resources than the Company, and the Company may be operating at a cost disadvantage compared to manufacturers who have greater direct buying power from component suppliers or who have lower cost structures. There can be no assurance that the Company will be able to compete successfully in the future with any of these sources of competition. In addition, there can be no assurance that competitive pressures will not result in price erosion, reduced margins, loss of market share or other factors that could have a material adverse effect on the Company's business, financial condition and results of operations.

#### INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

The Company relies on a combination of patent, copyright, trademark and trade secret laws to establish and protect its rights in its products and proprietary technology. In addition, the Company currently requires its employees and consultants to enter into nondisclosure and assignment of invention agreements to limit use of, access to, and distribution of proprietary information. There can be no assurance that the Company's means of protecting its proprietary rights in the U.S. or abroad will be adequate. The laws of some foreign countries may not protect the Company's proprietary rights as fully or in the same manner as do the laws of the U.S. Also, despite the steps taken by the Company to protect its proprietary rights, it may be possible for unauthorized third parties to copy or reverse engineer aspects of the Company's products, develop similar technology independently or otherwise obtain and use information that the Company regards as proprietary. There can be no assurance that others will not develop technologies similar or superior to the Company's technology or design around the proprietary rights owned by the Company. Although the Company is not aware that its products infringe on the proprietary rights of third parties, there can be no assurance that others will not assert claims of infringement in the future or that, if made, such claims will not be successful. Litigation to determine the validity of any claims, whether or not such litigation is determined in favor of the Company, could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel from daily operations. In the event of any adverse ruling in any litigation regarding intellectual property, the Company may be required to pay substantial damages, discontinue the sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to use infringing or substituted technology. The failure to develop, or license on acceptable terms, a substitute technology could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company holds five United States patents covering aspects of the RACE architecture, and has several additional patents pending and applications submitted. The Company may file additional patent applications seeking protection for other proprietary aspects of its technology in the future. Patent positions frequently are uncertain and involve complex and evolving legal and factual questions. The coverage sought in a patent application either can be denied or significantly reduced before or after the patent is issued. Consequently, there can be no assurance that any patents from pending patent applications or from any future patent application will be issued, that the scope of any patent protection will exclude competitors or provide competitive advantages to the Company, that any of the Company's patents will be held valid if subsequently challenged or that others will not claim rights in or ownership of the patents and other proprietary rights held by the Company. Since patent applications are secret until patents are issued in the United States or corresponding applications are published in other countries, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that it was the first to make the inventions covered by each of its pending patent applications or that it was the first to file patent applications for such inventions. In addition, there can be no assurance that competitors, many of which have substantial resources and have made substantial investments in competing technologies, will not seek to apply for and obtain patents that will prevent, limit or interfere with the Company's ability to make, use or sell its products either in the United States or in international markets.

#### BACKLOG

As of June 30, 2002, the Company had a backlog of orders aggregating approximately \$60.9 million. The Company includes in its backlog customer orders for products and services for which it has accepted signed purchase orders with assigned delivery dates within 12 months. Orders included in backlog may be

canceled or rescheduled by customers without penalty. A variety of conditions, both specific to the individual customer and generally affecting the customer's industry, may cause customers to cancel, reduce or delay orders that were previously made or anticipated. The Company cannot assure the timely replacement of canceled, delayed or reduced orders. Significant or numerous cancellations, reductions or delays in orders by a customer or group of customers could materially adversely affect the Company's



business, financial condition and results of operations or its ability to predict future revenues. Backlog should not be relied upon as indicative of the Company's revenues for any future period.

#### EMPLOYEES

At June 30, 2002, the Company employed a total of 593 persons, including 222 in research and development, 213 in sales, marketing and customer support, 70 in manufacturing and 88 in general and administration. Twenty-two of the Company's employees are located in Europe, seven are located in Japan, and the remainder are located in the U.S. None of the Company's employees are represented by a labor organization, and the Company believes that its relations with employees are good. Competition for qualified personnel in the engineering fields is intense and the Company is aware that much of its future success will depend on its continued ability to attract and retain qualified personnel. The Company seeks to attract new employees by offering competitive compensation packages, including salary, bonus, stock options and employee benefits. There can be no assurance, however, that the Company will be successful in retaining its key employees or that it will be able to attract skilled personnel for the development of its business.

#### RISK FACTORS

Statements in this report, as well as in oral comments made by the Company, that are prefaced with the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "designed" 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 the Company can give no firm assurance. 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. These forward-looking statements, like any forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include the factors set forth below.

**DEPENDENCE ON DEFENSE ELECTRONICS BUSINESS; UNCERTAINTY ASSOCIATED WITH GOVERNMENT CONTRACTS.** Sales of the Company's computer systems to the defense electronics market accounted for approximately 65%, 67%, and 71% of the Company's revenues in fiscal 2002, 2001, and 2000, respectively. Reductions in government spending on programs that incorporate the Company's products could have a material adverse effect on the Company's business, financial condition and results of operations. Moreover, the Company's government contracts and subcontracts are subject to special risks, such as: delays in funding; ability of the government agency to unilaterally terminate the prime contract; reduction or modification in the event of changes in government policies or as the result of budgetary constraints or political changes; increased or unexpected costs under fixed price contracts; and other factors that are not under the control of the Company. In addition, consolidation among defense industry contractors has resulted in fewer contractors with increased bargaining power relative to the Company. No assurance can be given that such increased bargaining power will not adversely affect the Company's business, financial condition or results of operations in the future.

Changes in government administration, as well as changes in the geo-political environment such as the current "War on Terrorism," can have significant impact on defense spending priorities and the efficient handling of routine contractual matters. Such changes could have a negative impact on the Company's business, financial condition, or results of operations in the future.

The Company's contracts with the U.S. and foreign governments and their prime and subcontractors are subject to termination either upon default by the Company or at the convenience of the government or customer. Termination for convenience provisions generally entitle the Company to recover costs incurred, settlement expenses and profit on work completed prior to termination. Because the Company contracts to supply goods and services to U.S. and foreign governments, it is also subject to other risks, including contract suspensions, protests by disappointed bidders of contract awards that can result in the reopening of the bidding process, changes in governmental policies or regulations or other political factors.

**DEPENDENCE ON KEY CUSTOMERS.** The Company is dependent on a small number of customers for a large portion of its revenues. In fiscal 2002, GE Medical, Lockheed Martin and Raytheon Company accounted for 16%, 12% and 12%, respectively, of the Company's revenues. In fiscal 2001, Lockheed Martin, Raytheon Company and GE Medical accounted for 18%, 14% and 13%, respectively, of the Company's revenues. In fiscal 2000, Raytheon Company, Lockheed Martin, Northrop Grumman Corporation and GE Medical accounted for 19%, 14%, 12% and 12%, respectively, of the Company's revenues. The Company's largest customer in the medical imaging market, GE Medical, accounted for 57%, 52%, and 59% of the Company's aggregate sales to the medical imaging market in fiscal 2002, 2001, and 2000, respectively. Customers in the defense electronics market generally purchase the Company's products in connection with government programs that have a limited duration, leading to fluctuating sales to any particular customer in the defense electronics market from year to year. A significant diminution in the sales to or loss of any of the Company's major customers would have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company's revenues are largely dependent upon the ability of its customers to develop and sell products that incorporate the Company's products. No assurance can be given that the Company's customers

will not experience financial or other difficulties that could adversely affect their operations and, in turn, the results of operations of the Company.

**DEPENDENCE ON MEDICAL IMAGING MARKET; POTENTIAL ADVERSE EFFECT OF HEALTH CARE REFORM.** Sales of the Company's computer systems to the medical imaging market accounted for approximately 28%, 24% and 19% of the Company's revenues in fiscal 2002, 2001 and 2000, respectively. These customers are original equipment manufacturers ("OEMs") of medical imaging devices and, as a result, any change in the demand for such devices that renders any of the Company's products unnecessary or obsolete, or any change in the technology in such devices, could have a material adverse effect on the Company's business, financial condition and results of operations. Such OEM customers, the end users of their products and the health care industry generally are subject to extensive federal, state and local regulation in the U.S. as well as in other countries. Changes in applicable health care laws and regulations or new interpretations of existing laws and regulations could have a material adverse effect on such customers or end users. There can be no assurance that future health care or budgetary legislation or other changes in the administration or interpretation of governmental health care programs both in the U.S. and abroad will not have a material adverse effect on the Company's business, financial condition or results of operations.

**COMPETITION.** The markets for the Company's products are highly competitive and are characterized by rapidly changing technology, frequent product performance improvements and evolving industry standards. See "Item 1. Business - Competition." Due to the rapidly changing nature of technology, new competitors may emerge of which the Company has no current awareness. Such competitors could have a negative impact on the Company's ability to win future business opportunities. There can be no assurance that workstation manufacturers, other low-end single-board computer, and merchant board computer companies, or a new competitor will not attempt to penetrate the high-performance market for defense electronics systems. With continued microprocessor evolution, low-end systems could become adequate to meet the requirements of an increased number of the lesser-demanding applications within the Company's target markets. Their entry into markets historically targeted by Mercury may have a material adverse effect on the Company's business, financial condition and results of operations.

**SLOWDOWN IN THE ECONOMY.** The Company's business has been negatively impacted by the slowdown in the economies of the United States, Asia and elsewhere that began during fiscal 2001. The uncertainty regarding the growth rate of the worldwide economies has caused companies to reduce capital investment and may cause further reduction of such investments. These reductions have been particularly severe in the electronics and semiconductor industry, which Mercury serves. While Mercury's business may be performing better than some companies in periods of economic decline, the effects of the economic decline are being felt across all of the Company's business segments and is a contributor to the slower than normal customer orders. The Company cannot predict if or when the growth rate of worldwide economies will rebound, whether the growth rate of its business will rebound when the worldwide economies begin to grow, or if or when the Company's growth rate will return to historical numbers.

**RISK OF ENTRY INTO NEW MARKETS.** The Company's expansion strategy includes developing new products and entering new markets. The Company's ability to compete in new markets will depend upon a number of factors including, without limitation, the Company's ability to create demand for its products in such markets, its ability to manage its growth effectively, the quality of its products, its ability to respond to changes in its customers' businesses by updating existing products and introducing, in a timely fashion, products which meet the needs of its customers and the ability of the Company to respond rapidly to technological change. The failure of the Company to do any of the foregoing could result in a material adverse effect on its business, financial condition and results of operations. In addition, the Company may face competition in these new markets from various companies that may have substantially greater research and development resources, marketing and financial resources, manufacturing capability and customer support organizations than those of the Company.

**FLUCTUATIONS IN OPERATING RESULTS.** The Company has experienced fluctuations in its results of operations in large part due to the sale by the Company of its computer systems in relatively large dollar amounts to a relatively small number of customers. Operating results also have fluctuated due to competitive pricing programs and volume discounts, the loss of customers, market acceptance of the Company's products, product obsolescence and general economic conditions. In addition, the Company, from time to time, has entered into contracts to engineer a specific solution based on modifications to the Company's standard products (a "development contract"). The Company's gross margins from development contract revenues are typically lower than the Company's gross margins from standard product revenues. The Company intends to continue to enter into development contracts and anticipates that the gross margins associated with development contract revenues will continue to be lower than its gross margins from standard product sales. The Company expects research and development expenses to continue to increase as the Company continues to develop products to serve its markets, all of which are subject to rapidly changing technology, frequent product performance improvements and evolving industry standards. The ability to deliver superior technological performance on a timely and cost-effective basis is a critical factor in securing design wins for future generations of defense electronics and medical imaging systems. Significant research and development spending by the Company does not ensure its computer systems will be designed into a customer's system. Because future production orders are usually contingent upon securing a design win, the Company's operating results may fluctuate due to either obtaining or failing to obtain design wins for significant customer systems.

The Company's quarterly results may be subject to fluctuations resulting from the foregoing factors as well as from a number of other factors, including the timing of significant orders, delays in completion of internal product development projects, delays in shipping the Company's computer systems and software programs, delays in acceptance testing by customers, a change in the

mix of products sold to the defense electronics, medical imaging and other markets, production delays due to quality problems with outsourced components, shortages of components, the timing of product line transitions and declines in quarterly revenues from previous generations of products following announcement of replacement products containing more advanced technology. Another factor contributing to fluctuations in quarterly results is the fixed nature of the Company's expenditures on personnel, facilities and marketing programs. The Company's expense levels for personnel, facilities and marketing programs are based, in significant part, on the Company's expectations of future revenues. If actual

quarterly revenues are below management's expectations, results of operations likely will be adversely affected. As a result of the foregoing factors, the Company's operating results, from time to time, may be below the expectations of public market analysts and investors, which could have a material adverse effect on the price of the Company's Common Stock.

**DEPENDENCE ON SUPPLIERS.** Several components used in the Company's products are currently obtained from sole-source suppliers. Mercury is dependent on key vendors like LSI Logic, Atmel and Toshiba for custom-designed ASICs, as well as Motorola for many of its PowerPC line of processors and IBM for a specific SRAM. Generally, suppliers may terminate their contract with the Company without cause upon 30-days notice and may cease offering products to the Company upon 180-days notice. If LSI Logic, Atmel, Toshiba, IBM or Motorola were to limit or reduce the sale of such components to the Company, or if these or other component suppliers to the Company, some of which are small companies, were to experience financial difficulties or other problems which prevented them from supplying the Company with the necessary components, such events could have a material adverse effect on the Company's business, financial condition and results of operations. These sole source and other suppliers are each subject to quality and performance issues, materials shortages, excess demand, reduction in capacity and other factors that may disrupt the flow of goods to the Company or its customers; thereby adversely affect the Company's business and customer relationships. The Company has no guaranteed supply arrangements with its suppliers and there can be no assurance that its suppliers will continue to meet the Company's requirements. If the Company's supply arrangements are interrupted, there can be no assurance that the Company would be able to find another supplier on a timely or satisfactory basis. Any shortage or interruption in the supply of any of the components used in the Company's products, or the inability of the Company to procure these components from alternate sources on acceptable terms could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that severe shortages of components will not occur in the future. Such shortages could increase the cost or delay the shipment of the Company's products, which could have a material adverse effect on the Company's business, financial condition and results of operations. Significant increases in the prices of these components would also materially adversely affect the Company's financial performance since the Company may not be able to adjust product pricing to reflect the increase in component costs. The Company could incur set-up costs and delays in manufacturing should it become necessary to replace any key vendors due to work stoppages, shipping delays, financial difficulties or other factors and, under certain circumstances, these costs and delays could have a material adverse effect on the Company's business, financial condition and results of operations.

**DEPENDENCE ON CONTRACT MANUFACTURERS.** The Company relies on contract manufacturers to build hardware sub-assemblies for the Company's products in accordance with the Company's specifications. During the normal course of business, the Company may provide demand forecasts to our contract manufacturers up to five months prior to scheduled delivery of products to its customers. If the Company overestimates its requirements, the contract manufacturers may assess cancellation penalties or may result in excess inventory, which may negatively impact earnings. If the Company underestimates its requirements, the contract manufacturers may have inadequate inventory, which could interrupt manufacturing of its products and result in delays in shipment to customers and revenue recognition. The Company may not be able to effectively manage the relationship with its contract manufacturers, and such contract manufacturers may not meet our future requirements for timely delivery. The Company's contract manufacturers also build products for other companies, and cannot assure the Company that they will always have sufficient quantities of inventory available to fill the Company's orders or that they will allocate their internal resources to fill these orders on a timely basis. The contract manufacturing industry is a highly competitive, capital-intensive business with relatively low profit margins. In addition, there have been a number of major acquisitions within the contract manufacturing industry in recent periods. While to date there has been no significant impact on the Company's contract manufacturers, future acquisitions could potentially have an adverse effect on its working relationship with its contract manufacturers.

**DEPENDENCE UPON KEY PERSONNEL AND SKILLED EMPLOYEES.** The Company is largely dependent upon the skills and efforts of its senior management, particularly James R. Bertelli, its president and chief executive officer, as well as its managerial, sales and technical employees. None of the senior management or other key employees of the Company are subject to any employment contract or non-competition agreement. The Company maintains key-man life insurance on Mr. Bertelli and certain other senior managers. The loss of services of any of its executives or other key personnel could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's future success will depend to a significant extent on its ability to attract, train, motivate and retain highly skilled technical professionals, particularly project managers, engineers and other senior technical personnel. The Company believes that there is a shortage of, and significant competition for, technical development professionals with the skills and experience necessary to perform the services offered by the Company. The Company's ability to maintain and renew existing engagements and obtain new business depends, in large part, on its ability to hire and retain technical personnel with the skills that keep pace with continuing changes in industry standards, technologies and client preferences. The inability to hire additional qualified personnel could impair the Company's ability to satisfy its growing client base, requiring an increase in the level of responsibility for both existing and new personnel. There can be no assurance that the Company will be successful in retaining current or future employees.

**RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS.** The Company markets and sells its products in certain international markets, and the Company has established offices in the United Kingdom, Japan, the Netherlands and France. Foreign-based revenue is determined based on the country in which the legal

subsidiary is domiciled, and represented less than 10% of the Company's total revenue for the fiscal years ended June 30, 2002, 2001 and 2000, respectively. If revenues generated by foreign activities are not adequate to offset the expense of establishing and maintaining these foreign subsidiaries and activities, the Company's business, financial condition and results of operations could be materially adversely affected. In addition, there are certain risks inherent in transacting business internationally, such as changes in applicable laws and regulatory requirements, export and import restrictions, export controls relating to technology, tariffs and other trade barriers, less favorable intellectual property laws, difficulties in staffing and managing foreign operations, longer payment cycles,

problems in collecting accounts receivable, political instability, fluctuations in currency exchange rates, expatriation controls and potential adverse tax consequences, any of which could adversely impact the success of the Company's international activities. In the recent past, the financial markets in Asia have experienced significant turmoil. A portion of the Company's revenues from sales to foreign entities, including foreign governments, is in the form of foreign currencies. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's future international activities and, consequently, on the Company's business, financial condition or results of operations.

**ACQUISITIONS.** Acquisitions may be costly and difficult to integrate, divert management resources or dilute shareholder value. The Company has considered and completed strategic acquisitions in the past, including the acquisition in 2002 of Myriad. In addition, in the future the Company may acquire or make investments in complementary companies, products or technologies. The Company may not be able to fully integrate Myriad or any acquired companies, products or technologies successfully. In connection with any acquisitions or investments it could: issue stock that would dilute the Company's existing shareholders' percentage ownership; incur debt and assume liabilities; obtain financing on unfavorable terms; incur amortization expenses related to acquired intangible assets or incur large and immediate write-offs; incur large and immediate write-offs related to office closures of the acquired companies, including costs relating to termination of employees and facility and leasehold improvement charges relating to vacating the acquired companies' premises; and reduce the cash that would otherwise be available to fund the Company's operations or to use for other purposes. The Myriad acquisition and future potential acquisitions may pose additional risks to the Company's operations, including: problems and increased costs in connection with integration of the personnel, operations, technologies or products of the acquired companies; unanticipated costs; diversion of management's attention from its core business; adverse effects on business relationships with the Company's suppliers and customers and those of the acquired company; acquired assets becoming impaired as a result of technical advancements or worse-than-expected performance by the acquired company; entering markets in which the Company has no, or limited, prior experience; and potential loss of key employees, particularly those of the acquired organization. Failure to successfully integrate any future acquisition may harm the Company's business.

**TECHNOLOGICAL CHANGES; RISK OF DESIGN-IN PROCESS.** The Company's future success will depend in part on its ability to enhance its current products and to develop new products on a timely and cost-effective basis in order to respond to technological developments and changing customer needs. The defense electronics market, in particular, demands constant technological improvements as a means of gaining military advantage. Military planners historically have funded significantly more design projects than actual deployments of new equipment, and those systems that are deployed tend to contain the components of the subcontractors selected to participate in the design process. In order to participate in the design of new defense electronics systems, the Company must be able to demonstrate its ability to deliver superior technological performance on a timely and cost-effective basis. There can be no assurance that the Company will be able to secure an adequate number of defense electronics design wins in the future, that the equipment in which the Company's products are intended to function eventually will be deployed in the field, or that the Company's products will be included in such equipment if it eventually is deployed.

Customers in the medical imaging and OEM solutions markets, including the semiconductor imaging market, also seek technological improvements through product enhancements and new generations of products. OEMs historically have selected certain suppliers whose products have been included in the OEMs' machines for a significant portion of the products' life cycle. There can be no assurance that the Company will be selected to participate in the future design of any medical or semiconductor imaging equipment, or that, if selected, the Company will generate any revenues for such design work. Failure to participate in future designs of medical or semiconductor imaging equipment could have a material adverse effect on the Company's business, financial condition and results of operations.

The design-in process is typically lengthy and expensive, and there can be no assurance that the Company will be able to continue to meet the product specifications of its OEM customers in a timely and adequate manner. In addition, any failure by the Company to anticipate or respond adequately to changes in technology and customer preferences, or any significant delay in product developments or introductions, could have a material adverse effect on the Company's business, financial condition and results of operations, including the risk of inventory obsolescence. Because of the complexity of its products, the Company has experienced delays from time to time in completing products on a timely basis. If the Company is unable to design, develop or introduce competitive new products on a timely basis, its future operating results would be adversely affected. There can be no assurance that the Company will be successful in developing new products or enhancing its existing products on a timely or cost-effective basis, or that such new products or product enhancements will achieve market acceptance.

**LIMITED PROTECTION OF PROPRIETARY RIGHTS; POTENTIAL INFRINGEMENT OF THIRD-PARTY RIGHTS.** There can be no assurance that the Company's means of protecting its proprietary rights in the U.S. or abroad will be adequate, or that others will not develop technologies similar or superior to the Company's technology or design around the proprietary rights owned by the Company. In addition, there can be no assurance that others will not assert claims of infringement in the future or that, if made, such claims will not be successful. See "Item 1. Business - Intellectual Property and Proprietary Rights."

**RESEARCH AND DEVELOPMENT.** The Company's industry is characterized by the need for continued investment in research and development. If the Company failed

to invest sufficiently in research and development, the Company's products could become less attractive to potential customers, and its business and financial condition could be materially adversely affected. As a result of the Company's need to maintain or increase its spending levels in this area and the difficulty in reducing costs associated with research and development, the Company's operating results could be materially harmed if its revenues fall below expectations. In addition, as a result of Mercury's commitment to invest in research and development, spending as a percent of revenues may fluctuate in the future.



STOCK PRICE VOLATILITY. The Company's stock price, like that of other technology companies, has been extremely volatile. When the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of Mercury's stockholders were to bring a lawsuit against us, we could incur substantial costs defending the lawsuit. In addition, the lawsuit could divert the time and attention of our management. The stock market in general, and technology companies like Mercury in particular, may continue to experience volatility in their stock prices. Such volatility may or may not be related to the operating performance of the Company. The continued threat of terrorism in the United States and abroad, the resulting military action and heightened security measures undertaken in response to that threat can be expected to cause continued volatility in securities markets.

#### ITEM 2. PROPERTIES

The Company's headquarters consist of two buildings approximating 187,000 square feet of space in Chelmsford, Massachusetts. The Company purchased these two buildings during fiscal 1999. In fiscal 2000, the Company purchased approximately 179,000 square feet of land adjacent to the two existing lots. The Company also maintains offices near Los Angeles and San Jose, California; Dallas, Texas; Chanhassen, Minnesota; Vienna, Virginia; and Silver Spring, Maryland. The Company has international offices in the United Kingdom, France, the Netherlands and Japan.

#### ITEM 3. 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. The testimony and final argument phases of binding arbitration have been completed and a final ruling is anticipated before calendar year-end 2002. 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 judgment against the Company could be awarded for a material amount.

In addition, The Company is subject to legal proceedings and claims that arise in the ordinary course of business. The Company does not believe these actions will have a material adverse effect on its financial position or results of its operations.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year ended June 30, 2002.

### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

		High ----	Low ---
2002	First quarter	\$56.11	\$25.00
	Second quarter	50.17	35.00
	Third quarter	40.11	30.00
	Fourth quarter	32.00	19.89
2001	First quarter	31.81	19.81
	Second quarter	50.00	26.13
	Third quarter	54.13	34.94
	Fourth quarter	54.56	30.25

As of August 30, 2002, the Company had approximately 12,000 shareholders including record and nominee holders.

The Company has never declared or paid cash dividends on shares of its Common Stock. The Company currently intends to retain any earnings for future growth. In addition, the Company has certain debt agreements that prohibit the payment of cash dividends to its stockholders. Accordingly, the Company does not anticipate that any cash dividends will be declared or paid on the Common Stock in the foreseeable future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

YEAR ENDED JUNE 30,	2002	2001	2000	1999	1998
	----	----	----	----	----
STATEMENT OF OPERATIONS DATA:					
Revenues	\$150,115	\$180,492	\$140,944	\$106,571	\$ 85,544
Income from operations	14,578	39,557	33,461	18,623	13,105
Net income	15,828	30,684	24,896	13,462	8,731
Net income per share:					
Basic	\$ 0.73	\$ 1.42	\$ 1.19	\$ 0.66	\$ 0.60
Diluted	\$ 0.69	\$ 1.33	\$ 1.10	\$ 0.62	\$ 0.47

JUNE 30,	2002	2001	2000	1999	1998
	----	----	----	----	----
BALANCE SHEET DATA:					
Working capital	\$ 96,051	\$101,391	\$ 67,977	\$ 42,312	\$ 32,794
Total assets	167,111	183,584	144,217	97,511	73,569
Long-term obligations	12,899	13,430	14,052	590	--
Total stockholders' equity	\$135,725	\$147,788	\$108,360	\$ 77,440	\$ 61,040

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

In this report, as well as oral statements made by the Company, phrases that are prefaced with the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "designed" 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 the Company can give no firm assurance. 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. These forward-looking statements, like any forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include certain factors identified in the following discussion as well as the risk factors appearing in Item 1 in this report on Form 10-K.

OVERVIEW

Mercury designs, manufactures and markets high-performance, real-time digital signal and image processing computer systems that transform sensor-generated data into information which can be displayed as images for human interpretation or subjected to additional computer analysis. These multicomputer systems are heterogeneous and scalable, allowing them to accommodate several microprocessor types and to scale from a few to hundreds of microprocessors within a single system.

During the past several years, the majority of the Company's revenue has been generated from sales of its products to the defense electronics market, generally for use in intelligence gathering electronic warfare systems. The Company's activities in this area have focused on the proof of concept, development and deployment of advanced military applications in radar, sonar and airborne surveillance. Medical imaging is another primary market currently served by the Company. Mercury's computer systems are embedded in magnetic resonance imaging ("MRI"), computed tomography ("CT"), positron emission tomography ("PET"), and digital cardiology imaging machines. The remaining revenues are derived from computer systems used in such commercial OEM solutions as semiconductor photomask generation, wafer inspection, baggage scanning, seismic analysis and development of new reticle inspection and wafer inspection systems.

Mercury uses a direct sales force to sell its computer systems to the defense electronics markets in the U.S., Japan, the United Kingdom and France. Defense electronics sales in other countries are achieved through distributors. The Company also uses a direct sales force to sell its computer systems to the U.S. and international medical imaging markets. The Company sells its products to OEMs, value-added resellers and end-users. Over the past three fiscal years, the Company has expanded its sales force to support growing revenues, made significant expenditures to recruit additional technical and professional staff, invested in information technology, and improved the Company's financial, administrative and management infrastructure.

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. 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. Service revenue is recognized ratably over applicable contract periods or as the services are performed.

Cost of revenues includes the cost of materials, component assembly, internal labor and related overhead. Cost of revenues also may include engineering and other technical labor and related overhead incurred in development and engineering consulting contracts and provisions for inventory and warranty.

Gross profit as a percentage of revenues ("gross margin") varies from period to period depending upon numerous variables including the mix of revenues from hardware, software, development and engineering consulting contracts; the mix of revenues among the markets served by the Company; the cost of raw materials; the cost of outsourced services and labor; operational efficiencies; actual production volume compared to planned volume; and the mix of applications for which the Company's computer systems are sold. Historically, the Company's gross margins on service revenues have been lower than on product revenues. In addition, the Company's gross margins from development contract revenues are typically lower than the Company's gross margins from standard product revenues. The Company intends to continue to enter into development contracts and anticipates that the gross margins associated with development contract revenues will continue to be lower than its gross margins on standard product revenues.

Mercury has made significant investments in research and development in an effort to maintain its technology leadership in digital signal and image processing. Mercury invested \$34.4 million, \$30.5 million and \$28.9 million in fiscal years 2002, 2001 and 2000, respectively, in development activities associated with the Company's key technology competencies as well as in activities that are targeted at developing new technologies and products. The Company expects research and development expenses to continue to increase as the Company continues to develop products to serve its markets, all of which are subject to rapidly changing technology, frequent product performance improvements and evolving industry standards. The ability to deliver superior technological performance on a timely and cost-effective basis is a critical factor in securing design wins for future generations of defense electronics, medical imaging systems, and other commercial applications. Significant research and development spending by the Company does not ensure that the Company's computer systems will be designed into a customer's system. Because future production orders are usually contingent upon securing a design win, the Company's operating results may fluctuate due to either obtaining or failing to obtain design wins for significant customer systems.

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 Spring, 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 plus \$0.4 million of transaction costs directly related to the acquisition. As a result of the acquisition, the Company recorded approximately \$4.2 million of goodwill and \$3.4 million of acquired intangible assets.

#### CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS 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.

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.

Service revenue is recognized ratably over applicable contract periods or as the services are performed.

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. If the Company determines that collectibility of a particular 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 inventories 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 assesses the impairment of acquired intangible assets, property and equipment and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers important that could indicate impairment include significant underperformance relative to prior operating results projections, significant changes in the manner of the Company's use of the asset or the strategy for the Company's overall business and significant negative industry or economic trends. When the Company determines that the carrying value of acquired intangible assets, property and equipment and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company measures any impairment based on a projected discounted cash flow method using a discount rate determined by its management to be commensurate with the risk inherent in its current business model.

The Company evaluates the realizability of its deferred tax assets on a quarterly basis and assesses the need for a valuation allowance. Realization of the Company's net deferred tax assets is dependent on its ability to generate sufficient future taxable income. The Company believes that it is more likely than not that its net deferred tax assets will be realized based on forecasted income, however, there can be no assurance that the Company will be able to meet its expectations of future income.

The Company and certain officers of the Company have been named as defendants in a former employee 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 the plaintiff was to prevail on his claims and this assumption proves incorrect, the litigation could have a material effect on the Company's financial position and results of operations.

#### RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain financial data as a percentage of total revenues.

YEAR ENDED JUNE 30,	2002	2001	2000
	-----	-----	-----
Revenues	100.0%	100.0%	100.0%
Cost of revenues	34.8	33.1	27.8
	-----	-----	-----
Gross profit	65.2	66.9	72.2
Operating expenses:			
Selling, general and administrative	32.6	28.1	28.0
Research and development	22.9	16.9	20.5
	-----	-----	-----
Total operating expenses	55.5	45.0	48.5
	-----	-----	-----
Income from operations	9.7	21.9	23.7
Other income, net	4.9	3.1	2.1
	-----	-----	-----
Income before income taxes	14.6	25.0	25.8
Provision for income taxes	4.1	8.0	8.1
	-----	-----	-----
Net income	10.5%	17.0%	17.7%
	=====	=====	=====

#### FISCAL 2002 VS. FISCAL 2001

##### REVENUES

Total revenues decreased 17% from \$180.5 million during the year ended June 30, 2001 to \$150.1 million during the year ended June 30, 2002. International revenues represented 9% of total revenues for the year ended June 30, 2002 compared with 7% of total revenue for the year ended June 30, 2001

Defense electronics revenues decreased 18% from \$120.4 million or 67% of total revenues during the year ended June 30, 2001 to \$98.2 million or 65% of total revenues during the year ended June 30, 2002. The decrease in revenues was due primarily to delays in the U.S. Defense Department programs resulting from re-planning processes and shifting of priorities to the operational necessities of the war on terrorism and airborne surveillance, partially offset by approximately \$3 million in revenues from the acquisition of Myriad, which occurred in April 2002. The Company expects defense electronics revenues to increase in future periods as the result of the Myriad acquisition and an expected increase in U.S. Defense spending related to the Company's products.

Medical imaging revenues decreased by 5% from \$43.5 million or 24% of total revenues during the year ended June 30, 2001 to \$41.4 million or 28% of total

revenues during the year ended June 30, 2002. Medical imaging revenues declined in the fourth quarter due primarily

to lower sales of CT systems, resulting in a year-over-year decline in medical imaging revenues. The reduction in revenues derived from sales of systems to the Company's three CT OEM customers was due to introductions by these customers of CT systems that do not contain Mercury products and a reduction in average revenue per system in other modalities. As a result, medical imaging revenues are expected to decrease in fiscal 2003.

OEM solutions revenues decreased 37% from \$16.6 million or 9% of total revenues during the year ended June 30, 2001 to \$10.5 million or 7% of total revenues during the year ended June 30, 2002. The decrease in OEM solutions revenues was due primarily to the economic downturn in the semiconductor manufacturing sector. The Company expects OEM Solutions revenues to increase in future periods due to new semiconductor system design wins currently in development.

#### COST OF REVENUES

Cost of revenues decreased 13% from \$59.8 million during the year ended June 30, 2001 to \$52.2 million during the year ended June 30, 2002. The decrease in cost of revenues was primarily related to lower sales volumes in fiscal 2002. Cost of revenues as a percentage of total revenues increased from 33% during the year ended June 30, 2001 to 35% during the year ended June 30, 2002. The increase in costs as a percentage of total revenues was primarily due to an increase in outside manufacturing and component costs, a shift in product mix from higher margin defense products to lower margin medical and commercial products, and higher inventory provisions.

#### SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses decreased 3% from \$50.6 million during the year ended June 30, 2001 to \$48.9 million during the year ended June 30, 2002. Selling, general and administrative expenses as a percentage of total revenues were 28% and 33% for the years ended June 30, 2001 and 2002, respectively. The decrease in expenses year over year was primarily due to the reduction in expenses associated with the implementation of a new financial, manufacturing and administrative computer system, reduced commissions associated with lower sales volume, slightly offset by amortization of acquired intangible assets related to the acquisition of Myriad.

#### RESEARCH AND DEVELOPMENT

Research and development ("R&D") expenses increased 13% from \$30.5 million during the year ended June 30, 2001 to \$34.4 million during the year ended June 30, 2002. R&D expenses as a percentage of total revenues were 17% during the year ended June 30, 2001 and 23% during the year ended June 30, 2002. The increase in research and development expenses was primarily related to increased personnel and the addition of a new medical development program in fiscal 2002. The increase in R&D expenses as a percentage of revenue was primarily due to the lower sales volume and higher R&D expenditures in fiscal 2002 than in fiscal 2001.

#### INTEREST INCOME, NET

The Company earned \$2.9 million in interest income, net, during the year ended June 30, 2001 and \$2.8 million during the year ended June 30, 2002. This decrease is primarily due to lower average balances of invested cash as well as lower interest rates in fiscal 2002 than in fiscal 2001.

#### GAIN ON SALES OF DIVISION AND JOINT VENTURE

On January 18, 2000, the Company completed the sale of its shared storage business unit ("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 a patent and other intellectual property. The Company recorded a \$6.4 million gain during each of the fiscal years ended June 30, 2002 and 2001 related to the receipt of such contingent payments. 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 gains when collected.

On February 8, 2002, the Company sold its entire interest in the AgileVision joint venture to Leitch Technology Corporation. The Company received no proceeds and recorded a \$78,000 gain related to the sale of the joint venture in fiscal 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 with 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. The Company recognized \$3.3 million and \$1.8 million of losses related to the operations of AgileVision during the years ended June 30, 2001 and 2002, respectively. On February 8, 2002, the Company



sold its entire interest in the AgileVision joint venture to Leitch Technology Corporation.

#### PROVISION FOR INCOME TAXES

The Company's provision for income taxes was \$14.4 million during the year ended June 30, 2001 and \$6.2 million during the year ended June 30, 2002. The Company's effective tax rate was 32% during the year ended June 30, 2001 and 28% during the year ended June 30, 2002. The tax rates for both years ended June 30, 2002 and 2001 were lower than the federal statutory rate of 35% primarily due to the utilization of R&D credits and tax-exempt interest income, offset partially by state income tax. The reduction in the tax rate from 32% to 28% year over year was primarily the result of the Company earning less taxable income during the year ended June 30, 2002 as compared

with the prior year, as the amounts of certain tax benefit items declined less significantly than did the amount of profit before taxes.

#### FISCAL 2001 VS. FISCAL 2000

#### REVENUES

Total revenues increased 28% from \$140.9 million during the year ended June 30, 2000 to \$180.5 million during the year ended June 30, 2001.

Defense electronics revenues increased 20% from \$100.3 million or 71% of total revenues during the year ended June 30, 2000 to \$120.4 million or 67% of total revenues during the year ended June 30, 2001. This increase in revenue was primarily due to the increased unit demand for defense electronics products, largely comprised of advanced military applications in radar and airborne surveillance.

Medical imaging revenues increased 61% from \$27.1 million or 19% of total revenues during the year ended June 30, 2000 to \$43.5 million or 24% of total revenues during the year ended June 30, 2001. The increase in medical imaging revenues reflects the increase in production volume of product for both MRI and CT imaging systems, along with the first production shipments of product for digital cardiology imaging systems.

OEM solution and other revenues increased 23% from \$13.5 million or 10% of total revenues during the year ended June 30, 2000 to \$16.6 million or 9% of total revenues during the year ended June 30, 2001. The increase in OEM solution and other revenues was due primarily to the expansion into existing markets, particularly semiconductor photomask generation, offset in part by the loss of the SSBU revenues.

#### COST OF REVENUES

Cost of revenues increased 53% from \$39.1 million during the year ended June 30, 2000 to \$59.8 million during the year ended June 30, 2001. Cost of revenues as a percentage of total revenues increased from 28% during the year ended June 30, 2000 to 33% during the year ended June 30, 2001. The increase in costs as a percentage of total revenues was primarily due to an increase in external processing and component costs, a shift from higher margin defense products to lower margin commercial products, and costs associated with re-establishing certain discontinued standard parts.

#### SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased 28% from \$39.5 million during the year ended June 30, 2000 to \$50.6 million during the year ended June 30, 2001. Selling, general and administrative expenses as a percentage of total revenues were 28% for the years ended June 30, 2000 and 2001. The increase in expenses year over year was primarily due to expenses associated with the ongoing cost of implementing a new financial, manufacturing, and administrative computer system. Additionally, commissions associated with higher sales volume and the ongoing development of the Company's sales and management infrastructure to support the Company's growth contributed to the increased expenses.

#### RESEARCH AND DEVELOPMENT

R&D expenses increased 6% from \$28.9 million during the year ended June 30, 2000 to \$30.5 million during the year ended June 30, 2001. R&D expenses as a percentage of total revenues were 20% during the year ended June 30, 2000 and 17% during the year ended June 30, 2001. The increase in R&D expenses was due primarily to the hiring of additional software and hardware engineers to develop and enhance the features and functionality of the Company's core products and a significant investment in the R&D activities of the Wireless Communications Group.

#### INTEREST INCOME, NET

The Company earned \$1.7 million in interest income, net, during the year ended June 30, 2000 and \$2.9 million during the year ended June 30, 2001. This increase is primarily due to higher average cash balances offset in part by lower interest rates.

#### GAIN ON SALE OF DIVISION

On January 18, 2000, the Company completed the sale of 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 \$6.4 million and \$4.8 million of gains during the years ended June 30, 2001 and 2000, respectively. During the year ended June 30, 2000, the \$4.8 million gain consisted of \$6.1 million of cash received (initial \$4.5 million plus the first quarterly payment of \$1.6 million) less legal and advisory costs of \$581,000, compensation costs of \$499,000, and net book value of equipment and inventories sold of \$200,000.

#### 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 provides 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. The Company's investment in AgileVision during the year ended June 30, 2000 and 2001 amounted to \$3.5 million and \$3.4 million, respectively. The Company recognized \$3.7 million and \$3.3 million of losses on the equity-basis of accounting related to

the operations of AgileVision during the years ended June 30, 2000 and 2001, respectively. On July 13, 2001, the Company's board of directors approved an additional investment of up to \$1 million for the purpose of continuing to fund the AgileVision operations.

#### PROVISION FOR INCOME TAXES

The Company's provision for income taxes was \$11.4 million during the year ended June 30, 2000 and \$14.4 million during the year ended June 30, 2001. The Company's effective tax rate was 31.5% during the year ended June 30, 2000 and 32.0% during the year ended June 30, 2001. The tax rates for both years ended June 30, 2000 and 2001 were lower than the federal statutory rate of 35% primarily due to the utilization of R&D credits and tax-exempt interest income, offset partially by state income tax.

#### LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2002, the Company had cash and marketable securities of approximately \$71.4 million. During the year ended June 30, 2002, the Company generated approximately \$15.9 million in cash from operations compared to \$26.1 million generated during the year ended June 30, 2001. The decrease in cash generated from operations is attributable primarily to the Company's decrease in net income, slightly offset by a decrease in accounts receivable.

The Company generated approximately \$19.7 million from investing activities during the year ended June 30, 2002 compared to \$21.8 million used during the year ended June 30, 2001. During the year ended June 30, 2002, the Company's investing activities consisted of \$7.9 million for the acquisition of Myriad Logic, Inc., \$1.0 million of cash investments in AgileVision and \$5.8 million for purchases of computers, furniture and equipment. These payments were offset by the receipt of \$6.4 million from the sale of a division, which was sold in fiscal 2000 and \$28.1 million, net from the sale of marketable securities. During the year ended June 30, 2001, the Company's investing activities consisted of \$19.1 million for the purchase of marketable securities (net of sales), \$1.7 million of cash investments in AgileVision, and \$7.4 million for the purchases of computers, furniture and equipment. These payments were partially offset by the receipt of \$6.4 million from the sale of a division.

The Company used approximately \$31.5 million in cash from financing activities during the year ended June 30, 2002 compared to generating \$3.1 million during the year ended June 30, 2001. During the year ended June 30, 2002, the Company's financing activities consisted of payments of \$35.0 million for the acquisition of treasury stock and \$0.9 million for the payment of debt and capital lease obligations. These cash outflows were partially offset by \$4.4 million in cash generated from sales of common stock under the employee stock purchase plan and upon the exercise of stock options. During the year ended June 30, 2001, the Company's financing activities consisted primarily of \$4.3 million of cash generated from the employee stock purchase plan and the exercise of stock options. These cash inflows were partially offset by the payment of debt and capital lease obligations amounting to approximately \$1.2 million.

In January 2002, the Company initiated a stock repurchase program. The stock repurchase program was approved by the Board of Directors and authorized the Company to purchase up to \$35.0 million in Company stock from time to time through September 4, 2002. During the year ended June 30, 2002, the Company purchased approximately 1.1 million shares of common stock for \$35.0 million, completing the 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 and prohibit the payment of cash dividends. The Company was in compliance with all covenants of the note agreements as of June 30, 2002.

The following is a schedule of the Company's contractual obligations outstanding at June 30, 2002:

(IN THOUSANDS)	TOTAL	LESS THAN 1 YEAR	2-3 YEARS	4-5 YEARS	THEREAFTER
NOTES PAYABLE	\$12,985	\$ 667	\$ 1,490	\$ 1,723	\$ 9,105
CAPITAL LEASES	96	96	--	--	--
INTEREST DUE ON NOTES PAYABLE	6,683	922	1,651	1,453	2,657
UNCONDITIONAL PURCHASE OBLIGATIONS	6,787	6,787	--	--	--
OPERATING LEASES	1,673	561	854	258	--
TOTAL	\$28,224	\$ 9,033	\$ 3,995	\$ 3,434	\$11,762

Management believes the Company's available cash, marketable securities, and cash generated from operations, will be sufficient to provide for the Company's working capital and capital expenditure requirements for the next 12 months. 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 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.

## RELATED PARTY TRANSACTIONS

In 1996, the Company entered into a contract with NDC Development Associates, Inc. ("Northland") to perform design, development, permitting and management activities related to the construction of new corporate facilities. An officer and principal of Northland is an immediate family member of the Company's chief executive officer. The Company paid Northland fees of \$83,008, \$29,453 and \$285,613 for the fiscal years ended June 30, 2002, 2001 and 2000, respectively. The Company believes that these fees paid to Northland were made in the ordinary course of business on terms that were no less favorable to the Company than could have been obtained from unaffiliated parties. No amounts were owed to Northland as of June 30, 2002 or 2001.

In conjunction with the development and construction of an additional facility, the Company is negotiating a similar arrangement with Northland to assist with the design, permitting activities and oversight of the construction of a new facility. This arrangement is subject to a competitive pricing analysis and review by the Audit Committee of the Board of Directors to ensure that the terms of the arrangement are fair and no less favorable to the Company than could be obtained from unaffiliated parties.

The Company has arrangements with other parties that do not meet the technical disclosure requirements of related parties and are not material in the aggregate. These individual arrangements either fall under reporting thresholds or are with non-immediate family members of executive officers of the Company. The Company believes that the terms of these arrangements, which are based upon hourly rates for services performed, were fair and no less favorable to the Company than could have been obtained from unaffiliated parties.

## RECENT ACCOUNTING PRONOUNCEMENTS

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. The Company adopted SFAS 143 on July 1, 2002, and the adoption of SFAS 143 did not have a material impact on the Company's financial position or results of operations.

In October 2001, 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. The Company adopted SFAS 144 on July 1, 2002. The adoption of SFAS 144 did not have a material impact on the Company's financial position or results of operations.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002." Adoption of the standard is generally required in the fiscal year beginning after May 15, 2002, with certain provisions becoming effective for financial statements issued on or after May 15, 2002. Under the standard, transactions currently classified by the Company as extraordinary items will no longer be treated as such but instead will be reported as other non-operating income or expenses. The Company adopted SFAS 145 on July 1, 2002, and the adoption of SFAS 145 did not have a material impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which supercedes EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are required to be adopted for exit or disposal activities that are initiated after December 31, 2002. Under this standard, a liability for a cost associated with an exit or disposal activity formerly recognized upon the entity's commitment to an exit plan is now recognized when the liability is incurred. Management does not expect SFAS 146 will have a material impact on the Company's financial position or results of operations.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### INTEREST RATE RISK

The fair value of the Company's cash and investment portfolio at June 30, 2002 approximated carrying value due to the short-term duration. Interest rate risk is estimated as the potential decrease in fair value resulting from a hypothetical 10% increase in interest rates for issues contained in the investment portfolio. The resulting hypothetical fair value would not be materially different from the year-end carrying value.

The Company's mortgage note agreements have fixed interest rates. A hypothetical change in interest rates impacts the fair value of the mortgage notes payable but has no impact on interest incurred or cash flows. Interest rate risk was estimated as the potential change in fair value from a hypothetical 10% increase and decrease in interest rates. The hypothetical fair value would not be materially different from the year-end carrying value.

### FOREIGN CURRENCY RISK

The Company operates primarily in the United States. To date, greater than 90% of the Company's revenues has been billed and collected in U.S. dollars. However, a portion of the Company's business is conducted outside the United States through its foreign subsidiaries in the United Kingdom, Japan, the

Netherlands and France, where business is transacted in non -U.S. dollar currencies. Accordingly, the Company is subject to exposure from adverse movements in the exchange rates of these currencies. The Euro is used as the functional currency for the

Company's subsidiaries in France and the Netherlands, while the local currency is used as the functional currency for the Company's subsidiaries in the United Kingdom and Japan. Consequently, changes in the exchange rates of these currencies may impact the translation of the foreign subsidiaries' statements of operations into U.S. dollars, which may in turn affect the Company's consolidated statements of operations. The impact of the movements in foreign currency exchange rates has been immaterial for all periods.

The Company has not entered into any financial derivatives instruments that expose it to material market risk, including any instruments designed to hedge the impact of foreign currency exposures.

## ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MERCURY COMPUTER SYSTEMS, INC  
CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA) JUNE 30,

	2002	2001
	----	----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,513	\$ 13,307
Marketable securities	37,997	54,135
Accounts receivable, net of allowances of \$792 and \$600 at June 30, 2002 and 2001, respectively	31,797	34,928
Inventory	14,540	12,840
Deferred tax assets, net	5,621	3,206
Prepaid income taxes	3,120	--
Prepaid expenses and other current assets	3,950	5,341
	-----	-----
Total current assets	114,538	123,757
Marketable securities	15,870	28,166
Property and equipment, net	27,961	28,793
Goodwill	4,225	--
Acquired intangible assets, net	3,188	--
Deferred tax assets, net	435	2,207
Other assets	894	661
	-----	-----
Total assets	\$ 167,111	\$ 183,584
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,673	\$ 6,638
Accrued expenses	5,291	4,263
Accrued compensation	6,277	7,427
Capital lease obligations	92	292
Notes payable	667	621
Billings in excess of revenues and customer advances	1,487	1,060
Income taxes payable	--	2,065
	-----	-----
Total current liabilities	18,487	22,366
Notes payable	12,318	12,985
Deferred compensation	581	337
Capital lease obligations	--	108
	-----	-----
Total liabilities	31,386	35,796
Commitments and contingencies (Note H)		
Stockholders' Equity:		
Common stock, \$.01 par value; 65,000,000 shares authorized; 22,268,427 and 21,811,738 shares issued at June 30, 2002 and 2001, respectively;		
21,124,627 and 21,811,738 shares outstanding at June 30, 2002 and 2001, respectively	222	218
Additional paid-in capital	49,863	42,575
Treasury stock, at cost, 1,143,800 shares at June 30, 2002	(34,993)	--
Retained earnings	120,353	104,525
Accumulated other comprehensive income	280	470
	-----	-----
Total stockholders' equity	135,725	147,788
	-----	-----
Total liabilities and stockholders' equity	\$ 167,111	\$ 183,584
	=====	=====

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)

	2002 ----	2001 ----	2000 ----
Net revenues	\$ 150,115	\$ 180,492	\$ 140,944
Cost of revenues	52,244	59,815	39,146
	-----	-----	-----
Gross profit	97,871	120,677	101,798
Operating expenses:			
Selling, general and administrative	48,939	50,636	39,475
Research and development	34,354	30,484	28,862
	-----	-----	-----
Total operating expenses	83,293	81,120	68,337
	-----	-----	-----
Income from operations	14,578	39,557	33,461
Interest income	3,752	3,977	2,430
Interest expense	(987)	(1,065)	(731)
Equity loss in joint venture	(1,752)	(3,310)	(3,721)
Gain on sales of division and joint venture	6,478	6,400	4,820
Other income (expense), net	(86)	(435)	86
	-----	-----	-----
Income before income tax provision	21,983	45,124	36,345
Income tax provision	6,155	14,440	11,449
	-----	-----	-----
Net income	\$ 15,828	\$ 30,684	\$ 24,896
	=====	=====	=====
Net income per share:			
Basic	\$ 0.73	\$ 1.42	\$ 1.19
	=====	=====	=====
Diluted	\$ 0.69	\$ 1.33	\$ 1.10
	=====	=====	=====
Weighted average shares outstanding:			
Basic	21,731	21,576	21,000
	=====	=====	=====
Diluted	22,918	23,104	22,703
	=====	=====	=====

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

MERCURY COMPUTER SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS) FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000

	Common Shares	Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Compre- hensive Income	Compre- hensive Income	Total Stockholders' Equity
	-----	-----	-----	-----	-----	-----	-----	-----
Balance June 30, 1999	20,622	\$ 206	\$ 28,412		\$ 48,945	\$ (123)		\$ 77,440
Exercise of common stock options	734	7	2,997					3,004
Issuance of common stock under employee stock purchase plan	39	1	736					737
Tax benefit from stock options			1,877					1,877
Stock-based compensation			424					424
Comprehensive income:								
Net income					24,896		\$ 24,896	24,896
Unrealized loss on securities						(41)	(41)	(41)
Foreign currency translation						23	23	23
Comprehensive income							\$ 24,878	
							=====	
Balance June 30, 2000	21,395	214	34,446		73,841	(141)		108,360
Exercise of common stock options	386	4	3,366					3,370
Issuance of common stock under employee stock purchase plan	31		950					950
Tax benefit from stock options			3,402					3,402
Stock-based compensation			411					411
Comprehensive income:								
Net income					30,684		\$ 30,684	30,684
Unrealized gain on securities						705	705	705
Foreign currency translation						(94)	(94)	(94)
Comprehensive income							\$ 31,295	
							=====	
Balance June 30, 2001	21,812	218	42,575		104,525	470		147,788
Exercise of common stock options	405	4	3,251					3,255
Issuance of common stock under employee stock purchase plan	51		1,174					1,174
Tax benefit from stock options			1,711					1,711
Stock-based compensation			1,152					1,152
Purchase of treasury stock				\$ (34,993)				(34,993)
Comprehensive income:								
Net income					15,828		\$ 15,828	15,828
Unrealized loss on securities						(384)	(384)	(384)
Foreign currency translation						194	194	194
Comprehensive income							\$ 15,638	
							=====	
Balance June 30, 2002	22,268	\$ 222	\$ 49,863	\$ (34,993)	\$ 120,353	\$ 280		\$ 135,725
	=====	=====	=====	=====	=====	=====		=====

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

MERCURY COMPUTER SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS) FOR THE YEARS ENDED JUNE 30,	2002 ----	2001 ----	2000 ----
Cash flows from operating activities:			
Net income	\$ 15,828	\$ 30,684	\$ 24,896
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,086	6,128	5,099
Gain on sales of division and joint venture	(6,478)	(6,400)	(4,820)
Equity loss in joint venture	1,752	3,310	3,721
Stock-based compensation	1,152	411	424
Tax benefit from stock options	1,711	3,402	1,877
Provision for doubtful accounts	200	324	--
Changes in deferred income taxes	(1,901)	(2,717)	590
Changes in operating assets and liabilities, net of effects of business acquired:			
Accounts receivable	4,319	(11,560)	3,866
Inventory	(871)	3,060	(3,661)
Prepaid expenses and other current assets	1,528	(1,678)	(2,831)
Other assets	(333)	(297)	(150)
Accounts payable	(2,148)	(2,585)	3,654
Accrued expenses and compensation	(1,344)	2,565	674
Deferred compensation	244	337	--
Billings in excess of revenues and customer advances	413	(1,693)	(366)
Income taxes	(5,216)	2,787	(2,311)
	-----	-----	-----
Net cash provided by operating activities	15,942	26,078	30,662
	-----	-----	-----
Cash flows from investing activities:			
Purchases of marketable securities	(71,074)	(113,652)	(127,019)
Sales of marketable securities	99,124	94,544	86,230
Acquisition of business	(7,948)	--	--
Purchases of property and equipment	(5,786)	(7,387)	(6,637)
Investments in joint venture	(1,000)	(1,700)	(3,500)
Proceeds from sale of division, net of selling costs	6,400	6,400	5,032
	-----	-----	-----
Net cash provided by (used in) investing activities	19,716	(21,795)	(45,894)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from employee stock purchase plan	1,174	950	737
Proceeds from exercise of stock options	3,255	3,370	3,004
Purchases of treasury stock	(34,993)	--	--
Proceeds from issuance of notes	--	--	14,500
Payments of principal under notes payable	(621)	(577)	(318)
Principal payments under capital lease obligations	(308)	(627)	(510)
	-----	-----	-----
Net cash provided by (used in) financing activities	(31,493)	3,116	17,413
	-----	-----	-----
Net increase in cash and cash equivalents	4,165	7,399	2,181
Effect of exchange rate changes on cash and cash equivalents	41	58	(7)
Cash and cash equivalents at beginning of year	13,307	5,850	3,676
	=====	=====	=====
Cash and cash equivalents at end of year	\$ 17,513	\$ 13,307	\$ 5,850
	=====	=====	=====
Cash paid during the period for:			
Interest	\$ 991	\$ 1,068	\$ 685
Income taxes	\$ 11,492	\$ 13,389	\$ 12,692
Non-cash transactions:			
Investment in joint venture from conversion of account receivable	\$ --	\$ 1,700	\$ --
Equipment acquired under capital leases	\$ --	\$ --	\$ 513

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

A. DESCRIPTION OF BUSINESS:

Mercury Computer Systems, Inc. (the "Company" or "Mercury") designs, manufactures and markets high-performance, real-time digital signal and image processing computer systems that transform sensor-generated data into information that can be displayed as images for human interpretation or subjected to additional computer analysis. These multicomputer systems are heterogeneous and scalable, allowing them to accommodate several different microprocessor types and to scale from a few to hundreds of microprocessors within a single system. The primary markets for the Company's products are defense electronics, medical imaging, and other OEM solutions. These markets have computing needs that benefit from the unique system architecture developed by the Company.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

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, has 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.

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.

Service revenue is recognized ratably over applicable contract periods or as the services are performed.

BILLINGS IN EXCESS OF REVENUES AND CUSTOMER ADVANCES

Billings in excess of revenues and customer advances include amounts billed and collected on uncompleted contracts and amounts billed on annual maintenance contracts.

CASH AND CASH EQUIVALENTS

Cash equivalents, consisting of money market funds and U.S. government and U.S. government agency issues with original maturities of 90 days or less, are carried at fair market value.

MARKETABLE SECURITIES

The Company classifies investments in marketable securities as available-for-sale at the time of purchase and periodically re-evaluates such classification. There were no securities classified as trading or held-to-maturity as of June 30, 2002 and 2001. Securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at cost with corresponding premiums or discounts amortized over the life of the investment to interest income. Securities classified as available-for-sale are reported at fair market value. Unrealized gains or losses on available-for-sale securities are included, net of tax, in accumulated other comprehensive income until disposition of the security. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in other income or loss. For determinations of gain or loss, the cost of securities sold is based on the specific identification method. For the years ended June 30, 2002, 2001 and 2000, realized gains and losses from the sale of marketable securities were immaterial.

The fair market value of cash equivalents and short-term and long-term investments in marketable securities represents the quoted market prices at the balance sheet dates. Securities with original maturities greater than 90 days and remaining maturities less than one year are classified as short-term

marketable securities. Securities that have remaining maturities greater than one year are classified as long-term marketable securities. The Company's investment in long-term marketable securities has maturities of one-to-three years. At June 30, 2002

and 2001, marketable securities consisted of the following:

June 30, 2002	Amortized Cost -----	Fair Market Value -----	Unrealized Gain (Loss) -----
Short-term marketable securities:			
Tax-exempt municipal notes and bonds and money market instruments	\$29,828	\$29,901	\$ 73
Corporate debt securities	7,995	8,096	101
	-----	-----	----
	\$37,823	\$37,997	\$174
Long-term marketable securities:			
Tax exempt municipal notes and bonds, taxable corporate bonds and government agencies	\$15,856	\$15,870	\$ 14
	=====	=====	=====
June 30, 2001			
Short-term marketable securities:			
Tax-exempt municipal notes and bonds and money market instruments	\$48,830	\$49,001	\$171
Corporate debt securities	5,009	5,134	125
	-----	-----	----
	\$53,839	\$54,135	\$296
	=====	=====	=====
Long-term marketable securities:			
Tax exempt municipal notes and bonds, taxable corporate bonds and government agencies	\$27,890	\$28,166	\$276
	=====	=====	=====

#### CONCENTRATION OF CREDIT RISK

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash, marketable securities and accounts receivable.

The Company places its cash and cash equivalents with financial institutions which management believes are of high credit quality. There are no significant concentrations of investments in corporate debt securities with any single issuer of debt securities. At June 30, 2002 and 2001, the Company had approximately \$6,191 and \$5,613 respectively, on deposit or invested with its primary financial and lending institution.

The Company provides credit to clients in the normal course of business. Collateral is not required for accounts receivable, but ongoing credit evaluations of clients' financial condition are performed. At June 30, 2002 customers "A," "B" and "C" comprised 18%, 17% and 11% of the Company's receivables, respectively. Customer "A" represented 25% of the Company's receivables at June 30, 2001. No other customers accounted for greater than 10% of the company's receivables at June 30, 2002 or 2001.

#### INVENTORY

Inventory is stated at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market value.

#### GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Acquired intangible assets result from the Company's acquisition of Myriad Logic, Inc. (see Note F) and consist of identifiable intangible assets, including completed technology and a licensing agreement. Acquired intangible assets are reported at cost, net of accumulated amortization and are amortized on a straight-line basis over their estimated useful lives of four years. Goodwill is the amount by which the cost of acquired net assets in a business acquisition exceeded the fair values of net identifiable assets on the date of purchase. Goodwill from the Myriad acquisition is not being amortized in accordance with the requirements of SFAS No. 142, Goodwill and Other Intangible Assets.

## LONG-LIVED ASSETS

The Company periodically evaluates its long-lived assets for events and circumstances that indicate a potential impairment. Long-lived assets primarily include property and equipment, goodwill and acquired intangible assets. For property and equipment and acquired intangible assets, recoverability is assessed based on undiscounted expected cash flows from these assets, considering a number of factors, including past operating results, budgets and economic projections, market trends and product development cycles. Impairment in the carrying value of each asset is assessed when the undiscounted expected cash flows derived from the asset are less than its carrying value. The amount of the impairment would equal the difference between the estimated fair value of the asset and its carrying value. A goodwill impairment loss occurs when the carrying amount of a reporting unit's goodwill exceeds the fair value of the reporting unit's goodwill. Through June 30, 2002, the Company has not recognized an impairment loss on any of its long-lived assets.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash equivalents, accounts receivable, employee life insurance policies, capital lease obligations and notes payable. The carrying amount of cash equivalents, accounts receivable and capital lease obligations approximate their fair value due to their short maturities. The carrying amount of Company owned life insurance policies approximates fair value. Also, based on borrowing rates currently available to the Company for notes payable, the carrying value of notes payable approximates fair value.

## PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Equipment under capital lease is recorded at the present value of the minimum lease payments required during the lease period. Depreciation is based on the following estimated useful lives of the assets using the straight-line method:

Computer equipment	3 years
Machinery and equipment	5 years
Furniture and fixtures	5 years
Buildings	15 - 30 years
Building improvements	10 years

Expenditures for additions, renewals and betterment of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. As assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations.

## CAPITALIZED SOFTWARE DEVELOPMENT COSTS

The Company capitalizes software development costs incurred after a product's technological feasibility has been established and before it is available for general release to customers. Amortization of capitalized software costs commences once the product is available for general release and is computed on an individual product basis based on the greater of a) the ratio that current gross revenues for a product bear to total anticipated gross revenues for that product or b) the straight-line method over the estimated economic life of the product. Software development costs qualifying for capitalization were not material for the years ended June 30, 2002, 2001 and 2000, respectively.

## RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred.

## ADVERTISING COSTS

The Company expenses advertising costs as incurred. During the years ended June 30, 2002, 2001 and 2000, advertising expenses totaled \$313, \$367 and \$334, respectively, and were included in selling, general and administrative expense in the consolidated statement of operations.

## INCOME TAXES

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

## NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the sum of the weighted-average number of common shares outstanding plus additional common shares that would have been outstanding if potential dilutive common shares had been issued for granted stock options.

## ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based awards to its employees using the intrinsic value as prescribed in Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. Accordingly, no compensation expense is recorded for options issued to employees and directors with fixed amounts and fixed exercise prices at least equal to the fair market value of the Company's common stock at the date of grant. When the exercise price of stock options granted to employees and directors is less than the fair value of common stock at the date of grant, the Company records that difference as deferred compensation, included in stockholders' equity. Deferred compensation is amortized to compensation expense over the vesting period of the underlying stock options. The Company has adopted the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), through disclosure only (see Note J). Stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123 and related interpretations.

## COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss), which includes foreign currency translation adjustments and unrealized gains and losses on investments in marketable securities. For purposes of comprehensive income (loss) disclosures, the Company does not record tax provisions or benefits for the net changes in the foreign currency translation adjustment, as the Company intends to permanently reinvest undistributed earnings of its foreign subsidiaries.

## FOREIGN CURRENCY

Euros are used as the functional currency for the Company's subsidiaries in France and the Netherlands, while local currency is used as the functional currency for the Company's subsidiaries in the United Kingdom and Japan. The accounts of foreign subsidiaries are translated using exchange rates in effect at period-end for assets and liabilities and at average exchange rates during the period for results of operations. The related translation adjustments are reported in accumulated other comprehensive income in stockholders' equity. Gains (losses) resulting from foreign currency transactions are included in other income (expense) and are immaterial for all periods presented.

## RECLASSIFICATIONS

Certain reclassifications have been made to the prior years' financial statements to conform to the current year's presentation.

## RECENT ACCOUNTING PRONOUNCEMENTS

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. The Company adopted SFAS 143 on July 1, 2002, and the adoption of SFAS 143 did not have a material impact on the Company's financial position or results of operations.

In October 2001, 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. The Company adopted SFAS 144 on July 1, 2002. The adoption of SFAS 144 did not have a material impact on the Company's financial position or results of operations.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002." Adoption of the standard is generally required in the fiscal year beginning after May 15, 2002, with certain provisions becoming effective for financial statements issued on or after May 15, 2002. Under the standard, transactions currently classified by the Company as extraordinary items will no longer be treated as such but instead will be reported as other non-operating income or expenses. The Company adopted SFAS 145 on July 1, 2002, and the adoption of SFAS 145 did not have a material impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which supercedes EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are required to be adopted for exit or disposal activities that are initiated after December 31, 2002. Under this standard, a liability for a cost associated with an exit or disposal activity formerly recognized upon the entity's commitment to an exit plan is now recognized when the liability is incurred. Management does not expect SFAS 146 will have



a material impact on the Company's financial position or results of operations.

C. NET INCOME PER SHARE:

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share data):

FOR THE YEARS ENDED JUNE 30,	2002	2001	2000
	-----	-----	-----
Net income	\$15,828	\$30,684	\$24,896
	=====	=====	=====
Shares used in computation of net income per share - basic	21,731	21,576	21,000
Potential dilutive common shares:			
Stock options	1,187	1,528	1,703
	-----	-----	-----
Shares used in computation of diluted net income per share	22,918	23,104	22,703
	=====	=====	=====
Net income per share - basic	\$ 0.73	\$ 1.42	\$ 1.19
	=====	=====	=====
Net income per share - diluted	\$ 0.69	\$ 1.33	\$ 1.10
	=====	=====	=====

Options to purchase 714,912, 110,538 and 141,000 shares of common stock outstanding during the years ended June 30, 2002, 2001 and 2000, respectively, were not included in the calculation of diluted net income per share because the option exercise prices were greater than the average market price of the Company's common stock during those periods.

#### D. INVENTORY:

Inventory consisted of the following:

JUNE 30,	2002	2001
	-----	-----
Raw materials	\$ 7,601	\$ 6,109
Work in process	2,363	4,301
Finished goods	4,576	2,430
	-----	-----
	\$14,540	\$12,840
	=====	=====

#### E. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following:

JUNE 30,	2002	2001
	-----	-----
Computer equipment and software	\$ 28,085	\$ 28,599
Buildings	15,917	15,832
Land	2,997	2,985
Machinery and equipment	649	661
Furniture and fixtures	5,290	4,462
Building and leasehold improvements	1,343	1,865
	-----	-----
	54,281	54,404
Less: accumulated depreciation and amortization	(26,320)	(25,611)
	-----	-----
	\$ 27,961	\$ 28,793
	=====	=====

Depreciation and amortization expense related to property and equipment for the fiscal years ended June 30, 2002, 2001 and 2000 was \$6,874, \$6,128 and \$4,786, respectively.

#### F. ACQUISITION

On April 1, 2002, the Company completed its acquisition of Myriad Logic, Inc. ("Myriad"). Myriad is a developer of I/O technology based in Silver Spring, Maryland. The acquisition of Myriad expands Mercury's capability to provide more of a total system solution and more system integration services. The total purchase price of \$7,948 consisted of \$7,500 in cash plus \$448 of transaction costs directly related to the acquisition. Myriad's operating results are included in the consolidated statement of operations from April 1, 2002.

The purchase price was allocated based on the fair value of the acquired assets and liabilities assumed as follows:

Accounts receivable	\$ 1,260
Inventory	806
Other assets	290
Completed technology	3,100
Licensing agreement	300
Goodwill	4,225
Current liabilities	(775)
Deferred tax liabilities	(1,258)
	-----
	\$ 7,948
	=====

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.

The following unaudited pro forma results of operations of the Company give effect to the Myriad acquisition made in fiscal 2002 as if the acquisition had occurred at the beginning of fiscal year 2001.

	2002 -----	2001 -----
Net revenues	\$ 155,570	\$ 191,025
Net income	\$ 15,313	\$ 30,062
Net income per share:		
Basic	\$ 0.70	\$ 1.39
Diluted	\$ 0.67	\$ 1.30

These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred at the beginning of the period, or which may result in the future.

#### G. GOODWILL AND ACQUIRED INTANGIBLE ASSETS:

In July 2001, FASB issued SFAS 142, "Goodwill and Other Intangible Assets." SFAS 142 requires, among other things, the discontinuance of goodwill amortization and includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and reclassification of certain intangibles out of previously reported goodwill. Mercury adopted SFAS 142 as of July 1, 2001.

At June 30, 2002, acquired intangible assets consisted of the following:

	Gross Carrying Amount -----	Accumulated Amortization -----	Net Carrying Amount -----	Useful Life -----
Completed technology	\$3,100	(\$194)	\$2,906	4 years
Licensing agreement	300	(18)	282	4 years
	-----	-----	-----	
Total acquired intangible assets	\$3,400	(\$212)	\$3,188	
	=====	=====	=====	

Aggregate amortization expense related to acquired intangible assets for the fiscal year ended June 30, 2002 was \$212. Estimated amortization expense for each of the five succeeding fiscal years is as follows:

Year ----	Amount -----
2003	\$ 850
2004	850
2005	850
2006	638
2007	--
	-----
	\$3,188
	=====

The changes in the carrying amount of goodwill by reportable segment during the fiscal year ended June 30, 2002 are as follows:



North  
American  
Defense  
-----

Balance at June 30, 2001	\$	--
Goodwill acquired during the year		4,225
		-----
Balance at June 30, 2002		\$4,225
		=====

H. COMMITMENTS AND CONTINGENCIES:

LEGAL CLAIMS

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. The testimony and final argument phases of binding arbitration have been completed and a final ruling is anticipated before calendar year-end 2002. 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 judgment against the Company could be awarded for a material amount.

In addition, the Company is subject to legal proceedings and claims that arise in the ordinary course of business. The Company does not believe these actions will have a material adverse effect on its financial position or results of its operations.

PURCHASE COMMITMENTS

As of June 30, 2002, the Company has entered into non-cancelable purchase commitments for certain components used in its normal operations. The purchase commitments covered by these agreements are less than one year and aggregate approximately \$6.8 million.

LEASE COMMITMENTS

The Company leases certain facilities, machinery and equipment under capital and operating leases expiring in various years through 2007. The leases contain various renewal options. Rental charges are subject to escalation for increases in certain operating costs of the lessor. Minimum lease payments under operating and capital leases are as follows:

YEAR ENDING JUNE 30,	Operating Leases	Capital Leases
2003	\$ 561	\$ 96
2004	493	
2005	361	
2006	178	
2007	80	
	-----	----
Total minimum lease payments	\$1,673	\$ 96
Less: amounts representing interest		4
Present value of minimum lease payments		92
Less: current portion		92
		----
Long-term portion		\$ --
		=====

Rental expense during the fiscal years ended June 30, 2002, 2001 and 2000 was \$609, \$506 and \$524, respectively.

I. NOTES PAYABLE

Notes payable at June 30, 2002 and 2001 consisted of the following:

	2002 -----	2001 -----
Notes payable	\$12,985	\$13,606
Less: current portion	667	621
	-----	-----
	\$12,318	\$12,985
	=====	=====

On November 3, 1999, the Company completed a lending agreement with a commercial financing company, issuing two 7.30% senior secured financing notes ("the Notes") due November 2014. The original principal amount of the Notes totaled \$14,500. The Notes are collateralized by the Company's corporate headquarters, which consists of two buildings. The Notes agreements contain certain covenants, which, among other provisions, require the Company to maintain a minimum net worth and prohibit the payment of dividends. As of June 30, 2002, the Company was in compliance with the covenants of the Notes agreements. Principal payments under the Notes are required as follows:

Fiscal Year Ending June 30,

2003	\$ 667
2004	718
2005	772
2006	830
2007	893
Thereafter	9,105
	-----
	\$12,985
	=====

#### J. STOCKHOLDERS' EQUITY:

##### PREFERRED STOCK

The Company is authorized to issue 1,000,000 shares of preferred stock with a par value of \$.01 per share.

##### COMMON STOCK

On November 18, 1999, the Company's Board of Directors authorized a two-for-one split of common stock, which was effected in the form of a stock dividend distributed on December 21, 1999 to shareholders of record as of December 6, 1999. All share and per share amounts have been restated to reflect the effect of the stock split as of that date.

##### STOCK OPTION PLANS

The Company has five stock option plans. The 1982, 1991 and 1993 Stock Option Plans (the "Plans") provide for the granting of options to purchase an aggregate of not more than 1,950,000 shares of the Company's common stock to employees and directors. Under these Plans, options are granted at not less than the fair value of the stock on the date of grant as determined by the Board. The terms of the options are established by the Board on an individual basis. The options generally vest over periods of three to five years and have a term of 10 years.

The 1997 Stock Option Plan (the "1997 Plan") provides for the granting of options to purchase an aggregate of not more than 5,650,000 shares of the Company's common stock. The Plan provides for the grant of non-qualified and incentive stock options to employees and non-employees. Incentive and performance based non-qualified stock options are granted at a price set by the Board of Directors not to be less than 100% of the fair value at the date of the grant. The board of directors determines the price of all other options. The options vest over periods of four to five years and have a maximum term of 10 years. With the implementation of the 1997 Plan, no further stock options were granted under the 1982 and 1991 Stock Option Plans.

The 1998 Stock Option Plan (the "1998 Plan") provides for the granting of options to purchase an aggregate of not more than 100,000 shares of the Company's common stock. The Plan provides for the grant of non-qualified stock options to non-employee directors. Non-qualified stock options are granted at fair value of the stock at the date of the grant. The options vest over three years and have a maximum term of 10 years. With the implementation of the 1998 Plan, no further stock options were granted under the 1993 Stock Option Plan.

The following table summarizes activity of the Company's stock plans since June 30, 1999:

	Number of Options -----	Weighted Average Exercise Price -----	Weighted Average Fair Value of Options Granted -----
Outstanding at June 30, 1999	2,765,756	\$ 6.27	
Granted	928,684	26.42	\$19.03
Exercised	(734,592)	4.09	
Canceled	(258,000)	8.67	
-----			
Outstanding at June 30, 2000	2,701,848	13.56	
Granted	920,870	34.07	\$24.49
Exercised	(386,032)	8.79	
Canceled	(192,647)	17.35	
-----			
Outstanding at June 30, 2001	3,044,039	20.10	
Granted	1,150,960	32.87	\$23.75
Exercised	(405,000)	8.12	
Canceled	(126,360)	19.16	
-----			
Outstanding at June 30, 2002	3,663,639 =====	\$ 25.46	

Information related to the stock options outstanding as of June 30, 2002 is as follows:

Range of Exercise Prices -----	Number Of Options -----	Weighted- Average Remaining Contractual Life (years) -----	Weighted- Average Exercise Price -----	Exercisable Number of Options -----	Exercisable Weighted Average Exercise Price -----
\$ 2.00 - \$ 8.62	592,687	5.61	\$ 5.63	402,127	\$ 4.71
\$ 8.84 - \$17.25	558,560	6.81	12.93	243,416	12.78
\$ 23.44 - \$27.50	569,443	7.94	24.96	172,968	24.42
\$ 27.94 - \$29.80	542,882	9.28	29.11	53,357	28.37
\$ 30.96 - \$34.06	523,500	8.89	31.68	75,750	31.55
\$ 34.08 - \$40.85	553,867	9.01	38.07	57,275	37.72
\$ 42.00 - \$52.00	322,700	8.39	46.56	99,925	46.84
-----					
\$ 2.00 - \$52.00	3,663,639 =====	7.93	25.46	1,104,818 =====	18.08

Options for the purchase of 664,662 and 409,029 shares were exercisable at June 30, 2001 and 2000, respectively, with weighted-average exercise prices of \$11.19 and \$5.32.

The fair value of each option granted during the fiscal years ended June 30, 2002, 2001 and 2000 was estimated on the date of grant using the Black-Scholes option-pricing model utilizing the following weighted-average assumptions:

	2002	2001	2000
Risk-free interest rate	4.68%	4.97%	6.34%
Option life	6 years	6 years	6 years
Stock volatility	81%	80%	77%
Dividend rate	0%	0%	0%

#### EMPLOYEE STOCK PURCHASE PLAN

During 1997, the Company adopted the 1997 Employee Stock Purchase Plan ("ESPP") and authorized 500,000 shares for future issuance under which rights are granted to purchase shares of common stock at 85% of the lesser of the market value of such shares at either the beginning or the end of each six-month offering period. The plan permits employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's compensation as defined in the plan. During the two offerings in fiscal 2002, the Company issued 18,053 and 32,626 shares of common stock to employees who participated in the plan at prices of \$33.24 and \$17.59, respectively. During the two offerings in fiscal 2001, the Company issued 16,949 and 14,115 shares of common stock at prices of \$27.04 and \$34.85, respectively. During the two offerings in fiscal 2000, the Company issued 22,923 and 15,868 shares of common stock at prices of \$13.39 and

\$27.47, respectively. Shares available for future purchase under the ESPP totaled 323,018 at June 30, 2002.

The weighted-average fair value of purchase rights granted in fiscal 2002, 2001 and 2000 was \$16.74, \$13.52 and \$8.40, respectively. The fair value of the employees' purchase rights was estimated using the Black-Scholes option-pricing model with the following assumptions: (1) dividend yield of 0.0%, (2) an expected life of six months, (3) expected volatility of 81% for fiscal 2002, 80% for fiscal 2001, and 77% for fiscal 2000; and, (4) risk-free interest rate of 1.75% for fiscal 2002, 3.63% for fiscal 2001 and 5.25% for fiscal 2000.

Had compensation cost for the Company's stock option grants and stock issued in conjunction with the ESPP been determined based on the fair value at the grant dates, as calculated in accordance with SFAS No. 123, the Company's net income and net income per share for the fiscal years ended June 30, 2002, 2001 and 2000 would approximate the following pro forma amounts as compared to the amounts reported:

	Net income -----	Net income per share - basic -----	Net income per share - diluted -----
As reported:			
2002	\$ 15,828	\$ .73	\$ 0.69
2001	\$ 30,684	\$ 1.42	\$ 1.33
2000	\$ 24,896	\$ 1.19	\$ 1.10
Pro forma:			
2002	\$ 2,646	\$ 0.12	\$ 0.12
2001	\$ 22,214	\$ 1.03	\$ 0.96
2000	\$ 20,791	\$ 0.99	\$ 0.92

The effects of applying SFAS No. 123 in this disclosure are not indicative of future amounts.

During the year ended June 30, 2002, the stock option agreements of certain employees were modified to provide accelerated vesting and extended exercise periods, which resulted in the recognition of \$1,073 of stock-based compensation expense in that period. In addition, the Company recorded stock-based compensation expense of \$79, \$411 and \$424 during the years ended June 30, 2002, 2001 and 2000, respectively, for stock options granted to non-employees. Such amounts reflect the fair value of options upon their final vesting dates as well as adjustments for the revaluation of a portion of the unvested options at each period-end. The fair value of these non-employee stock option grants was calculated using the Black-Scholes option-pricing model.

#### STOCK REPURCHASE PROGRAM

In January 2002, the Company initiated a stock repurchase program. The stock repurchase program, as approved by the Board of Directors, authorized the Company to purchase up to \$35,000 in Company stock from time to time through September 4, 2002. During the year ended June 30, 2002, the Company purchased approximately 1,144,000 shares of common stock for \$34,993.

#### K. INCOME TAXES:

The components of income before income taxes and income tax expense (benefit) consisted of the following:

	2002 -----	2001 -----	2000 -----
Income before income taxes			
United States	\$ 20,638	\$ 44,695	\$36,302
Foreign	1,345	429	43
	-----	-----	-----
	\$ 21,983	\$ 45,124	\$36,345
Income tax expense (benefit)			
Federal:			
Current	\$ 5,848	\$ 15,642	\$10,081
Deferred	(418)	(2,382)	544
	-----	-----	-----
	5,430	13,260	10,625



State:			
Current	547	1,374	755
Deferred	(302)	(335)	46
	-----	-----	-----
	245	1,039	801
Foreign - current	480	141	23
	-----	-----	-----
	\$ 6,155	\$ 14,440	\$11,449
	=====	=====	=====

The following is the reconciliation between the statutory provision for federal income taxes and the effective income tax expense:

YEAR ENDED JUNE 30,	2002	2001	2000
	-----	-----	-----
Income taxes at federal statutory rates	35.0%	35.0%	35.0%
State income tax, net of federal tax benefit	0.3	1.5	1.3
Research and development credits	(3.6)	(2.1)	(3.4)
Tax-exempt interest income	(3.6)	(1.9)	(1.6)
Other	(0.1)	(0.5)	0.2
	-----	-----	-----
	28.0%	32.0%	31.5%
	=====	=====	=====

The components of the Company's net deferred tax asset were as follows:

JUNE 30,	2002	2001
	-----	-----
Deferred tax assets:		
Receivable allowances and inventory valuations	\$ 2,171	\$1,698
Accrued compensation	1,136	1,126
Property and equipment	309	112
State tax credit carryforwards	1,079	811
Deferred compensation	251	126
Joint venture loss allocation	1,723	1,157
Other temporary differences	590	383
	-----	-----
	7,259	5,413
Deferred tax liabilities:		
Acquired intangible assets	(1,203)	--
	-----	-----
Net deferred tax assets	\$ 6,056	\$5,413
	=====	=====

No valuation allowance was deemed necessary for the deferred tax asset. Management believes it is more likely than not that all of the deferred tax asset will be realized. At June 30, 2002, the Company had state R&D tax credit carryforwards of \$1,661, which begin to expire in 2014. The cumulative amount of undistributed earnings of subsidiaries, which is intended to be permanently reinvested and for which U.S. income taxes have not been provided, totaled approximately \$1,600 at June 30, 2002.

#### L. EMPLOYEE BENEFIT PLANS:

The Company maintains a qualified 401(k) plan, and up until December 31, 1999, maintained a qualified profit sharing 401(a) Plan. The 401 (k) plan covers employees who have attained the age of 21. Employee contributions to the 401(k) Plan may range from 1% to 15% of eligible compensation. The Company matches employee contributions up to 3% of eligible compensation. The Company may also make optional contributions to the plan for any plan year at its discretion. The Company terminated its 401(a) Plan as of December 31, 1999.

Expense recognized by the Company under the 401(a) and 401(k) plans was \$1,206, \$1,048 and \$788 during the years ended June 30, 2002, 2001 and 2000, respectively.

The Company maintains a bonus plan, which provides cash awards to employees based upon operating results and employee performance. Bonus expense related to payments to employees was \$4,894, \$6,416 and \$4,499 during the years ended June 30, 2002, 2001 and 2000, respectively.

M. 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 five principal operating segments: Worldwide Defense, Medical Imaging, OEM Solutions, 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: Worldwide Defense segment, Medical Imaging segment, OEM Solutions segment, Wireless Communications and Other segment, and Research and Development segment. The Wireless Communications and Other segment includes in 2000 the Shared Storage Business Unit and other commercial businesses.

The accounting policies of the business segments are the same as those described in "Note B: Summary of Significant Accounting Policies". Asset information by reportable segment is not reported since the Company does not produce such information internally. The following is a summary of the Company's operations by reportable segment:

	Worldwide Defense Segment	Medical Imaging Segment	OEM Solutions Segment	Wireless Communications and Other Segment	Research and Development Segment	Corporate	Total
YEAR ENDED JUNE 30, 2002							
Sales to unaffiliated customers	\$ 98,182	\$41,449	\$10,484	\$ --	\$ --	\$ --	\$150,115
Income before taxes (1)	55,818	17,082	2,405	(6,503)	(28,244)	(18,575)	21,983
Depreciation/amortization expense	317	115	47	267	2,141	4,199	7,086
YEAR ENDED JUNE 30, 2001							
Sales to unaffiliated customers	\$120,453	\$43,456	\$16,583	\$ --	\$ --	\$ --	\$180,492
Income before taxes (1)	79,771	14,208	8,410	(5,728)	(27,605)	(23,932)	45,124
Depreciation/amortization expense	891	66	13	202	1,733	3,223	6,128
YEAR ENDED JUNE 30, 2000							
Sales to unaffiliated customers	\$100,300	\$27,093	\$10,927	\$ 2,624	\$ --	\$ --	\$140,944
Income before taxes (1)	69,235	10,510	7,334	(5,535)	(27,740)	(17,459)	36,345
Depreciation/amortization expense	442	41	11	306	1,218	3,081	5,099

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

Foreign revenue is based on the country in which the legal subsidiary is domiciled. Foreign revenue and long-lived assets represent less than 10% of the Company's total revenue and total long-lived assets as of or for the fiscal years ended June 30, 2002, 2001 and 2000, respectively.

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

YEAR ENDED JUNE 30,	2002	2001	2000
Customer A	16%	13%	12%
Customer B	12%	18%	14%
Customer C	12%	14%	19%
Customer D	--	--	12%

N. GAIN ON SALES OF DIVISION AND JOINT VENTURE:

On January 18, 2000, the Company completed the sale of its Shared Storage Business Unit to IBM. Payments were structured with an initial payment of \$4,500 (excluding \$1,000 to be held in escrow and payable on a contingent basis), followed by 12 quarterly contingent payments of \$1,600, 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 a patent and other intellectual property. The Company is recording contingent payments as gains when received. The Company recognized gains of \$6,400, \$6,400 and \$4,820 for the fiscal years ended June 30, 2002, 2001 and 2000, respectively. The last payment by IBM is scheduled for the third quarter of fiscal 2003 in the amount \$2,600 which consists of the regular \$1,600 quarterly payment plus \$1,000 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 Technology Corporation. The Company received no proceeds and recorded a \$78 gain related to the sale of the joint venture interest during the three-month period ended March 31, 2002.

O. EQUITY LOSS IN JOINT VENTURE:

On September 1, 1999, the Company formed AgileVision LLC, a joint venture with the Sarnoff Corporation. The intent of the venture was to use Mercury technology in the design, development and delivery of products and solutions expected to reduce the cost of digital TV infrastructure for the broadcast and cable markets. During each of the years ended June 30, 2002, 2001 and 2000, the Company recognized losses of \$1,752, \$3,310 and \$3,721 related to the operations of AgileVision. On February 8, 2002, the Company sold its entire interest in the AgileVision joint venture to Leitch Technology Corporation.

Summarized income statement results for AgileVision LLC during the years ended June 30, 2002, 2001 and 2000 are as follows:

Year ended June 30,	2002	2001	2000
	-----	-----	-----
Expenses	\$ (2,448)	\$ (4,733)	\$ (6,723)
Loss from operations	(2,448)	(4,733)	(6,723)
Net loss	(2,448)	(4,733)	(6,723)

Summarized information about the financial position of AgileVision LLC as of June 30, 2001 is as follows:

Current assets	\$ 471
Non-current assets	37
	-----
Total assets	\$ 508
	=====
Current liabilities	\$ 6,864
Shareholders' equity	(6,356)
	-----
Total liabilities and equity	\$ 508
	=====

P. RELATED PARTY TRANSACTIONS:

In 1996, the Company entered into a contract with NDC Development Associates, Inc. ("Northland") to perform design, development, permitting and management activities related to the construction of new corporate facilities. An officer and principal of Northland is an immediate family member of the Company's chief executive officer. The Company paid Northland fees of \$83,008, \$29,453 and \$285,613 for the fiscal years ended June 30, 2002, 2001 and 2000, respectively. The Company believes that these fees paid to Northland were made in the ordinary course of business on terms that were no less favorable to the Company than could have been obtained from unaffiliated parties. No amounts were owed to Northland as of June 30, 2002 or 2001.

In conjunction with the development and construction of an additional facility, the Company is negotiating a similar arrangement with Northland to assist with the design, permitting activities and oversight of the construction of a new facility. This arrangement is subject to a competitive pricing analysis and review by the Audit Committee of the Board of Directors to ensure that the terms of the arrangement are fair and no less favorable to the Company than could be obtained from unaffiliated parties.

The Company has arrangements with other parties that do not meet the technical disclosure requirements of related parties and are not material in the aggregate. These individual arrangements either fall under reporting thresholds or are with non-immediate family members of executive officers of the Company. The Company believes that the terms of these arrangements, which are based upon hourly rates for services performed, were fair and no less favorable to the Company than could have been obtained from unaffiliated parties.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 14 (a) (1) present fairly, in all material respects, the financial position of Mercury Computer Systems, Inc. and its subsidiaries at June 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14 (a) (2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts  
July 31, 2002

SUPPLEMENTARY INFORMATION (UNAUDITED)

The following sets forth certain unaudited consolidated quarterly statements of operations data for each of the Company's last eight quarters. In management's opinion, this quarterly information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation for the periods presented. Such quarterly results are not necessarily indicative of future results of operations and should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto included elsewhere herein.

2002 (in thousands, except per share data)	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Revenues	\$ 34,861	\$ 37,435	\$ 34,864	\$ 42,955
Cost of revenues	10,882	12,607	13,448	15,307
Gross profit	23,979	24,828	21,416	27,648
Operating expenses:				
Selling, general and administrative	11,950	12,423	11,654	12,912
Research and development	7,855	8,462	8,752	9,285
Total operating expenses	19,805	20,885	20,406	22,197
Income from operations	4,174	3,943	1,010	5,451
Interest income	1,179	1,068	917	588
Interest expense	(171)	(330)	(244)	(242)
Equity loss in joint venture	(880)	(872)	--	--
Gain on sale of division and joint venture	1,600	1,600	1,678	1,600
Other income (expense), net	(12)	(174)	10	90
Income before taxes	5,890	5,235	3,371	7,487
Provision for income taxes	1,885	1,453	721	2,096
Net income	\$ 4,005	\$ 3,782	\$ 2,650	\$ 5,391
Net income per common share:				
Basic	\$ 0.18	\$ 0.17	\$ 0.12	\$ 0.25
Diluted	\$ 0.17	\$ 0.16	\$ 0.12	\$ 0.24

2001 (in thousands, except per share data)	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Revenues	\$ 41,469	\$ 43,325	\$ 46,953	\$ 48,745
Cost of revenues	13,124	14,189	15,274	17,228
Gross profit	28,345	29,136	31,679	31,517
Operating expenses:				
Selling, general and administrative	12,123	12,779	12,607	13,127
Research and development	6,743	7,954	8,047	7,740
Total operating expenses	18,866	20,733	20,654	20,867
Income from operations	9,479	8,403	11,025	10,650
Interest income	928	1,004	995	1,050
Interest expense	(275)	(268)	(263)	(259)
Equity loss in joint venture	(1,235)	(476)	(1,356)	(243)
Gain on sale of division, net	1,600	1,600	1,600	1,600
Other income (expense), net	(43)	(104)	(323)	35
Income before taxes	10,454	10,159	11,678	12,833
Provision for income taxes	3,345	3,251	3,737	4,107
Net income	\$ 7,109	\$ 6,908	\$ 7,941	\$ 8,726
Net income per common share:				
Basic	\$ 0.33	\$ 0.32	\$ 0.37	\$ 0.40
Diluted	\$ 0.31	\$ 0.30	\$ 0.34	\$ 0.37

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

None.



PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated herein by reference to the Company's Proxy Statement for its 2002 Annual Meeting.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the Company's Proxy Statement for its 2002 Annual Meeting.

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

The information required by this item is incorporated herein by reference to the Company's Proxy Statement for its 2002 Annual Meeting.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the Company's Proxy Statement for its 2002 Annual Meeting.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS, SCHEDULES AND EXHIBITS

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

1. Financial statements:

Report of Independent Accountants  
Consolidated Balance Sheets as of June 30, 2002 and 2001  
Consolidated Statements of Operations for the years ended June 30, 2002, 2001, and 2000  
Consolidated Statements of Stockholders' Equity for the years ended June 30, 2002, 2001, and 2000  
Consolidated Statements of Cash Flows for the years ended June 30, 2002, 2001, and 2000  
Notes to Consolidated Financial Statements

2. Financial Statement Schedule:

Schedule II. Valuation and Qualifying Accounts

MERCURY COMPUTER SYSTEMS, INC.  
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
 FOR THE YEARS ENDED JUNE 30, 2002, 2001, AND 2000  
 (IN THOUSANDS)

	BALANCE AT BEGINNING OF PERIOD -----	CHARGES TO EXPENSES -----	DEDUCTIONS -----	BALANCE AT END OF PERIOD -----
Allowance for Doubtful Accounts				
2002	\$600	\$200	\$ 8	\$792
2001	\$308	\$324	\$32	\$600
2000	\$376	--	\$68	\$308

	BALANCE AT BEGINNING OF PERIOD -----	CHARGES TO EXPENSES -----	DEDUCTIONS -----	BALANCE AT END OF PERIOD -----
Inventory Valuation				
2002	\$3,920	\$3,115	\$2,074	\$4,961
2001	\$2,795	\$4,760	\$3,635	\$3,920
2000	\$3,039	\$1,012	\$1,256	\$2,795

Charges to expenses for inventory are due to program cancellations, engineering change orders and obsolescence. Deductions are recorded when the inventory is written off. The Company wrote off \$2,074,000, \$3,635,000, and \$1,256,000 in inventory during the years ended June 30, 2002, 2001 and 2000, respectively, relating primarily to engineering change orders and obsolescence.

3. Exhibits:

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index on page 49, which is incorporated herein by reference.

(b) Reports on Form 8-K

None.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Chelmsford, Massachusetts, on September 26, 2002.

MERCURY COMPUTER SYSTEMS, INC.

By: /s/ John F. Alexander II  
-----  
JOHN F. ALEXANDER II  
SENIOR VICE PRESIDENT, CHIEF  
FINANCIAL OFFICER AND TREASURER

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE(S)	DATE
/S/ JAMES R. BERTELLI ----- JAMES R. BERTELLI	President, Chief Executive Officer and Director (principal executive officer)	September 26, 2002.
/S/ JOHN F. ALEXANDER II ----- JOHN F. ALEXANDER II	Senior Vice President, Chief Financial Officer and Treasurer (principal financial and accounting officer)	September 26, 2002.
/S/ GORDON B. BATY ----- GORDON B. BATY	Director	SEPTEMBER 26, 2002
/S/ ALBERT P. BELLE ISLE ----- ALBERT P. BELLE ISLE	Director	SEPTEMBER 26, 2002
/S/ JAMES A. DWYER ----- JAMES A. DWYER	Director	SEPTEMBER 26, 2002
/S/ RUSSELL K. JOHNSEN ----- RUSSELL K. JOHNSEN	Director	SEPTEMBER 26, 2002
/S/ SHERMAN N. MULLIN ----- SHERMAN N. MULLIN	Director	SEPTEMBER 26, 2002
/S/ MELVIN SALLEN ----- MELVIN SALLEN	Director	SEPTEMBER 26, 2002
/S/ RICHARD P. WALLACE ----- RICHARD P. WALLACE	Director	SEPTEMBER 26, 2002

Mercury Computer Systems, Inc.

Certification Pursuant To  
Rule 13a-14  
Promulgated Under the Securities Exchange Act of 1934

I, James R. Bertelli, President and Chief Executive Officer (principal executive officer) of Mercury Computer Systems, Inc., certify that:

I have reviewed this annual report on Form 10-K of Mercury Computer Systems, Inc.;

Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 26, 2002

/s/ James R. Bertelli  
-----  
James R. Bertelli  
President/Chief Executive Officer  
(principal executive officer)

Mercury Computer Systems, Inc.

Certification Pursuant To 18 U.S.C. Section 1350,  
As Adopted Pursuant To Section 906 of the Sarbanes/Oxley Act of 2002

In connection with the Annual Report of Mercury Computer Systems, Inc. (the "Company") on Form 10-K for the period ended June 30, 2002 as filed with the Securities and Exchange Commission (the "Report"), I, John F. Alexander II, Senior Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that this Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 26, 2002

/s/ John F. Alexander II

-----  
John F. Alexander II  
Senior Vice President,  
Chief Financial Officer and Treasurer  
(principal financial officer)

Mercury Computer Systems, Inc.

Certification Pursuant To 18 U.S.C. Section 1350,  
As Adopted Pursuant To Section 906 of the Sarbanes/Oxley Act of 2002

In connection with the Annual Report of Mercury Computer Systems, Inc. (the "Company") on Form 10-K for the period ended June 30, 2002 as filed with the Securities and Exchange Commission (the "Report"), I, James R. Bertelli, President and Chief Executive Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that this Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 26, 2002

/s/ James R. Bertelli

-----

James R. Bertelli  
President/Chief Executive Officer  
(principal executive officer)

Mercury Computer Systems, Inc.

Certification Pursuant To  
Rule 13a-14  
Promulgated Under the Securities Exchange Act of 1934

I, John F. Alexander II Senior Vice President, Chief Financial Officer and Treasurer (principal financial officer) of Mercury Computer Systems, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Mercury Computer Systems, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 26, 2002

/s/ John F. Alexander II  
-----  
John F. Alexander II  
Senior Vice President,  
Chief Financial Officer and Treasurer  
(principal financial officer)

## EXHIBIT INDEX

ITEM NO.	DESCRIPTION OF EXHIBIT
3.1*	Articles of Organization, as amended.
3.2*	Bylaws, as amended.
4.1	Form of Stock Certificate. (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.1	1982 Stock Option Plan, as amended. (incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.2	1991 Stock Option Plan, as amended. (incorporated herein by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.3	1993 Stock Option Plan for Non-Employee Directors. (incorporated herein by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.4*	1997 Stock Option Plan, as amended
10.5	1997 Stock Purchase Plan. (incorporated herein by reference to Exhibit 10.5 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.6	Purchase and Sale Agreement, dated November 8, 1996 between Corcoran, Chelmsford & Associates and Northland Development Corporation. (incorporated herein by reference to Exhibit 10.7 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.7#	Term Purchase Agreement, dated July 25, 1995 between the Company and Analog Devices, Inc. (incorporated herein by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.8#	Risk Reproduction Agreement, dated March 20, 1996, between the Company and LSI Logic Corporation. (incorporated herein by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.9#	Purchase Offer Agreement for OEM Manufacturer, dated February 16, 1995, between the Company & IBM Microelectronics Division. (incorporated herein by reference to Exhibit 10.10 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.10	Quitclaim Deed, dated October 1, 1997, executed by Corcoran, Chelmsford & Associates Limited Partnership. (incorporated herein by reference to Exhibit 10.15 of the Company's Registration Statement on Form S-1 (File No. 333-41139))
10.11	1998 Stock Option Plan (incorporated herein by reference to Exhibit 10.11 of fiscal 1999 Form 10-K)
10.12	Purchase and Sale agreement for 199 Riverneck Road, Chelmsford, Massachusetts ( incorporated by reference to exhibit 10.1 filed with the Company's quarterly report on Form 10-Q for the quarter ended December 31, 1998).
10.13	Quitclaim Deed for 199 Riverneck Road, Chelmsford, Massachusetts ( incorporated by reference to exhibit 10.2 filed with the Company's quarterly report on Form 10-Q for the quarter ended December 31, 1998).
10.14	199 Riverneck LLC \$6,850,000 7.30% Note Purchase Agreement (incorporated by reference to exhibit 10.1 filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1999)
10.15	199 Riverneck LLC \$7,650,000 7.30% Note Purchase Agreement (incorporated by reference to exhibit 10.2 filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1999)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of PricewaterhouseCoopers LLP

\* Filed with this Form 10-K. # Confidential treatment granted.

The Commonwealth of Massachusetts

-----  
Examiner MICHAEL JOSEPH CONNOLLY FEDERAL IDENTIFICATION  
Secretary of State  
ONE ASHBURTON PLACE, BOSTON, MASS: 02108 No. 04-2741391  
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RESTATED ARTICLES OF ORGANIZATION

GENERAL LAWS, CHAPTER 156B, SECTION 74

This certificate must be submitted to the Secretary of the Commonwealth within sixty days after the date of the vote of stockholders adopting the restated articles of organization. The fee for filing this certificate is prescribed by General Laws, Chapter 156B, Section 114. Make check payable to the Commonwealth of Massachusetts.

-----  
We, James Bertelli, President and  
Anthony J. Medaglia, Jr., Clerk of

Mercury Computer Systems, Inc.

-----  
(Name of Corporation)

located at 199 Riverneck Road, Chelmsford, Massachusetts 01824

-----  
do hereby certify that the following restatement of the articles of organization of the corporation was duly adopted at a meeting held on June 23, 1993, by vote of

6,724,695 shares of Common out of 10,000,000 shares outstanding,  
-----  
(Class of Stock)

-----  
shares of out of shares outstanding, and  
-----  
(Class of Stock)

-----  
shares of out of shares outstanding  
-----  
(Class of Stock)

being at least two-thirds of each class of stock outstanding and entitled to vote and of each class or series of stock adversely affected thereby:

1. The name by which the corporation shall be known is:

Mercury Computer Systems, Inc.

2. The purposes for which the corporation is formed are as follows:

See Page A-1 attached hereto.

C //

P //

M //

RA //

P.C.

Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on separate 8-1/2 X 11 sheets of paper leaving a left hand margin of at least 1 inch for binding. Additions to more than one article may be continued on a single sheet so long as each article requiring each such addition is clearly indicated.





ARTICLE 2.

The purposes for which the Corporation is formed are as follows: To manufacture, sell, invent, design, develop, distribute, lease and to engage in all aspects of the production of micro-computer based products; to invent, design, discover, or acquire formulae, processes, improvements, inventions, designs, patents, licenses, copyrights, trademarks, trade names and trade secrets applicable to the foregoing and to hold, use, sell, license and otherwise deal in or dispose of the same; to acquire by purchase, deed, mortgage, lease or by any other method and to hold, maintain, operate, improve, develop, sell, exchange, lease, mortgage, pledge, hypothecate, loan money upon and otherwise deal in real and personal property of every kind, character and description and wheresoever situated, including, without limitation, the stock and securities of the Corporation or of any other corporation; to lend money upon, credit or security to, to guarantee or assume obligations of, and to aid in any other manner other concerns wherever and however organized, any obligations of which or any interest in which shall be held by the Corporation or in the affairs or prosperity of which the Corporation has a lawful interest and to do all acts and things designed to protect, improve and enhance the value of such obligations and interests; and to carry on any business permitted and enjoy all rights and powers granted by the Commonwealth of Massachusetts to a corporation organized under Chapter 156B of the General Laws, as amended.

ARTICLE 4.

DESCRIPTION OF CAPITAL STOCK

A. AUTHORIZED SHARES. The aggregate number of shares which this Corporation shall have authority to issue is: 25,000,000 shares of common stock having a par value of \$.01 per share (the "Common Stock") and 2,000,000 shares of preferred stock having a par value of \$.01 per share (the "Series Preferred Stock").

B. SERIES PREFERRED STOCK. Shares of Series Preferred Stock may be issued from time to time in one or more series as may from time to time be determined by the Board of Directors, each of said series to be distinctly designated. All shares of any one series of the Series Preferred Stock shall be alike in every particular, except that there may be different dates from which dividends, if any, thereon shall be cumulative, if made cumulative. The voting powers, if any, and the designations, preferences and relative, participating, optional or other special rights or privileges of each such series, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding; and, subject to the provisions of subparagraph 1 of Paragraph D hereof, there is hereby expressly vested in the Board of Directors of the Corporation the authority to issue one or more series of the Series Preferred Stock and to fix in the resolution or resolutions providing for the issue of such stock adopted by the Board of Directors of the Corporation the voting powers, if any, and the designations, preferences and relative, participating, optional or other special rights or privileges, and the qualifications, limitations or restrictions of such series, including, but without limiting the generality of the foregoing, the following:

(1) The distinctive designation of, and the number of shares of the Series Preferred Stock which shall constitute such series. The designation of a series of preferred stock need not include the words "preferred" or "preference" and may be designated "special" or other distinctive term. Unless otherwise provided in the resolution issuing such series, the number of shares of any series of the Series Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the Board of Directors in the manner prescribed by law;

(2) The rate and times at which, and the terms and conditions upon which, dividends, if any, on the Series Preferred Stock of such series shall be paid, the extent of the preference or relation, if any, of such dividends to the dividends payable on any other class or classes, or series of the same or other classes of stock and whether such dividends shall be cumulative or non-cumulative and, if cumulative, the date from which such dividends shall be cumulative;

(3) Whether the series shall be convertible into, or exchangeable for, at the option of the holders of the Series Preferred Stock of such series of the Corporation or upon the happening of a specified event, shares of any other class

or classes or any other series of the same or any other class or classes of stock of the Corporation, and the terms and conditions of such conversion or exchange, including provisions for the adjustment of any such conversion rate in such events as the Board of Directors shall determine;

(4) Whether or not the Series Preferred Stock of such series shall be subject to redemption at the option of the Corporation or the holders of such series or upon the happening of a specified event, and the redemption price or prices and the time or times at which, and the terms and conditions upon which, the Series Preferred Stock of such series may be redeemed;

(5) The rights, if any, of the holders of the Series Preferred Stock of such series upon the voluntary or involuntary liquidation, merger, consolidation, distribution or sale of assets, dissolution or winding-up, of the Corporation;

(6) The terms of the sinking fund or redemption or purchase account, if any, to be provided for the Series Preferred Stock of such series; and

(7) Subject to subparagraph 4 of Paragraph D hereof, whether such series of the Series Preferred Stock shall have full, limited or no voting powers, including, without limiting the generality of the foregoing, whether such series shall have the right, voting as a series by itself or together with other series of the Series Preferred Stock or all series of the Series Preferred Stock as a class, to elect one or more Directors of the Corporation if there shall have been a default in the payment of dividends on any one or more series of the Series Preferred Stock or under such other circumstances and on such conditions as the Board of Directors may determine.

C. COMMON STOCK.

(1) After the Corporation has complied with the requirements, if any, fixed in accordance with the provisions of Paragraph B hereof with respect to dividends on series of the Series Preferred Stock (in accordance with the relative preferences among such series), and subject further to any other conditions which may be fixed in accordance with the provisions of Paragraph B hereof, then, and not otherwise, the holders of Common Stock shall be entitled to receive such dividends (either in cash, stock or otherwise) as may be declared from time to time by the Board of Directors out of assets of the Corporation legally available therefor and the holders of the Series Preferred Stock shall not be entitled to participate in any such dividends.

(2) After distribution in full of the preferential amount, if any, to be distributed to the holders of series of the Series Preferred Stock (in accordance with the relative preferences among such series), in the event of voluntary or

involuntary liquidation, distribution, dissolution or winding-up of the Corporation, the holders of the Common Stock shall be entitled to receive all of the remaining assets of the Corporation, tangible and intangible, of whatever kind available for distribution to shareholders, ratably in proportion to the number of shares of Common Stock held by them respectively.

(3) Except as may otherwise be required by law, each holder of Common Stock shall have one vote in respect of each share of Common Stock held by him on all matters voted upon by the shareholders.

D. OTHER PROVISIONS.

(1) The relative powers, preferences and rights of each series of the Series Preferred Stock in relation to the powers, preferences and rights of each other series of the Series Preferred Stock shall, in each case, be as fixed from time to time by the Board of Directors in the resolution or resolutions adopted pursuant to authority granted in Paragraph B hereof. The consent, by class or series vote or otherwise, of the holders of such of the series of the Series Preferred Stock as are from time to time outstanding shall not be required for the issuance by the Board of Directors of any other series of the Series Preferred Stock whether or not the powers, preferences and rights of such other series shall be fixed by the Board of Directors as senior to, or on a parity with, the powers, preferences and rights of such outstanding series, or any of them; provided, however, that no subsequent series shall have powers, preferences or rights senior to the Series A Preferred Stock; and provided further that the Board of Directors may provide in the resolution or resolutions as to any series of the Series Preferred Stock adopted pursuant to Paragraph B hereof, the conditions, if any, under which the consent of the holders of a majority (or such greater proportion as shall be fixed therein) of the outstanding shares of such series shall be required for the issuance of any or all other series of the Series Preferred Stock.

(2) Subject to the provisions of subparagraph 1 of this Paragraph D, shares of any series of the Series Preferred Stock may be issued from time to time as the Board of Directors of the Corporation shall determine and on such terms and for such consideration as shall be fixed by the Board of Directors.

(3) Shares of authorized Common Stock may be issued from time to time as the Board of Directors of the Corporation shall determine and on such terms and for such consideration as shall be fixed by the Board of Directors.

(4) The number of authorized shares of Common Stock and of the Series Preferred Stock, without a class or series vote, may be increased or decreased from time to time (but not below the number of shares thereof then

outstanding) by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote thereon.

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E. DESCRIPTION OF SERIES A CONVERTIBLE PREFERRED STOCK.

1. DESIGNATION. \_\_\_\_\_ shares of the class of Series Preferred Stock, \$.01 par value per share, authorized under the Articles of Organization of Mercury Computer Systems, Inc. (the "Corporation") shall be designated the "Series A Preferred Stock."

2. DIVIDENDS. No dividends shall be declared and set aside for any shares of the Series A Preferred Stock except in the event that the Board of Directors of the Corporation shall declare a dividend payable upon the then outstanding shares of the Common Stock, \$.01 par value per share (the "Common Stock") of the Corporation, in which event the holders of the Series A Preferred Stock shall be entitled to the amount of dividends per share of Series A Preferred Stock as would be declared payable on the largest number of whole shares of Common Stock into which each share of Series A Preferred Stock held by each holder thereof could be converted pursuant to the provisions of Section 5 hereof, such number determined as of the record date for the determination of holders of Common Stock entitled to receive such dividend.

3. LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) TREATMENT UPON LIQUIDATION, DISSOLUTION OR WINDING UP. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, holders of each share of Series A Preferred Stock shall be entitled to be paid, prior to any distribution in such event to holders of shares of Common Stock, out of the assets of the Corporation available for distribution to holders of the Corporation's capital stock of all classes, whether such assets are capital, surplus, or capital earnings, an amount equal to the GREATER of:

(i) \$1.4080 per share of Series A Preferred Stock (which amount shall be subject to equitable adjustment whenever there shall occur a stock split, combination, reclassification or other similar event involving the Series A Preferred Stock), plus all accrued and unpaid dividends thereon, to and including the date full payment shall be tendered to the holders of the Series A Preferred Stock with respect to such liquidation, dissolution or winding up; or

(ii) such amount per share of Series A Preferred Stock as would have been payable had each such share been converted to Common Stock immediately prior to such event of liquidation, dissolution or winding up pursuant to the provisions of Section 5.

If the assets of the Corporation shall be insufficient to permit the payment in full to the holders of the Series A Preferred Stock and to the holders of any other series of the Series Preferred Stock which by its terms is entitled to share in any of the amounts thus distributable on parity with the Series A Preferred Stock, then the entire assets of the Corporation available for such distribution shall be distributed ratably among the holders of the Series A Preferred Stock and the holders of any such other series of the Series Preferred Stock in proportion to the respective amounts which would otherwise be

payable in respect of the shares held by them upon distribution if all amounts payable on or with respect to such shares were paid in full. After such payment shall have been made in full to the holders of the Series A Preferred Stock or funds necessary for such payment shall have been set aside by the Corporation in trust for the account of holders of the Series A Preferred Stock so as to be available for such payment, the holders of Series A Preferred Stock shall be entitled to no further participation in the distribution of the assets of the Corporation and shall have no further rights of conversion, and the remaining assets available for distribution shall be distributed ratably among the holders of the Common Stock.

(b) TREATMENT OF REORGANIZATIONS, CONSOLIDATIONS, MERGERS AND SALES OF ASSETS. A reorganization as provided in Section 5(h) or a consolidation or merger of the Corporation or a sale of all or substantially all of the assets of the Corporation shall be regarded as a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of this Section 3; PROVIDED, HOWEVER, that each holder of Series A Preferred Stock shall have the right to elect the benefits of the provisions of Section 5(h) hereof in lieu of receiving payment in liquidation, dissolution or winding up of the Corporation pursuant to this Section 3.

(c) DISTRIBUTIONS OTHER THAN CASH. Whenever the distribution provided for in this Section 3 shall be payable in property other than cash, the value of such distribution shall be the fair market value of such property as determined in good faith by the Board of Directors of the Corporation.

4. VOTING POWER. Except as otherwise expressly provided in Section 7 hereof, or as required by law, each holder of Series A Preferred Stock shall be entitled to vote on all matters and shall be entitled to that number of votes equal to the largest number of whole shares of Common Stock into which such holders' shares of Series A Preferred Stock could be converted, pursuant to the provisions of Section 5 hereof, at the record date for the determination of shareholders entitled to vote on such matter or, if no such record date is established, at the date such vote is taken or any written consent of shareholders is solicited. Except as otherwise expressly provided herein or as required by law, the holders of shares of Series A Preferred Stock and Common Stock shall vote together as a single class on all matters.

5. CONVERSION RIGHTS. The holders of the Series A Preferred Stock shall have the following rights with respect to the conversion of the Series A Preferred Stock into shares of Common Stock:

(a) GENERAL. Subject to and in compliance with the provisions of this Section 5, any share of the Series A Preferred Stock may, at the option of the holder, be converted at any time into fully-paid and nonassessable shares of Common Stock. The number of shares of Common Stock to which a holder of Series A Preferred Stock shall be entitled upon conversion shall be the product obtained by multiplying the Applicable Conversion Rate (determined as provided in Section 5(b)) by the number of shares of Series A Preferred Stock being converted.

(b) APPLICABLE CONVERSION RATE. The conversion rate in effect at any time (the "Applicable Conversion Rate") shall be the quotient obtained by dividing \$1.4080 by the Applicable Conversion Value, calculated as provided in Section 5(c).

(c) APPLICABLE CONVERSION VALUE. The Applicable Conversion Value shall be \$1.4080, except that such amount shall be adjusted from time to time in accordance with this Section 5.

(d) ADJUSTMENTS TO APPLICABLE CONVERSION VALUE.

(i) (A) UPON SALE OF COMMON STOCK. If the Corporation shall, while there are any shares of Series A Preferred Stock outstanding, issue or sell shares of its Common Stock without consideration or at a price per share less than the Applicable Conversion Value in effect immediately prior to such issuance or sale, then in each such case such Applicable Conversion Value upon each such issuance or sale, except as hereinafter provided, shall be lowered so as to be equal to an amount determined by multiplying the Applicable Conversion Value by a fraction:

(1) the numerator of which shall be (a) the number of shares of Common Stock outstanding immediately prior to the issuance of such additional shares of Common Stock, plus (b) the number of shares of Common Stock which the net aggregate consideration, if any, received by the Corporation for the total number of such additional shares of Common Stock so issued would purchase at the Applicable Conversion Value in effect immediately prior to such issuance, and

(2) the denominator of which shall be (a) the number of shares of Common Stock outstanding immediately prior to the issuance of such additional shares of Common Stock plus (b) the number of such additional shares of Common Stock so issued.

(B) UPON ISSUANCE OF WARRANTS, OPTIONS AND RIGHTS TO COMMON STOCK.

(1) For the purposes of this Section 5(d)(i), the issuance of any warrants, options, subscriptions, or purchase rights with respect to shares of Common Stock and the issuance of any securities convertible into or exchangeable for shares of Common Stock (or the issuance of any warrants, options, or any rights with respect to such convertible or exchangeable securities) shall be deemed an issuance at such time of such Common Stock if the Net Consideration Per Share (as hereinafter determined) which may be received by the Corporation for such Common Stock shall be LESS THAN the Applicable Conversion Value at the time of such issuance. Any obligation, agreement, or undertaking to issue warrants, options, subscriptions, or purchase rights at any time in the future shall be deemed to be an issuance at the time such obligation, agreement or undertaking is made or arises. No adjustment of the Applicable Conversion Value shall be made under this Section 5(d)(i) upon the issuance of any shares of Common Stock which are issued pursuant to the exercise of any warrants, options, subscriptions, or purchase rights or pursuant to the exercise of any conversion or exchange rights in any



convertible securities if any adjustment shall previously have been made upon the issuance of any such warrants, options, or subscriptions or purchase rights or upon the issuance of any convertible securities (or upon the issuance of any warrants, options or any rights therefor) as above provided.

Should the Net Consideration Per Share of any such warrants, options, subscriptions, or purchase rights or convertible securities be decreased from time to time, then, upon the effectiveness of each such change, the Applicable Conversion Value shall be adjusted to such Applicable Conversion Value as would have been obtained (a) had the adjustments made upon the issuance of such warrants, options, rights, or convertible securities been made upon the basis of the actual Net Consideration Per Share of such securities, and (b) had adjustments made to the Applicable Conversion Value since the date of issuance of such securities been made to the Applicable Conversion Value as adjusted pursuant to (a) above. Any adjustment of the Applicable Conversion Value with respect to this paragraph which relates to warrants, options, subscriptions, or purchase rights with respect to shares of Common Stock shall be disregarded if, as, and when all of such warrants, options, subscriptions, or purchase rights expire or are cancelled without being exercised, so that the Applicable Conversion Value effective immediately upon such cancellation or expiration shall be equal to the Applicable Conversion Value in effect at the time of the issuance or the expiration of cancelled warrants, options, subscriptions, or purchase rights, with such additional adjustments as would have been made to that Applicable Conversion Value had the expired or cancelled warrants, options, subscriptions, or purchase rights not been issued.

(2) For purposes of this paragraph, the "Net Consideration Per Share" which may be received by the Corporation shall be determined as follows:

(a) The "Net Consideration Per Share" shall mean the amount equal to the total amount of consideration, if any, received by the Corporation for the issuance of such warrants, options, subscriptions, or other purchase rights or convertible or exchangeable securities, plus the minimum amount of consideration, if any, payable to the Corporation upon exercise or conversion thereof, divided by the aggregate number of shares of Common Stock that would be issued if all such warrants, options, subscriptions, or other purchase rights or convertible or exchangeable securities were exercised, exchanged, or converted.

(b) The Net Consideration Per Share which may be received by the Corporation shall be determined in each instance as of the date of issuance of warrants, options, subscriptions, or other purchase rights or convertible or exchangeable securities without giving effect to any possible future upward price adjustments or rate adjustments which may be applicable with respect to such warrants, options, subscriptions, or other purchase rights or convertible or exchangeable securities.

(C) STOCK DIVIDENDS. In the event the Corporation shall make or issue, or shall fix a record date for the determination of holders of any stock of the Corporation OTHER THAN Common

Stock entitled to receive a dividend or other distribution payable in Common Stock or securities of the Corporation convertible into or otherwise exchangeable for the Common Stock of the Corporation, then such Common Stock or other securities issued in payment of such dividend shall be deemed to have been issued without consideration, EXCEPT FOR dividends payable in shares of Common Stock payable PRO RATA to holders of Series A Preferred Stock and to holders of any other class of stock, whether or not paid to holders of any other class of stock; PROVIDED, HOWEVER, that holders of any shares of Series A Preferred Stock shall be entitled to receive such shares of Common Stock for which the shares of Series A Preferred Stock are then convertible.

(D) CONSIDERATION OTHER THAN CASH. For purposes of this Section 5(d), if a part or all of the consideration received by the Corporation in connection with the issuance of shares of the Common Stock or the issuance of any of the securities described in this Section 5(d), consists of property other than cash, such consideration shall be deemed to have a fair market value as is reasonably determined in good faith by the Board of Directors of the Corporation.

(E) EXCEPTIONS. This Section 5(d) (i) shall not apply under any of the circumstances which would constitute an Extraordinary Common Stock Event (as hereinafter defined in Section 5(d) (ii)). Further, the provisions of this Section 5(d) shall not apply to the issuance of up to 15,790 shares of Common Stock, or options exercisable therefor, outstanding as of January 20, 1984, (such number to be subject to equitable adjustment in the event of any stock split, combination, reclassification or other similar event occurring on or after January 1, 1984), issuable to consultants, officers and employees of the Corporation, or to the issuance of additional shares of Common Stock, or options issuable therefor, to consultants, officers or employees of the Corporation, provided that the purchase price of such Stock or the exercise price of such options shall be not less than the fair market value of the Common Stock on the date of issuance or grant, as the case may be, and provided that not less than two-thirds of the Board of Directors of the Corporation shall have approved such issuance or grant or the stock option or stock purchase plan pursuant to which such issuance or grant was made.

(ii) UPON EXTRAORDINARY COMMON STOCK EVENT. Upon the happening of an Extraordinary Common Stock Event (as hereinafter defined), the Applicable Conversion Value (and all other conversion values set forth in paragraph (d) (i) above) shall, simultaneously with the happening of such Extraordinary Common Stock Event, be adjusted by multiplying the then effective Applicable Conversion Value by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such Extraordinary Common Stock Event and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such Extraordinary Common Stock Event, and the product so obtained shall thereafter be the Applicable Conversion Value.

The Applicable Conversion Value, as so adjusted, shall be readjusted in the same manner upon the happening of any successive Extraordinary Common Stock Event or Events.

"Extraordinary Common Stock Event" shall mean (i) the issue of additional shares of the Common Stock as a dividend or other distribution on outstanding Common Stock, (ii) a

subdivision of outstanding shares of Common Stock into a greater number of shares of the Common Stock, or (iii) a combination of outstanding shares of the Common Stock into a smaller number of shares of the Common Stock.

(e) AUTOMATIC CONVERSION UPON SPECIFIED PUBLIC OFFERING.

(i) Immediately upon the closing date of an underwritten public offering on a firm commitment basis pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Corporation in which the aggregate net proceeds to the Corporation exceed \$5,000,000 and in which the value of the Corporation, based upon the proposed offering price per share to the public of such Common Stock, equals or exceeds \$15,000,000, all outstanding shares of Series A Preferred Stock shall be converted automatically into the number of shares of Common Stock into which such Series A Preferred Stock is convertible pursuant to Section 5 hereof as of the closing date of such underwritten public offering without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Corporation or its transfer agent for the Common Stock.

(ii) Upon the occurrence of the conversion specified in paragraph (e)(i) above, the holders of such Series A Preferred Stock shall, upon notice from the Corporation, surrender the certificates representing such shares at the office of the Corporation or of its transfer agent for the Common Stock. Thereupon, there shall be issued and delivered to such holder a certificate or certificates for the number of shares of Common Stock into which the shares of the Series A Preferred Stock surrendered were convertible on the date on which such conversion occurred. The Corporation shall not be obligated to issue such certificates unless certificates evidencing such shares of the Series A Preferred Stock being converted are either delivered to the Corporation or any such transfer agent, or the holder notifies the Corporation or any such transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection therewith.

(f) DIVIDENDS. In the event the Corporation shall make or issue, or shall fix a record date for the determination of holders of Common Stock entitled to receive a dividend or other distribution with respect to the Common Stock payable in (i) securities of the Corporation OTHER THAN shares of Common Stock or (ii) assets (excluding cash dividends paid out of earned surplus), then and in each such event provision shall be made so that the holders of Series A Preferred Stock shall receive upon conversion thereof in addition to the number of shares of Common Stock receivable thereupon, the number of securities or such other assets of the Corporation which they would have received had their Series A Preferred Stock been converted into Common Stock on the date of such event and had they thereafter, during the period from the date of such event to and including the Conversion Date (as that term is hereafter defined in

Section 5(j)), retained such securities or such other assets receivable by them as aforesaid during such period, giving application to all adjustments called for during such period under this Section 5 with respect to the rights of the holders of the Series A Preferred Stock.

(g) CAPITAL REORGANIZATION OR RECLASSIFICATION. If the Common Stock issuable upon the conversion of the Series A Preferred Stock shall be changed into the same or different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend provided for elsewhere in this Section 5, or the sale of all or substantially all of the Corporation's properties and assets to any other person), then and in each such event the holder of each share of Series A Preferred Stock shall have the right thereafter to convert such share into the kind and amount of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change by holders of the number of shares of Common Stock into which such shares of Series A Preferred Stock might have been converted immediately prior to such reorganization, reclassification or change, all subject to further adjustment as provided herein.

(h) CAPITAL REORGANIZATION, MERGER OR SALE OF ASSETS. If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 5) or a merger or consolidation of the Corporation with or into another corporation, or the sale of all or substantially all of the Corporation's properties and assets to any other person, then, as a part of such reorganization, merger, or consolidation or sale, provision shall be made so that the holders of the Series A Preferred Stock shall thereafter be entitled to receive upon conversion of the Series A Preferred Stock, the number of shares of stock or other securities or property of the Corporation, or of the successor corporation resulting from such merger, consolidation or sale, to which such holder would have been entitled if such holder had converted its shares of Series A Preferred Stock immediately prior to such capital reorganization, merger, consolidation, or sale. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 5 with respect to the rights of the holders of the Series A Preferred Stock after the reorganization, merger, consolidation or sale to the end that the provisions of this Section 5 (including adjustment of the Applicable Conversion Value then in effect and the number of shares issuable upon conversion of the Series A Preferred Stock) shall be applicable after that event in as nearly equivalent a manner as may be practicable.

Each holder of Series A Preferred Stock upon the occurrence of a capital reorganization, merger or consolidation of the Corporation, or the sale of all or substantially all its assets and properties, as such events are more fully set forth in the first paragraph of this Section 5(h), shall have the option of electing treatment of his shares of Series A Preferred Stock under either this Section 5(h) or Section 3 hereof, notice of which election shall be submitted in writing to the Corporation at its principal offices no later than five (5) business days before the effective date of such event.

(i) ACCOUNTANT'S CERTIFICATE AS TO ADJUSTMENTS: NOTICE BY CORPORATION. In each case of an adjustment or readjustment of the Applicable Conversion Rate, the Corporation

at its expense will furnish each holder of Series A Preferred Stock with a certificate, executed by the president and chief financial officer (or in the absence of a person designated as the chief financial officer, by the treasurer) showing the basis for such adjustment or readjustment. However, if the holder or holders of at least a majority of the then outstanding shares of Series A Preferred Stock so requests, such certificate shall be prepared by independent public accountants of recognized standing.

(j) EXERCISE OF CONVERSION PRIVILEGE. To exercise its conversion privilege, a holder of Series A Preferred Stock shall surrender the certificate or certificates representing the shares being converted to the Corporation at its principal office, and shall give written notice to the Corporation at that office that such holder elects to convert such shares. Such notice shall also state the name or names (with address or addresses) in which the certificate or certificates for shares of Common Stock issuable upon such conversion shall be issued. The certificate or certificates for shares of Series A Preferred Stock surrendered for conversion shall be accompanied by proper assignment thereof to the Corporation or in blank. The date when such written notice is received by the Corporation, together with the certificate or certificates representing the shares of Series A Preferred Stock being converted, shall be the "Conversion Date." As promptly as practicable after the Conversion Date, the Corporation shall issue and shall deliver to the holder of the shares of Series A Preferred Stock being converted, or on its written order, such certificate or certificates as it may request for the number of whole shares of Common Stock issuable upon the conversion of such shares of Series A Preferred Stock in accordance with the provisions of this Section 5, cash in the amount of all accrued and unpaid dividends on such shares of Series A Preferred Stock, whether or not earned or declared, up to and including the Conversion Date and cash, as provided in Section 5(k), in respect of any fraction of a share of Common Stock issuable upon such conversion. Such conversion shall be deemed to have been effected immediately prior to the close of business on the Conversion Date, and at such time the rights of the holder as holder of the converted shares of Series A Preferred Stock shall cease and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares of Common Stock represented thereby.

(k) CASH IN LIEU OF FRACTIONAL SHARES. No fractional shares of Common Stock or scrip representing fractional shares shall be issued upon the conversion of shares of Series A Preferred Stock. Instead of any fractional shares of Common Stock which would otherwise be issuable upon conversion of Series A Preferred Stock, the Corporation shall pay to the holder of the shares of Series A Preferred Stock which were converted a cash adjustment in respect of such fractional shares in an amount equal to the same fraction of the market price per share of the Common Stock (as determined in a reasonable manner prescribed by the Board of Directors) at the close of business on the Conversion Date. The determination as to whether or not any fractional shares are issuable shall be based upon the total number of shares of Series A Preferred Stock being converted at any one time by any holder thereof, not upon each share of Series A Preferred Stock being converted.

(l) PARTIAL CONVERSION. In the event some but not all of the shares of Series A Preferred Stock represented by a certificate or certificates surrendered by a holder are converted, the Corporation shall execute and deliver to, or on the order of the holder, at the expense of the Corporation, a new certificate representing the number of shares of Series A Preferred Stock which were not converted.

(m) RESERVATION OF COMMON STOCK. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series A Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series A Preferred Stock, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, the Corporation shall take such corporate action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

6. NO REISSUANCE OF SERIES A PREFERRED STOCK. No share or shares of Series A Preferred Stock acquired by the Corporation by reason of redemption, purchase, conversion or otherwise shall be reissued, and all such shares shall be cancelled, retired and eliminated from the shares which the Corporation shall be authorized to issue. The Corporation may from time to time take such appropriate corporate action as may be necessary to reduce the authorized number of shares of the Series A Preferred Stock accordingly.

7. RESTRICTIONS AND LIMITATIONS.

(a) CORPORATE ACTION. Except as expressly provided herein or as required by law, so long as any shares of the Series A Preferred Stock remain outstanding, the Corporation shall not, and shall not permit any subsidiary (which shall mean any corporation or trust of which the Corporation directly or indirectly owns at the time all of the outstanding shares of every class other than directors' qualifying shares) to, without the approval by vote or written consent by the holders of at least a majority of the then outstanding shares of the Series A Preferred Stock, each share of Series A Preferred Stock to be entitled to one vote in each instance:

(i) redeem, purchase or otherwise acquire for value (or pay into or set aside for a sinking fund for such purpose), any share or shares of Series A Preferred Stock;

(ii) authorize or issue, or obligate itself to authorize or issue, additional shares of Series A Preferred Stock;

(iii) authorize or issue, or obligate itself to authorize or issue, any other equity security senior to or on a parity with the Series A Preferred Stock as to liquidation preferences, conversion rights, voting rights, dividend rights or otherwise; or

(iv) merge or consolidate with, or sell, assign, lease or otherwise dispose of or voluntarily part with the control of (whether in one transaction or in a series of transactions) all, or substantially all, of its assets (whether now owned or hereinafter acquired) or sell, assign or otherwise dispose of (whether in one transaction or in a series of transactions) any of its accounts receivable (whether now in existence or hereinafter created) at a discount or with recourse, to any person, or permit any subsidiary to do any of the foregoing, except for sales or other dispositions of assets in the ordinary course of business and EXCEPT that (1) any subsidiary may merge into or consolidate with or transfer assets to any other subsidiary and (2) any subsidiary may merge into or transfer assets to the Corporation.

(b) AMENDMENTS TO CHARTER. The Corporation shall not amend its Articles of Organization without the approval, by vote or written consent, by the holders of at least a majority of the then outstanding shares of Series A Preferred Stock, each share of Series A Preferred Stock to be entitled to one vote in each instance, if such amendment would change any of the rights, preferences, privileges of or limitations provided for herein for the benefit of any shares of Series A Preferred Stock. Without limiting the generality of the next preceding sentence, the Corporation will not amend its Articles of Organization without the approval by the holders of at least a majority of the then outstanding shares of Series A Preferred Stock if such amendment would:

(i) change the relative seniority rights of the holders of Series A Preferred Stock as to the payment of dividends in relation to the holders of any other capital stock of the Corporation; or

(ii) reduce the amount payable to the holders of Series A Preferred Stock upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, or change the relative seniority of the liquidation preferences of the holders of Series A Preferred Stock to the rights upon liquidation of the holders of any other capital stock of the Corporation or change the dividend rights of the holders of Series A Preferred Stock; or

(iii) cancel or modify the conversion rights of the holders of Series A Preferred Stock provided for in Section 5 herein.

8. NO DILUTION OR IMPAIRMENT. The Corporation will not, by amendment of its Articles of Organization or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of the Series A Preferred Stock set forth herein, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holders of the Series A Preferred Stock against dilution or other impairment. Without limiting the generality of the foregoing, the Corporation (a) will not increase the par value of any shares of stock receivable on the conversion of the Series A Preferred Stock above the amount payable

therefor on such conversion, (b) will take all such action as may be necessary or appropriate in order that the Corporation may validly and legally issue fully paid and nonassessable shares of stock on the conversion of all Series A Preferred Stock from time to time outstanding, (c) will not transfer all or substantially all of its properties and assets to any other person (corporate or otherwise), or consolidate with or merge into any other person or permit any such person to consolidate with or merge into the Corporation (if the Corporation is not the surviving person), unless such other person shall expressly assume in writing and will be bound by all the terms of the Series A Preferred Stock set forth herein.

9. NOTICES OF RECORD DATE. In the event of:

(a) any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right; or

(b) any capital reorganization of the Corporation, any reclassification or recapitalization of the capital stock of the Corporation, any merger or consolidation of the Corporation, or any transfer of all or substantially all of the assets of the Corporation to any other corporation, or any other entity or person; or

(c) any voluntary or involuntary dissolution, liquidation or winding up of the Corporation, then and in each such event the Corporation shall mail or cause to be mailed to each holder of Series A Preferred Stock a notice specifying (i) the date on which any such record is to be taken for the purpose of such dividend, distribution or right and a description of such dividend, distribution or right, (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation, or winding up is expected to become effective, and (iii) the time, if any, that is to be fixed, as to when the holders of record of Common Stock (or other securities ) for securities or other property deliverable upon such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding up. Such notice shall be mailed at least thirty (30) days prior to the date specified in such notice on which such action is to be taken.



ARTICLE 6.

Other lawful provisions for the conduct and regulation of the business and affairs of the corporation, for its voluntary dissolution or for limiting, defining or regulating the powers of the corporation, or of its directors or stockholders, or of any class of stockholders are as follows:

No Director or officer shall be disqualified by his office from dealing or contracting as vendor, purchaser or otherwise, whether in his individual capacity or through any other corporation, trust, association, firm or joint venture in which his is interested as a stockholder, director, trustee, partner or otherwise, with the Corporation or any corporation, trust, association, firm or joint venture in which the Corporation shall be a stockholder or otherwise interested or which shall hold stock or be otherwise interested in the Corporation, nor shall any such dealing or contract be avoided, nor shall any Director or officer so dealing or contracting be liable to account for any profit or benefit realized through any such dealing or contract with the Corporation or with any stockholder or creditor thereof solely because of the fiduciary relationship established by reason of his holding such Directorship or office. Any such interest of a Director shall not disqualify him from being counted in determining the existence of a quorum at any meeting nor shall any such interest disqualify him from voting or consenting as a Director or having his vote or consent counted in connection with any such dealing or contract.

No stockholder shall be disqualified from dealing or contracting as vendor, purchaser or otherwise, either in his individual capacity or through any other corporation, trust, association, firm or joint venture in which he is interested as a stockholder, director, trustee, partner or otherwise, with the Corporation or any corporation, trust, association, firm or joint venture in which the Corporation shall be a stockholder or otherwise interested or which shall hold stock or be otherwise interested in the Corporation, nor shall any such dealing or contract be avoided, nor shall any stockholder so dealing or contracting be liable to account for any profit or benefit realized through any such contract or dealing to the Corporation or to any stockholder or creditor thereof by reason of such stockholder holding stock in the Corporation to any amount, nor shall any fiduciary relationship be deemed to be established by holding such stock.

Meetings of the stockholders of the Corporation may be held at any place within the United States.

The Corporation may be a partner in any business enterprise it would have power to conduct by itself.

The Directors may make, amend or repeal the By-Laws in whole or in part, except with respect to any provision thereof which by law or the By-Laws requires action by the stockholders.

No Director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director notwithstanding any statutory provision or other law imposing such liability, except for liability of a director (i) for any breach of the Director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions

not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 61 or 62 of Chapter 156 of the Massachusetts General Laws, or (iv) for any transaction from which the Director derived an improper personal benefit.

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## Classified Board of Directors

(1) The Directors of the Corporation shall be divided into three classes: Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the whole number of the Board of Directors. If the number of Directors is not evenly divisible by three, the Board of Directors shall determine the number of Directors to be elected initially into each class. In the election of Directors at the Special Meeting of Stockholders in Lieu of the 1992 Annual Meeting, the Class I Directors shall be elected to hold office for a term to expire at the first annual meeting of the stockholders thereafter; the Class II Directors shall be elected to hold office for a term to expire at the second annual meeting of the stockholders thereafter; and the Class III Directors shall be elected to hold office for a term to expire at the third annual meeting of the stockholders thereafter, and in the case of each class, until their respective successors are duly elected and qualified. At each annual election held after the Special Meeting of Stockholders in Lieu of the 1992 Annual Meeting, the Directors elected to succeed those whose terms expire shall be identified as being of the same class as the Directors they succeed and shall be elected to hold office for a term to expire at the third annual meeting of the stockholders after their election, and until their respective successors are duly elected and qualified. If the number of Directors changes, any increase or decrease in Directors shall be apportioned among the classes so as to maintain all classes as equal in number as possible, and any additional Director elected to any class shall hold office for a term which shall coincide with the terms of the other Directors in such class and until his successor is duly elected and qualified.

(2) Notwithstanding any other provisions of these Articles of Organization or the By-Laws of the Corporation or the fact that a lesser percentage may be specified by law, these Articles of Organization or the By-Laws of the corporation, the affirmative vote' of the holders of at least eighty (80%) percent of the combined voting power of the outstanding stock of the Corporation entitled to vote generally in the election of directors ("Voting Stock"), voting together as a single class, shall be required to amend, alter, adopt any provision inconsistent with or to repeal this provision; PROVIDED, HOWEVER, that if any such proposal receives the affirmative vote of a majority of the Continuing Directors (as defined below), then such proposal shall require only the affirmative vote of the holders of at least a majority of the outstanding Voting Stock of the Corporation.

### Vote Required for Certain Business Combinations

Until January 1, 1999, the following shall be applicable to certain business combinations:

(A) In addition to any affirmative vote required by law or these Articles of Organization, and except as otherwise expressly provided in Paragraph (B) of this Provision:

1. any merger or consolidation of the Corporation or any Subsidiary (as hereinafter defined) with (a) an Interested Stockholder (as hereinafter defined) or (b) any other corporation (whether or not itself an Interested Stockholder) which is, or after such merger or

consolidation would be, an Affiliate (as such term is hereinafter defined) of an Interested Stockholder; or

2. any sale, lease, exchange, mortgage, pledge, grant of a security interest, transfer or other disposition (in one transaction or a series of transactions to or with (a) an Interested Stockholder or (b) or any other person (whether or not itself an Interested Stockholder) which is, or after such sale, lease, exchange, mortgage, pledge, grant of security interest, transfer or other disposition would be, an Affiliate of an Interested Stockholder, directly or indirectly, of substantially all of the assets of the Corporation (including, without limitation, any voting securities of a Subsidiary) or any Subsidiary; or

3. the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary, or both, to (a) an Interested Stockholder or (b) any other person (whether or not itself an Interested Stockholder) which is, or after such issuance or transfer would be, an Affiliate of an Interested Stockholder in exchange for cash, securities or other property (or a combination thereof); or

4. the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Stockholder or any Affiliate of an Interested Stockholder; or

5. any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Corporation or any Subsidiary directly or indirectly beneficially owned by (a) an Interested Stockholder or (b) any other person (whether or not itself an Interested Stockholder) which is, or after such reclassification, recapitalization, merger or consolidation or other transaction would be, an Affiliate of an Interested Stockholder;

shall not be consummated unless such consummation shall have been approved by the affirmative vote of the holders of at least eighty (80%) percent of the combined voting power of the then outstanding shares of Voting Stock (as hereinafter defined), voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law, in these Articles of Organization or in any agreement with any national securities exchange or otherwise.

(B) The provisions of Paragraph (A) of this Provision shall not be applicable to any particular Business Combination (as hereinafter defined) and such Business Combination shall require only such affirmative vote as is required by law and any other provision of these Articles of Organization, if the Business Combination shall have been approved by a majority of the Continuing Directors (as hereinafter defined) or all of the following conditions shall have been met:

1. The transaction constituting the Business Combination shall provide for a consideration to be received by all holders of Common Stock in exchange for all their shares of Common Stock, and the aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the higher of the following:

(a) (if applicable) the highest per-share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of Common Stock beneficially owned by an Interested Stockholder (i) within the two-year period immediately prior to the Announcement Date (as hereinafter defined), (ii) within the two-year period immediately prior to the Determination Date (as hereinafter defined), or (iii) in the transaction in which it became an Interested Stockholder, whichever is highest; or

(b) the Fair Market Value per share of Common Stock on the Announcement Date or on the Determination Date, whichever is higher;

2. If the transaction constituting the Business Combination shall provide for a consideration to be received by holders of any class or series of outstanding Voting Stock other than Common Stock, the aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of shares of such class or series of Voting Stock shall be at least equal to the highest of the following (it being intended that the requirements of this subparagraph 2 shall be required to be met with respect to every class or series of outstanding Voting Stock, whether or not an Interested Stockholder has previously acquired any shares of a particular class of Voting Stock):

(a) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of such class or series of Voting Stock beneficially owned by an Interested Stockholder (i) within the two-year period immediately prior to the Announcement Date, (ii) within the two-year period immediately prior to the Determination Date, or (iii) in the transaction in which it became an Interested Stockholder, whichever is highest; or

(b) the Fair Market Value per share of such class or series of Voting Stock on the Announcement Date or the Determination Date, whichever is higher; or

(c) (if applicable) the highest preferential amount per share to which the holders of shares of such class or series of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation;

3. The consideration to be received by holders of a particular class or series of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as was previously paid in order to acquire shares of such class or series of Voting Stock which are

beneficially owned by an Interested Stockholder and, if an Interested Stockholder beneficially owns shares of any class or series of Voting Stock which were acquired with varying forms of consideration, the form of consideration for such class or series of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class or series of Voting Stock beneficially owned by it. The price determination in accordance with subparagraphs 1 and 2 of this Paragraph (B) shall be subject to appropriate adjustment in the event of any recapitalization, stock dividend, stock split, combination of shares or similar event;

4. After such Interested Stockholder has become an Interested Stockholder and prior to the consummation of such Business Combination:

(a) except as approved by a majority of the Continuing Directors, there shall have been no failure to declare and pay at the regular date therefor the full amount of any dividends (whether or not cumulative) payable on any outstanding preferred stock;

(b) there shall have been (i) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock) other than as approved by a majority of the Continuing Directors, and (ii) an increase in such annual rate of dividends as necessary to prevent any such reduction in the event of any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate is approved by a majority of the Continuing Directors; and

(c) such Interested Stockholder shall not have become the beneficial owner of any additional shares of Voting Stock at a price lower than that paid in the transaction in which it became an Interested Stockholder;

5. After such Interested Stockholder has become an Interested Stockholder, such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided the Corporation, whether in anticipation of or in connection with such Business Combination or otherwise; and

6. A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (or any subsequent provisions replacing such act, rules or regulations) shall be mailed to the stockholders of the Corporation, no later than the earlier of (a) thirty (30) days prior to any vote on the proposed Business Combination, or (b) if no vote on such Business Combination is required, sixty (60) days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions). Such proxy statement shall contain at the front thereof, in a prominent place, any recommendations as to the advisability (or inadvisability) of the

Business Combination which the Continuing Directors, or any of them, may have furnished in writing and, if deemed advisable by a majority of the Continuing Directors, an opinion of a reputable investment banking firm as to the fairness (or lack of fairness) of the terms of such Business Combination, from the point of view of the holder of Voting Stock other than an Interested Stockholder (such investment banking firm to be selected by a majority of the Continuing Directors, to be furnished with all information it reasonably requests and to be paid a reasonable fee for its services upon receipt by the Corporation of such opinion).

(C) For the purposes of this Provision:

1. "Business Combination" shall mean any transaction which is referred to in any one or more of subparagraphs 1 through 5 of Paragraph (A) of this Provision.

2. "Voting Stock" shall mean stock of all classes and series of the Corporation entitled to vote generally in the election of Directors.

3. "Person" shall mean any individual, firm, trust, partnership, association, corporation or other entity.

4. "Interested Stockholder" shall mean any person (other than the Corporation or any Subsidiary or any person or entity holding 9% or more of Voting Stock on July 2, 1993) who or which:

(a) is the beneficial owner, directly or indirectly, of more than ten (10%) percent of the combined voting power of the then outstanding Voting Stock; or

(b) is an Affiliate of the corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of more than ten (10%) percent of the combined voting power of the then outstanding Voting Stock; or

(c) is an assignee of or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by an Interested Stockholder, unless such assignment or succession shall have occurred pursuant to a Public Transaction (as hereinafter defined) or any series of transactions involving a Public Transaction.

For the purposes of determining whether a person is an Interested Stockholder, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of subparagraph 6 below but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or option, or otherwise.

5. "Public Transaction" shall mean any (a) purchase of shares offered pursuant to an effective registration statement under the Securities Act of 1933, as amended, or (b) open-market purchase of shares on a national securities exchange if, in either such case, the price and other terms of sale are not negotiated by the purchaser and the seller of the beneficial interest in the shares.

6. A person shall be a "beneficial owner" of any Voting Stock:

(a) which such person or any of its Affiliates beneficially owns, directly or indirectly; or

(b) which such person or any of its Affiliates has (i) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote or to direct the voting thereof pursuant to any agreement, arrangement or understanding; or

(c) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

7. "Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on July 22, 1993.

8. "Subsidiary" shall mean any corporation of which a majority of any class of equity security (as defined in Rule 3a11.1 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on June 27, 1989) is owned, directly or indirectly, by the corporation; PROVIDED, HOWEVER, that for the purposes of the definition of Interested Stockholder set forth in subparagraph 4, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

9. "Continuing Director" shall mean any member of the Board of Directors of the Corporation who is unaffiliated with, and not a nominee of, an Interested Stockholder and was a member of the Board prior to the time that such Interested Stockholder became an Interested Stockholder, and any successor of a Continuing Director who is unaffiliated with, and not a nominee of, an Interested Stockholder and is recommended to succeed a Continuing Director by a majority of Continuing Directors then on the Board.

10. "Announcement Date" shall mean the date of the first public announcement of the proposed Business Combination.



11. "Determination Date" shall mean the date on which an Interested Stockholder became an Interested Stockholder.

12. "Fair Market Value" shall mean: (a) in the case of stock, the highest closing sale price during the thirty (30)-day period immediately preceding the date in question of a share of such stock on the National Market System of the National Association of Securities Dealers Automated Quotation System or any system then in use on any national securities exchange or automated quotation system, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (b) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Continuing Directors in good faith.

(D) A majority of the Continuing Directors shall have the power and duty to determine for the purposes of this Provision, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Provision, including, without limitation, (1) whether a person is an Interested Stockholder, (2) the number of shares of Voting Stock beneficially owned by any person, (3) whether a person is an Affiliate of another, (4) whether the requirements of Paragraph (B) of this Provision have been met, and (5) such other matters with respect to which a determination is required under this Provision. The good faith determination of a majority of the Continuing Directors on such matters shall be conclusive and binding for all purposes of this Provision.

(E) Nothing contained in this Provision shall be construed to relieve an Interested Stockholder of any fiduciary obligation imposed by law.

(F) Notwithstanding any other provisions of these Articles of Organization or the By-laws of the Corporation or the fact that a lesser percentage may be specified by law, these Articles of Organization or the By-laws of the corporation, the affirmative vote of the holders of at least eighty (80%) percent of the combined voting power of the then outstanding Voting Stock, voting together as a single class, shall be required to amend, alter, adopt any provision inconsistent with or repeal this Provision; PROVIDED, HOWEVER, that if any such proposal receives the affirmative vote of a majority of the Continuing Directors, then such proposal shall require only the affirmative vote of the holders of at least a majority of the outstanding Voting Stock of the Corporation.

(Balance of Page Intentionally Blank)

Redemption of Shares

The Corporation, until January 1, 1999, in accordance with Section 6 of Chapter 110D of the General Laws of the Commonwealth of Massachusetts, by action of its Board of Directors is authorized, at the option of the Corporation by such Board action but without requiring the agreement of the person who has made a control share acquisition (as defined in said Chapter 110D), to redeem all but not less than all shares acquired in such a control share acquisition in accordance with and subject to the limitations contained in said Chapter 110D including Section 6 thereof, provided however that any person or entity holding more than 9% of the issued and outstanding stock entitled to vote generally for the election of Directors on July 2, 1993 shall be exempt from this provision so long as any such 10% stockholder continues to hold at least 5% of the voting stock of the Corporation.





THE COMMONWEALTH OF MASSACHUSETTS

RESTATED ARTICLES OF ORGANIZATION  
(GENERAL LAWS, CHAPTER 156B, SECTION 74)

I hereby approve the within restated articles of organization and, the  
filing fee in the amount of \$                    having been paid, said articles are  
deemed to have been filed with me this day of                    , 19   .

MICHAEL JOSEPH CONNOLLY  
Secretary of State

TO BE FILLED IN BY CORPORATION

PHOTO COPY OF RESTATED ARTICLES OF ORGANIZATION TO BE SENT TO:

- - - - -  
- - - - -  
- - - - -

Telephone - - - - -

Copy Mailed

THE COMMONWEALTH OF MASSACHUSETTS

William Francis Galvin  
Secretary of the Commonwealth  
Corporations Division  
One Ashburton Place, Boston, MA 02108-1512

CERTIFICATE OF CORRECTION  
(GENERAL LAWS, CHAPTER 156B, SECTION 6A)

CORPORATE NAME: MERCURY COMPUTER SYSTEMS, INC.

DOCUMENT TO BE CORRECTED: RESTATED ARTICLES OF ORGANIZATION

IT IS HEREBY CERTIFIED THAT THE ABOVE MENTIONED DOCUMENT WAS FILED WITH THE  
OFFICE OF THE SECRETARY OF STATE ON 10/21/93.

PLEASE STATE THE INACCURACY OR DEFECT TO BE CORRECTED IN SAID DOCUMENT:

ATTACHMENT PAGE B-5

E. DESCRIPTION OF SERIES A CONVERTIBLE PREFERRED STOCK

1. DESIGNATION: ----- SHARES OF THE CLASS OF SERIES...

PLEASE STATE CORRECTED VERSION OF THE DOCUMENT:

ATTACHMENT PAGE B-5

E. DESCRIPTION OF SERIES A CONVERTIBLE PREFERRED STOCK

1. DESIGNATION: 1,000,000 SHARES OF THE CLASS OF SERIES...

IN WITNESS WHEREOF AND UNDER THE PENALTIES OF PERJURY, WE SIGN OUR NAMES THIS  
23rd DAY OF OCTOBER IN THE YEAR 1997.

/s/ James Bertelli                    PRESIDENT  
-----  
James Bertelli

/s/ Anthony J. Medaglia, Jr.    CLERK  
-----  
Anthony J. Medaglia, Jr.

-----  
NOTE: IF THE INACCURACY OR DEFECT TO BE CORRECTED IS NOT APPARENT ON THE FACE  
OF THE DOCUMENT, MINUTES OF THE MEETING SUBSTANTIATING THE ERROR MUST BE FILED  
WITH THE CERTIFICATE. IF REQUIRED, ADDITIONAL INFORMATION MAY BE STATED ON A  
SEPARATE 8-1/2 X 11 INCH WHITE PAPER.  
-----

FEDERAL IDENTIFICATION  
NO. 04-2741391  
-----

-----  
The Commonwealth of Massachusetts  
Examiner William Francis Galvin  
Secretary of the Commonwealth  
One Ashburton Place, Boston, Massachusetts 02108-1512

-----  
Name ARTICLES OF AMENDMENT  
Approved (General Laws, Chapter 156B, Section 72)

We, G. Mead Wyman, \* Vice President  
-----  
and Anthony J. Medaglia, Jr. \*Clerk  
-----  
of MERCURY COMPUTER SYSTEMS, INC.  
-----  
(Exact name of corporation)

located at 199 Riverneck Road, Chelmsford, MA 01824  
-----  
(Street address of corporation in Massachusetts)

certify that these Articles of Amendment affecting articles  
numbered:

Articles 3 and 4  
(Number those articles 1, 2, 3, 4, 5 and/or 6 being amended)

of the Articles of Organization were duly adopted at a meeting  
held on December 18, 1997, by vote of:

3,477,252	shares of	Common Stock	of	5,311,431	shares outstanding
-----		-----		-----	
852,264	shares of	Preferred	of	852,264	shares outstanding, and
-----		-----		-----	
-----		-----		-----	shares outstanding

C [ ] (1)\*\*being at least a majority of each type, class or series outstanding and entitled to vote  
P [ ] thereon:/or (2)\*\*being at least two-thirds of each type, class or series outstanding and entitled to  
M [ ] vote thereon and of each type, class or series outstanding and entitled to vote thereon and of  
R.A.[ ] each type, class or series of stock whose rights are adversely affected thereby:

\*Delete the inapplicable words. \*\*Delete the inapplicable clause.  
(1) For amendments adopted pursuant to Chapter 156B, Section 70.  
(2) For amendments adopted pursuant to Chapter 156B, Section 71.  
Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on one side only of separate 8 1/2 x 11 sheets of paper with a left margin of at least 1 inch. Additions to more than one article may be made on a single sheet so long as each article requiring each addition is clearly indicated.

-----  
P.C.

To change the number of shares and the par value (if any) of any type, class or series of stock which the corporation is authorized to issue, fill in the following:

The total presently authorized is:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:		COMMON:	25,000,000	\$.01
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
PREFERRED:		PREFERRED:	2,000,000	\$.01
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

Change the total authorized to:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:		COMMON:	25,000,000	\$.01
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
PREFERRED:		PREFERRED:	1,000,000	\$.01
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

ARTICLE 4

SECTION E OF ARTICLE 4 (ENTITLED "DESCRIPTION OF SERIES A CONVERTIBLE PREFERRED STOCK") IS HEREBY DELETED IN ITS ENTIRETY.



The foregoing amendment will become effective when these articles of amendment are filed in accordance with General Laws, Chapter 156B, Section 6 unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date.

Later effective date: \_\_\_\_\_

SIGNED UNDER THE PENALTIES OF PERJURY, this 4th day of February 1998.

-----  
/s/ G. Mead Wyman Vice President  
-----  
G. MEAD WYMAN

-----  
/s/ Anthony J. Medaglia, Jr. Clerk  
-----  
ANTHONY J. MEDAGLIA, JR.

\*Delete the inapplicable words.

THE COMMONWEALTH OF MASSACHUSETTS

ARTICLES OF AMENDMENT

GENERAL LAWS, CHAPTER 156B, SECTION 72

=====

I hereby approve the within articles of amendment and, the filing fee in the amount of \$200 having been paid, said articles are deemed to have been filed with me this 4th day of February, 1998.

Effective date: \_\_\_\_\_

WILLIAM FRANCIS GALVIN  
Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION

PHOTOCOPY OF ARTICLES OF AMENDMENT TO BE SENT TO:

PATRICIA ROBICHAUD

-----  
HUTCHINS, WHEELER & DITTMAR

-----  
101 FEDERAL STREET  
BOSTON, MA 02110

-----  
TELEPHONE: (617) 951-6600  
-----

Examiner

The Commonwealth of Massachusetts  
WILLIAM FRANCIS GALVIN  
Secretary of the Commonwealth  
One Ashburton Place, Boston, Massachusetts 02108-1512

Name  
Approved

ARTICLES OF AMENDMENT  
(GENERAL LAWS, CHAPTER 156B, SECTION 72)

We, James R. Bertelli, President  
and Anthony J. Medaglia, Jr., Clerk  
of Mercury Computer Systems, Inc.,  
(Exact name of corporation)  
located at 199 Riverneck Road, Chelmsford, MA 01824,  
(Street address of corporation in Massachusetts)

certify that these Articles of Amendment affecting articles  
numbered:

3, 4

(Number those articles 1,2,3,4,5 and/or 6 being amended)

of the Articles of Organization were duly adopted at a meeting  
held on November 15, 2001, by vote of:

18,038,949 shares of Common Stock of 22,003,235  
(type, class & series, if any)  
shares outstanding,

shares of of  
(type, class & series, if any)

shares outstanding, and

shares of of  
(type, class & series, if any)

shares outstanding,

- C [ ]
- P [ ] 1\*\* being at least a majority of each type, class or series
- M [ ] outstanding and entitled to vote thereon:
- R.A. [ ]

\* Delete the inapplicable words. \*\* Delete the inapplicable  
clause.

[ ] For amendments adopted pursuant to Chapter 156B, Section 70.

[ ] For amendments adopted pursuant to Chapter 156B, Section 71.

NOTE: IF THE SPACE PROVIDED UNDER ANY ARTICLE OR ITEM ON THIS FORM  
IS INSUFFICIENT, ADDITIONS SHALL BE SET FORTH ON ONE SIDE ONLY OF  
SEPARATE 8 1/2 X 11 SHEETS OF PAPER WITH A LEFT MARGIN OF AT LEAST  
1 INCH. ADDITIONS TO MORE THAN ONE ARTICLE MAY BE MADE ON A SINGLE  
SHEET SO LONG AS EACH ARTICLE REQUIRING EACH ADDITION IS CLEARLY  
INDICATED.

To change the number of shares and the par value (if any) of any type, class or series of stock which the corporation is authorized to issue, fill in the following:

The total presently authorized is:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
Common:		Common:	40,000,000	\$.01
Preferred:		Preferred:	1,000,000	\$.01

Change the total authorized to:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
Common:		Common:	65,000,000	\$.01
Preferred:		Preferred:	1,000,000	\$.01

Article 4.A is replaced in its entirety with the following:

A. AUTHORIZED SHARES. The aggregate number of shares which this Corporation shall have authority to issue is: 65,000,000 shares of common stock having a par value of \$.01 per share (the "Common Stock") and 1,000,000 shares of preferred stock having a par value of \$.01 per share (the "Series Preferred Stock").

The foregoing amendment(s) will become effective when these Articles of Amendment are filed in accordance with General Laws, Chapter 156B, Section 6 unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date.

Later effective date: \_\_\_\_\_ .

SIGNED UNDER THE PENALTIES OF PERJURY, this 15th day of November 2001,  
-----

/s/James R. Bertelli \_\_\_\_\_, President

/s/Anthony J. Medaglia, Jr. \_\_\_\_\_, Clerk

\* Delete the inapplicable words.

THE COMMONWEALTH OF MASSACHUSETTS  
ARTICLES OF AMENDMENT  
(GENERAL LAWS, CHAPTER 156B, SECTION 72)

=====  
I hereby approve the within Articles of Amendment and , the filing fee in  
the amount of \$\_\_\_\_\_ having been paid, such articles are deemed to  
have been filed with me this \_\_\_\_\_ day of \_\_\_\_\_, 2001.

Effective date: \_\_\_\_\_

WILLIAM FRANCIS GALVIN  
Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION  
PHOTOCOPY OF DOCUMENT TO BE SENT TO:

Patricia Robichaud, Corporate Paralegal  
-----

c/o Hutchins, Wheeler & Dittmar, 101 Federal Street  
-----

Boston, MA 02110  
-----

The Commonwealth of Massachusetts  
WILLIAM FRANCIS GALVIN  
Secretary of the Commonwealth  
One Ashburton Place, Boston, Massachusetts 02108-1512

ARTICLES OF AMENDMENT  
(GENERAL LAWS, CHAPTER 156B, SECTION 72)

Examiner  
  
Name  
Approved

We, James R. Bertelli, President  
-----  
and Anthony J. Medaglia, Jr., Clerk  
-----  
of Mercury Computer Systems, Inc.,  
-----  
(Exact name of corporation)  
located at 199 Riverneck Road, Chelmsford, MA 01824,  
-----  
(Street address of corporation in Massachusetts)

certify that these Articles of Amendment affecting articles  
numbered:

3, 4

-----  
(Number those articles 1,2,3,4,5 and/or 6 being amended)

of the Articles of Organization were duly adopted at a meeting  
held on November 18, 1999, by vote of:

8,827,014 shares of common stock of 10,390,137  
-----  
(type, class & series, if any)  
shares outstanding,

----- shares of ----- of -----  
(type, class & series, if any)

shares outstanding, and

----- shares of ----- of -----  
(type, class & series, if any)

shares outstanding,

C [ ]  
P [ ] 1\*\* being at least a majority of each type, class or series  
M [ ] outstanding and entitled to vote thereon:  
R.A. [ ]

\* Delete the inapplicable words. \*\* Delete the inapplicable  
clause.

[ ] For amendments adopted pursuant to Chapter 156B, Section 70.

[ ] For amendments adopted pursuant to Chapter 156B, Section 71.

NOTE: IF THE SPACE PROVIDED UNDER ANY ARTICLE OR ITEM ON THIS FORM  
IS INSUFFICIENT, ADDITIONS SHALL BE SET FORTH ON ONE SIDE ONLY OF  
SEPARATE 8 1/2 X 11 SHEETS OF PAPER WITH A LEFT MARGIN OF AT LEAST  
1 INCH. ADDITIONS TO MORE THAN ONE ARTICLE MAY BE MADE ON A SINGLE  
SHEET SO LONG AS EACH ARTICLE REQUIRING EACH ADDITION IS CLEARLY  
INDICATED.

The total presently authorized is:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
Common:		Common:	25,000,000	\$.01
Preferred:		Preferred:	1,000,000	\$.01

Change the total authorized to:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
Common:		Common:	40,000,000	\$.01
Preferred:		Preferred:	1,000,000	\$.01

Article 4.A is replaced in its entirety with the following:

A. AUTHORIZED SHARES. The aggregate number of shares which this Corporation shall have authority to issue is: 40,000,000 shares of common stock having a par value of \$.01 per share (the "Common Stock") and 1,000,000 shares of preferred stock having a par value of \$.01 per share (the "Series Preferred Stock").



The foregoing amendment(s) will become effective when these Articles of Amendment are filed in accordance with General Laws, Chapter 156B, Section 6 unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date.

Later effective date: \_\_\_\_\_ .

SIGNED UNDER THE PENALTIES OF PERJURY, this 18th day of November 1999,  
-----

/s/James R. Bertelli , President  
-----

/s/Anthony J. Medaglia, Jr. , Clerk  
-----

THE COMMONWEALTH OF MASSACHUSETTS  
ARTICLES OF AMENDMENT  
(GENERAL LAWS, CHAPTER 156B, SECTION 72)

=====

I hereby approve the within Articles of Amendment and , the filing fee in the amount of \$15,100 having been paid, such articles are deemed to have been filed with me this 22nd day of November, 1999.

Effective date: -----

WILLIAM FRANCIS GALVIN  
Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION  
PHOTOCOPY OF DOCUMENT TO BE SENT TO:

-----  
Patricia Robichaud  
-----

Hutchins, Wheeler & Dittmar, P.C.  
101 Federal Street  
-----

Boston, MA 02110  
-----

Telephone: (617) 951-6600  
-----

BY-LAWS

OF

MERCURY COMPUTER SYSTEMS, INC.

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BY-LAWS

OF

MERCURY COMPUTER SYSTEMS, INC.

ARTICLE 1

ARTICLES OF ORGANIZATION

The name and purposes of the Corporation shall be as set forth in the Articles of Organization. These By-Laws, the powers of the Corporation and its Directors and stockholders, and all matters concerning the conduct and regulation of the business of the Corporation, shall be subject to such provisions in regard thereto, if any, as are set forth in the Articles of Organization. All references in these By-Laws to the Articles of Organization shall be construed to mean the Articles of Organization of the Corporation as from time to time amended or restated.

ARTICLE 2

FISCAL YEAR

Except as from time to time otherwise determined by the Directors, the fiscal year of the Corporation shall be the twelve months ending on June 30.

ARTICLE 3

MEETINGS OF STOCKHOLDERS

SECTION 3.1 ANNUAL MEETING

The annual meeting of the stockholders shall be held at 10:00 o'clock A.M. on the first Wednesday of October in each year. Purposes for which an annual meeting is to be held, additional to those prescribed by law and by these By-Laws, may be specified by the President or by the Directors.

If such annual meeting has not been held on the day herein provided therefor, a special meeting of the stockholders in lieu of the annual meeting may be held, and any business transacted or elections held at such special meeting shall have the same effect as if transacted or held at the annual meeting, and in such case all references in these By-Laws, except in this Section 3.1, to the annual meeting of the stockholders shall be deemed to refer to such special meeting. Any such special meeting shall be called, and the purposes thereof shall be specified in the call, as provided in Section 3.2 of this Article 3.

To be properly brought before the meeting, business must be of a nature that is appropriate for consideration at an annual meeting and must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before the annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Clerk of the Corporation. To be timely, each such notice must be given either by personal delivery or by United States mail, postage prepaid, to the Clerk of the Corporation not later than (1) with respect to a matter to be brought before an annual meeting of stockholders or special meeting in lieu of an annual meeting, sixty (60) days prior to the date set forth in the By-Laws for the annual meeting and (2) with respect to a matter to be brought before a special meeting of the stockholders not in lieu of an annual meeting, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to stockholders. The notice shall set forth (i) information concerning the stockholder, including his or her name and address; (ii) a representation that the stockholder is entitled to vote at such meeting and intends to appear

in person or by proxy at the meeting to present the matter specified in the notice, and (iii) such other information as would be required to be included in a proxy statement soliciting proxies for the presentation of such matter to the meeting.

Notwithstanding anything in these By-Laws to the contrary, no business shall be transacted at the annual meeting except in accordance with the procedures set forth in this Section; provided, however, that nothing in this Section shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting in accordance with these By-Laws.

SECTION 3.2 SPECIAL MEETINGS

A special meeting of the stockholders may be called at any time by the President, or by a majority of the Directors acting by vote or by written instrument or instruments signed by them. A special meeting of the stockholders shall be called by the Clerk, or in the case of the death, absence, incapacity or refusal of the Clerk, by any other officer, upon written application of one or more stockholders who hold at least thirty (30) percent in interest of the capital stock entitled to vote thereat. Such call shall state the time, place and purposes of the meeting. In the event that none of the officers is able or willing to call a special meeting, the supreme judicial or superior court, upon application of one or more stockholders who hold at least thirty (30) percent in interest of the capital stock entitled to vote thereat, shall have jurisdiction in equity to authorize one or more of such stockholders to call a meeting by giving notice as is required by law.

SECTION 3.3 PLACE OF MEETINGS

All meetings of the stockholders shall be held at the principal office of the Corporation in Massachusetts, unless a different place within Massachusetts or, if permitted by the Articles of

Organization, elsewhere within the United States is designated by the President, or by a majority of the Directors acting by vote or by written instrument or instruments signed by them. Any adjourned session of any meeting of the stockholders shall be held at such place within Massachusetts or, if permitted by the Articles of Organization, elsewhere within the United States as is designated in the vote of adjournment.

SECTION 3.4 NOTICE OF MEETINGS

A written notice of the place, date and hour of all meetings of stockholders stating the purposes of the meeting shall be given at least seven (7) days before the meeting to each stockholder entitled to vote thereat, by leaving such notice with him or at his residence or usual place of business, or by mailing it, postage prepaid, and addressed to such stockholder at his address as it appears in the records of the Corporation. Such notice shall be given by the Clerk, or in the case of the death, absence, incapacity or refusal of the Clerk, by any other officer or by a person designated either by the Clerk, by the person or persons calling the meeting, by any stockholder or group of stockholders applying for such meeting pursuant to Section 3.2 of Article 3 of these By-Laws or by the Board of Directors. Whenever notice of a meeting is required to be given a stockholder under any provision of law, of the Articles of Organization, or of these By-Laws, a written waiver thereof, executed before or after the meeting by such stockholder or his attorney thereunto authorized, and filed with the records of the meeting, shall be deemed equivalent to such notice.

SECTION 3.5 QUORUM

At any meeting of the stockholders, a quorum for the election of any Director or for the consideration of any question shall consist of a majority in interest of all stock issued, outstanding and entitled to vote at such election or upon such question, respectively, except that



if two or more classes of stock are entitled to vote as separate classes for the election of any Director or upon any question, then in the case of each such class a quorum for the election of any Director or for the consideration of such question shall consist of a majority in interest of all stock of that class issued, outstanding and entitled to vote thereon. Stock owned by the Corporation, if any, shall be disregarded in determining any quorum. Both abstentions and broker non-votes are to be counted for the purpose of determining the existence of a quorum for the transaction of business at any meeting. Whether or not a quorum is present, any meeting may be adjourned from time to time by a majority of the votes properly cast upon the question, and the meeting may be held as adjourned without further notice.

When a quorum for an election is present at any meeting, a plurality of the votes properly cast for any office shall elect such office. When a quorum for the consideration of a question is present at any meeting, a majority of the votes properly cast upon the question shall decide the question; except that if two or more classes of stock are entitled to vote as separate classes upon such question, then in the case of each such class a majority of the votes of such class properly cast upon the question shall decide the vote of that class upon the question; and except in any case where a larger vote is required by law or by the Articles of Organization. For purposes of determining the number of shares voting on a particular proposal, abstentions and broker non-votes are not to be counted as votes cast or shares voting.

SECTION 3.6            ACTION WITHOUT MEETING

Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of stockholders. Such consents shall be treated for all purposes as a vote at a meeting.

SECTION 3.7 PROXIES AND VOTING

Except as may otherwise be provided in the Articles of Organization, stockholders entitled to vote shall have one vote for each share of stock entitled to vote owned by them. Stockholders entitled to vote may vote in person or by proxy. No proxy dated more than six (6) months before the meeting named therein shall be valid and no proxy shall be valid after the final adjournment of such meeting; PROVIDED, HOWEVER, that a proxy coupled with an interest sufficient in law to support an irrevocable power, including, without limitation, an interest in the shares or in the Corporation generally, may be irrevocable if it so provides, need not specify the meeting to which it relates, and shall be valid and enforceable until the interest terminates, or for such shorter period as may be specified in the proxy. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by any one of them unless at or prior to the exercise of the proxy the Corporation receives specific written notice to the contrary from any one of them. A proxy purporting to be executed by or on behalf of a stockholder shall be deemed valid unless challenged at or prior to its exercise and the burden of proving invalidity shall rest on the challenger. Proxies shall be filed with the Clerk, or person performing the duties of clerk, at the meeting, or any adjournment thereof, before being voted.

The Corporation shall not, directly or indirectly, vote upon any share of its own stock. Both abstentions and broker non-votes are to be counted as present for the purpose of determining the existence of a quorum for the transaction of business at any meeting. However, for purposes of determining the number of shares voting a particular proposal, abstentions and broker non-votes are not to be counted as votes cast or shares voting.

ARTICLE 4

DIRECTORS

SECTION 4.1 ENUMERATION, ELECTION AND TERM OF OFFICE

The business and affairs of this corporation shall be managed under the direction of a Board of Directors consisting of not fewer than three (3) nor more than fifteen (15) Directors, the exact number to be determined from time to time by resolution adopted by the affirmative vote of a majority of the entire Board of Directors, such Board of Directors to be divided into such classes and elected by such stockholders as have the right to vote thereon, for such terms as are provided in the Articles of Organization. Each Director shall hold office until his successor shall have been elected and qualified, subject to Article 6 of these By-Laws. Whenever used in these By-Laws, the phrase "entire Board of Directors" shall mean that number of Directors fixed by the most recent resolution adopted pursuant to the preceding sentence prior to the date as of which a determination of the number of Directors then constituting the entire Board of Directors shall be relevant for any purpose under these By-Laws. Subject to the foregoing limitations and the requirements of the Articles of Organization, the Board of Directors may be enlarged by the stockholders at any meeting or by the affirmative vote of a majority of the entire Board of Directors then in office.

Nominations for the election of Directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any stockholder entitled to vote generally in the election of Directors. However, any stockholder entitled to vote generally in the election of Directors may nominate one or more persons for election as Directors at a meeting only if written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Clerk of the Corporation not later than (1) with respect to an election to be held at an annual meeting of stockholders or special meeting in lieu of an annual meeting, sixty (60) days prior to the date for the annual meeting set forth in the By-Laws and (2) with respect to an election to be held at a

special meeting of stockholders not in lieu of an annual meeting, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to stockholders. Each such notice to the Clerk shall set forth (i) the name and address of the stockholder and each of his or her nominees; (ii) a representation that the stockholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the stockholder and each such nominee; (iv) such other information as would be required to be included in a proxy statement soliciting proxies or the election of the nominees of such stockholder; and (v) the consent of each nominee to serve as a Director of the Corporation if so elected. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a Director of the Corporation. The presiding officer of the meeting may, if the facts warrant, determine that a nomination was not made in accordance with the foregoing procedure, and if such officer should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

No Director need be a stockholder. Any election of Directors by the stockholders shall be by ballot if so requested by any stockholder entitled to vote thereon.

#### SECTION 4.2            POWERS

The business of the Corporation shall be managed by the Board of Directors, which shall exercise all the powers of the Corporation except as otherwise required by law, by the Articles of Organization or by these By-Laws. In the event of one or more vacancies in the Board of Directors, the remaining Directors, if at least two (2) Directors still remain in office, may exercise the powers of the full Board until such vacancy or vacancies are filled.

SECTION 4.3 MEETINGS OF DIRECTORS

Regular meetings of the Directors may be held without notice at such places and at such times as may be fixed from time to time by the Directors. A regular meeting of the Directors may be held without notice immediately following an annual meeting of stockholders or any special meeting held in lieu thereof.

Special meetings of Directors may be called by the Chairman of the Board, the President, the Treasurer or any two (2) or more Directors, or if there shall be less than three (3) Directors, by any one (1) Director, and shall be held at such time and place as specified in the call. Reasonable notice of each special meeting of the Directors shall be given to each Director. Such notice may be given by the Secretary or Assistant Secretary of the Board, the Clerk or any Assistant Clerk or by the officer or one of the Directors calling the meeting. Notice to a Director shall in any case be sufficient if sent by telegram or telecopier at least forty-eight (48) hours or by mail at least ninety-six (96) hours before the meeting addressed to the Director at his or her usual or last known business or residence address, or if given to him or her at least forty-eight (48) hours before the meeting in person or by telephone or by handing him or her a written notice. Notice of a meeting need not be given to any Director if a written waiver of notice, executed by him or her before or after the meeting, is filed with the records of the meeting, or to any Director who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him or her. A notice or waiver of notice need not specify the purposes of the meeting.

SECTION 4.4 QUORUM OF DIRECTORS

At any meeting of the Directors, a quorum for any election or for the consideration of any question shall consist of a majority of the Directors then in office. Whether or not a quorum is

present any meeting may be adjourned from time to time by a majority of the votes properly cast upon the question, and the meeting may be held as adjourned without further notice. When a quorum is present at any meeting, the votes of a majority of the Directors present shall be requisite and sufficient for election to any office and shall decide any question brought before such meeting, except in any case where a larger vote is required by law, by the Articles of Organization or by these By-Laws.

SECTION 4.5 Consent in Lieu of Meeting and Participation in Meetings by COMMUNICATIONS EQUIPMENT

Any action required or permitted to be taken at any meeting of the Directors may be taken without a meeting if all the Directors consent to the action in writing and the written consents are filed with the records of the meetings of the Directors. Such consents shall be treated for all purposes as a vote of the Directors at a meeting.

Members of the Board of Directors or any Committee designated thereby may participate in a meeting of such Board or Committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time and participation by such means shall constitute presence in person at a meeting.

SECTION 4.6 COMMITTEES

By vote of a majority of the Directors then in office, the Directors may elect from their own number an Executive Committee or other Committees and may by like vote delegate to any such Committee some or all of their powers except those which by law may not be delegated.

ARTICLE 5

OFFICERS

SECTION 5.1 ENUMERATION, ELECTION AND TERM OF OFFICE

The officers of the Corporation shall include a President, a Treasurer and a Clerk, who shall be chosen by the Directors at their first meeting following an annual meeting of the stockholders. Each of the officers shall hold office until the next annual election to the office which he or she holds and until his or her successor is chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. The Directors may choose one of their number to be Chairman of the Board and determine his or her powers, duties and term of office. The Directors may at any time appoint such other officers, including one or more Vice Presidents, Assistant Treasurers, Assistant Clerks, a Secretary of the Board and an Assistant Secretary of the Board as they deem wise, and may determine their respective powers, duties and terms of office.

The Corporation may also designate individuals as divisional, group, or segment vice presidents or vice presidents of a particular function, which individual shall carry such title on a non-executive basis and not as an executive officer of the Corporation. Said non-executive vice presidents may be designated by the Board of Directors or by the President pursuant to Board resolutions so-authorizing the President to appoint non-executive vice presidents on a particular occasion or from time to time in his or her discretion, said honorary vice presidents to be titled "Vice President (specific area of function)."

No officer need be a stockholder or a Director except that the Chairman of the Board shall be a Director. The same person may hold more than one office, except that no person shall be both President and Clerk.

#### SECTION 5.2            PRESIDENT AND CHAIRMAN OF THE BOARD

The President shall be the Chief Executive Officer of the Corporation and, subject to the control and direction of the Directors, shall have general supervision and control of the business

of the Corporation. The President shall preside at all meetings of the stockholders at which he or she is present, and, if the President is a Director, at all meetings of the Directors, if there shall be no Chairman of the Board or in the absence of the Chairman of the Board.

If there shall be a Chairman of the Board, such person shall make his or her counsel available to the other officers of the Corporation, and shall have such other duties and powers as may from time to time be conferred on him or her by the Directors. The Chairman of the Board shall preside at all meetings of the Directors at which he or she is present, and, in the absence of the President, at all meetings of stockholders.

SECTION 5.3           TREASURER AND ASSISTANT TREASURER

The Treasurer shall have the custody of the funds and valuable books and papers of the Corporation, except such as are directed by these By-Laws to be kept by the Clerk or by the Secretary of the Board. The Treasurer shall perform all other duties usually incident to such office, and shall be at all times subject to the control and direction of the Directors. If required by the Directors, the Treasurer shall give bond in such form and amount and with such sureties as shall be determined by the Directors.

If the Treasurer is absent or unavailable, any Assistant Treasurer shall have the duties and powers of Treasurer and shall have such further duties and powers as the Directors shall from time to time determine.

SECTION 5.4           CLERK AND ASSISTANT CLERK

If the Corporation shall not have a resident agent appointed pursuant to law, the Clerk shall be a resident of the Commonwealth of Massachusetts. The Clerk shall record all proceedings of the stockholders in a book to be kept therefor. In case a Secretary of the Board is



not elected, the Clerk shall also record all proceedings of the Directors in a book to be kept therefor.

If the Corporation shall not have a transfer agent, the Clerk shall also keep or cause to be kept the stock and transfer records of the Corporation, which shall contain the names of all stockholders and the record address and the amount of stock held by each.

If the Clerk is absent or unavailable, any Assistant Clerk shall have the duties and powers of the Clerk and shall have such further duties and powers as the Directors shall from time to time determine.

SECTION 5.5 SECRETARY OF THE BOARD AND ASSISTANT SECRETARY

If a Secretary of the Board is elected, such person shall record all proceedings of the Directors in a book to be kept therefor.

If the Secretary of the Board is absent or unavailable, any Assistant Secretary shall have the duties and powers of the Secretary and shall have such further duties and powers as the Directors shall from time to time determine.

If no Secretary or Assistant Secretary has been elected, or if, having been elected, no Secretary or Assistant Secretary is present at a meeting of the Directors, the Clerk or an Assistant Clerk shall record the proceedings of the Directors.

SECTION 5.6 TEMPORARY CLERK AND TEMPORARY SECRETARY

If no Clerk or Assistant Clerk shall be present at any meeting of the stockholders, or if no Secretary, Assistant Secretary, Clerk or Assistant Clerk shall be present at any meeting of the Directors, the person presiding at the meeting shall designate a Temporary Clerk or Secretary to perform the duties of Clerk or Secretary.

SECTION 5.7 OTHER POWERS AND DUTIES

Each officer shall, subject to these By-Laws and to the control and direction of the Directors, have in addition to the duties and powers specifically set forth in these By-Laws, such duties and powers as are customarily incident to such office and such additional duties and powers as the Directors may from time to time determine.

## ARTICLE 6

### RESIGNATIONS, REMOVALS AND VACANCIES

#### SECTION 6.1 RESIGNATIONS

Any Director or officer may resign at any time by delivering his or her resignation in writing to the President or the Clerk or to a meeting of the Directors. Such resignations shall take effect at such time as is specified therein, or if no such time is so specified, then upon delivery thereof to the President or the Clerk or to a meeting of the Directors.

#### SECTION 6.2 REMOVALS

Directors, including Directors elected by the Directors to fill vacancies in the Board, may be removed from office (a) with cause by vote of the holders of a majority of the shares issued and outstanding and entitled to vote generally in the election of Directors; (b) with or without cause by vote of the holders of at least 80% of the votes entitled to be cast by the holders of all shares of the Corporation entitled to vote generally in the election of Directors, voting together as a single class; (c) with cause by vote of a majority of the Directors then in office; or (d) without cause by vote of at least 80% of the Directors then in office (including the Director to be removed in calculating said percentage); provided that the Directors of a class elected by a particular class of stockholders may be removed only by vote of the holders of a majority of the shares of such class.

The Directors may terminate or modify the authority of any agent or employee. The Directors may remove any officer from office with or without assignment of cause by vote of a majority of the Directors then in office.

If cause is assigned for removal of any Director or officer, such Director or officer may be removed only after reasonable notice and opportunity to be heard before the body proposing to remove him.

No Director or officer who resigns or is removed shall have any right to any compensation as such Director or officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or by the year or otherwise; provided, however, that the foregoing provision shall not prevent such Director or officer from obtaining damages for breach of any contract of employment legally binding upon the Corporation.

SECTION 6.3 VACANCIES

Any vacancy in the Board of Directors, including a vacancy resulting from an enlargement of the Board, may be filled by the Directors by vote of a majority of the remaining Directors then in office, though less than a quorum, or by the stockholders at a meeting called for the purpose, provided that any vacancy created by the stockholders may be filled by the stockholders at the same meeting. Any Director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of Directors in which the new Directorship was created or the vacancy occurred and until such Directors' successor shall have been elected and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified.

If the office of any officer becomes vacant, the Directors may choose or appoint a successor by vote of a majority of the Directors present at the meeting at which such choice or appointment is made.

Each such successor shall hold office for the unexpired term of the Director's predecessor and until a successor shall be chosen or appointed and qualified, or until he or she sooner dies, resigns, is removed or becomes disqualified.

#### ARTICLE 7

##### INDEMNIFICATION OF DIRECTORS AND OTHERS

###### SECTION 7.1 DEFINITIONS

For purposes of this Article 7:

(a) "Director/officer" means any person who is serving or has served as a Director, officer or employee of the Corporation appointed or elected by the Board of Directors or the stockholders of the Corporation, or any Director, officer or employee of the Corporation who is serving or has served at the request of the Corporation as a Director, officer, trustee, principal, partner, employee or other agent of any other organization.

(b) "Proceeding" means any action, suit or proceeding, civil or criminal, brought or threatened in or before any court, tribunal, administrative or legislative body or agency.

(c) "Expense" means any fine or penalty, and any liability fixed by a judgment, order, decree or award in a Proceeding, any amount reasonably paid in settlement of a Proceeding and any professional fees and other disbursements reasonably incurred in connection with a Proceeding.

###### SECTION 7.2 RIGHT TO INDEMNIFICATION

Except as limited by law or as provided in Sections 7.3 and 7.4 of this Article 7, each Director/officer (and his heirs and personal representatives) shall be indemnified by the

Corporation against any Expense incurred by such Director/officer in connection with each Proceeding in which he or she is involved as a result of his or her serving or having served as a Director/officer.

SECTION 7.3 INDEMNIFICATION NOT AVAILABLE

No indemnification shall be provided to a Director/officer with respect to a Proceeding as to which it shall have been adjudicated that he or she did not act in good faith in the reasonable belief that his or her action was in the best interests of the Corporation.

SECTION 7.4 COMPROMISE OR SETTLEMENT

In the event that a Proceeding is compromised or settled so as to impose any liability or obligation on a Director/officer or upon the Corporation, no indemnification shall be provided as to said Director/officer with respect to such Proceeding if such Director/officer shall have been adjudicated not to have acted in good faith in the reasonable belief that his or her action was in the best interests of the Corporation.

SECTION 7.5 ADVANCES

The Corporation shall pay sums on account of indemnification in advance of a final disposition of a Proceeding upon receipt of an undertaking by the Director/officer to repay such sums if it is subsequently established that he or she is not entitled to indemnification pursuant to Sections 7.3 and 7.4 hereof, which undertaking may be accepted without reference to the financial ability of such person to make repayment.

SECTION 7.6 NOT EXCLUSIVE

Nothing in this Article 7 shall limit any lawful rights to indemnification existing independently of this Article 7.

SECTION 7.7 INSURANCE

The provisions of this Article 7 shall not limit the power of the Board of Directors to authorize the purchase and maintenance of insurance on behalf of any Director/officer against any Expense, whether or not the Corporation would have the power to indemnify such Director/officer against such Expense under this Article 7.

## ARTICLE 8

### STOCK

#### SECTION 8.1 STOCK AUTHORIZED

The total number of shares and the par value, if any, of each class of stock which the Corporation is authorized to issue, and if more than one class is authorized, the descriptions, preferences, voting powers, qualifications and special and relative rights and privileges as to each class and any series thereof, shall be as stated in the Articles of Organization.

#### SECTION 8.2 ISSUE OF AUTHORIZED UNISSUED CAPITAL STOCK

Any unissued capital stock from time to time authorized under the Articles of Organization and amendments thereto may be issued by vote of the Directors. No stock shall be issued unless the cash, so far as due, or the property, services or expenses for which it was authorized to be issued, has been actually received or incurred by, or conveyed or rendered to, the Corporation, or is in its possession as surplus.

#### SECTION 8.3 CERTIFICATES OF STOCK

Each stockholder shall be entitled to a certificate in such form as may be prescribed from time to time by the Directors, stating the number and the class and the designation of the series, if any, of the shares held by such stockholder. Such certificates shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer. Such signatures may be facsimiles if the certificate is signed by a transfer agent, or by a registrar, other than a Director, officer or employee of the Corporation. In case any officer who has signed or whose facsimile

signature has been placed on such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer at the time of its issue. Every certificate issued by the Corporation for shares of stock at a time when such shares are subject to any restriction on transfer pursuant to the Articles of Organization, the By-Laws or any agreement to which the Corporation is a party, shall have the restriction noted conspicuously on the certificate and shall also set forth on the face or back of the certificate either the full text of the restriction, or a statement of the existence of such restriction and a statement that the Corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge. Every stock certificate issued by the Corporation at a time when it is authorized to issue more than one class or series of stock shall set forth upon the face or back of the certificate either the full text of the preferences, voting powers, qualifications and special and relative rights of the shares of each class and series, if any, authorized to be issued, as set forth in the Articles of Organization, or a statement of the existence of such preferences, powers, qualifications and rights and a statement that the Corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge.

SECTION 8.4           REPLACEMENT CERTIFICATE

In case of the alleged loss or destruction or the mutilation of a certificate of stock, a new certificate may be issued in place thereof, upon such conditions as the Directors may determine.

SECTION 8.5           TRANSFERS

Subject to the restrictions, if any, imposed by the Articles of Organization, the By-Laws or any agreement to which the Corporation is a party, shares of stock shall be transferred on the books of the Corporation only by the surrender to the Corporation or its transfer agent of the

certificate representing such shares properly endorsed or accompanied by a written assignment of such shares or by a written power of attorney to sell, assign or transfer such shares, properly executed, with necessary transfer stamps affixed, and with such proof that the endorsement, assignment or power of attorney is genuine and effective as the Corporation or its transfer agent may reasonably require. Except as may otherwise be required by law, the Corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect thereto, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the Corporation in accordance with the requirements of these By-Laws. It shall be the duty of each stockholder to notify the Corporation of his or her post office address.

SECTION 8.6            RECORD DATE

The Directors may fix in advance a time, which shall be not more than sixty (60) days before the date of any meeting of stockholders or the date for the payment of any dividend or the making of any distribution to stockholders or the last day on which the consent or dissent of stockholders may be effectively expressed for any purpose, as the record date for determining the stockholders having the right to notice of and to vote at such meeting and any adjournment thereof or the right to receive such dividend or distribution or the right to give such consent or dissent, and in such case only stockholders of record on such date shall have such right, notwithstanding any transfer of stock on the books of the Corporation after the record date; or without fixing such record date the Directors may for any such purposes close the transfer books for all or any part of such period.

If no record date is fixed and the transfer books are not closed:



(1) The record date for determining stockholders having the right to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given.

(2) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors acts with respect thereto.

ARTICLE 9

MISCELLANEOUS PROVISIONS

SECTION 9.1 EXECUTION OF PAPERS

All deeds, leases, transfers, contracts, bonds, notes, releases, checks, drafts and other obligations authorized to be executed on behalf of the Corporation shall be signed by the President or the Treasurer except as the Directors may generally or in particular cases otherwise determine.

SECTION 9.2 VOTING OF SECURITIES

Except as the Directors may generally or in particular cases otherwise determine, the President or the Treasurer may, on behalf of the Corporation (i) waive notice of any meeting of stockholders or shareholders of any other corporation, or of any association, trust or firm, of which any securities are held by this Corporation; (ii) appoint any person or persons to act as proxy or attorney-in-fact for the Corporation, with or without substitution, at any such meeting; and (iii) execute instruments of consent to stockholder or shareholder action taken without a meeting.

SECTION 9.3 CORPORATE SEAL

The seal of the Corporation shall be a circular die with the name of the Corporation, the word "Massachusetts" and the year of its incorporation cut or engraved thereon, or shall be in such other form as the Board of Directors or the stockholders may from time to time determine.

SECTION 9.4 CORPORATE RECORDS

The original, or attested copies, of the Articles of Organization, By-Laws, and the records of all meetings of incorporators and stockholders, and the stock and transfer records, which shall contain the names of all stockholders and the record address and the amount of stock held by each, shall be kept in Massachusetts for inspection by the stockholders at the principal office of the Corporation or at an office of the Clerk, or if the Corporation shall have a transfer agent or a resident agent, at an office of either of them. Said copies and records need not all be kept in the same office.

ARTICLE 10

AMENDMENTS

These By-Laws may be altered, amended or repealed or new By-Laws enacted by the affirmative vote of a majority of the entire Board of Directors (if notice of the proposed alteration or amendment is contained in the notice of the meeting at which such vote is taken or if all Directors are present) or at any regular meeting of the stockholders (or at any special meeting thereof duly called for that purpose) by the affirmative vote of a majority of the shares represented and entitled to vote at such meeting (if notice of the proposed alteration or amendment is contained in the notice of such meeting).

Notwithstanding anything contained in the preceding paragraph of this Article 10 to the contrary until January 1, 1999, either (i) the affirmative vote of the holders of at least eighty (80%) percent of the votes entitled to be cast by the holders of all shares of the Corporation entitled to vote generally in the election of Directors, voting together as a single class, or (ii) the affirmative vote of a majority of the entire Board of Directors with the concurring vote of a majority of the Continuing Directors, voting separately and as a subclass of Directors, shall be required to alter, amend or repeal or adopt any provision inconsistent with, Section 3.1 of

Article 3, Section 4.1 of Article 4, Section 6.2 and Section 6.3 of Article 6 and this paragraph of this Article 10. For purposes of this Article 10, the term "Continuing Director" shall have the meaning ascribed to it in Article 6 of the Articles of Organization of the Corporation. Subsequent to January 1, 1999, the foregoing sections may be altered, amended or repealed in accordance with the first paragraph of this Article 10.2. The purposes for which the corporation is formed are as follows: To manufacture, sell, invent, design, develop, distribute, lease and to engage in all aspects of the production of micro-computer based products; to invent, design, discover, or acquire formulae, processes, improvements, inventions, designs, patents, licenses, copyrights, trademarks, trade names and trade secrets applicable to the foregoing and to hold, use, sell, license and otherwise deal in or dispose of the same; to acquire by purchase, deed, mortgage, lease or by any other method and to hold, maintain, operate, . improve, develop, sell, exchange, lease, mortgage, pledge, hypothecate, loan money upon and otherwise deal in real and personal property of every kind, character and description and wheresoever situated, including without limitation the stock and securities of the corporation or of any other corporation; to lend money upon credit or security to, to guarantee or assume obligations of, and to aid in any other manner other concerns wherever and however organized, any obligations of which or any interest in which shall be held by the corporation or in the affairs or prosperity of which the corporation has a lawful interest and to do all acts and things designed to protect, improve and enhance the value of such obligations and interests; and to carry on any business permitted and enjoy all rights and powers granted by the Commonwealth of Massachusetts to a corporation organized under Chapter 156B of the General Laws, as amended. 242071-2

MERCURY COMPUTER SYSTEMS, INC.  
1997 STOCK OPTION PLAN

1. PURPOSE OF THE PLAN.

This stock option plan (the "Plan") is intended to encourage ownership of the stock of Mercury Computer Systems, Inc. (the "Company") by employees and advisors of the Company and its subsidiaries, to induce qualified personnel to enter and remain in the employ of the Company or its subsidiaries and otherwise to provide additional incentive for optionees to promote the success of its business.

2. STOCK SUBJECT TO THE PLAN.

(a) The maximum number of shares of common stock, par value \$.01 per share, of the Company (the "Common Stock") for which options may be granted under this Plan shall be five million six hundred fifty thousand (5,650,000) shares. The maximum number of shares of Common Stock available for granting incentive stock options under this Plan shall be five million six hundred fifty thousand (5,650,000) shares. These limitations and all other limitations on the number of shares referenced in this Plan shall be subject to adjustment as provided in Section 12 of the Plan. Shares issued under the Plan may be authorized but unissued shares of Common Stock, or shares of Common Stock held in treasury by the Company.

(b) If an option granted hereunder shall expire or terminate for any reason without having vested fully or having been exercised in full, the unvested and/or unpurchased shares subject thereto shall again be available for subsequent option grants under the Plan.

(c) Stock issuable upon exercise of an option granted under the Plan may be subject to such restrictions on transfer, repurchase rights or other restrictions as shall be determined by the Committee.

3. ADMINISTRATION OF THE PLAN.

The Plan shall be administered by a committee (the "Committee") consisting of two or more members of the Company's Board of Directors. The selection of persons for participation in the Plan and all decisions concerning the timing, pricing and amount of any grant or award under the Plan shall be made solely by the Committee. The Board of Directors may from time to time appoint a member or members of the Committee in substitution for or in addition to the member or members then in office and may fill vacancies on the Committee however caused. The Committee shall choose one of its members as Chairman and shall hold meetings at such times and places as it shall deem advisable. A majority of the

members of the Committee shall constitute a quorum and any action may be taken by a majority of those present and voting at any meeting. Any action may also be taken without the necessity of a meeting by a written instrument signed by a majority of the Committee. The decision of the Committee as to all questions of interpretation and application of the Plan shall be final, binding and conclusive on all persons. The Committee shall have the authority to adopt, amend and rescind such rules and regulations as, in its opinion, may be advisable in the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any option agreement granted hereunder in the manner and to the extent it shall deem expedient to carry the Plan into effect and shall be the sole and final judge of such expediency. No Committee member shall be liable for any action or determination made in good faith.

4. TYPE OF OPTIONS.

Options granted pursuant to the Plan shall be authorized by action of the Committee and may be designated as either incentive stock options meeting the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or non-qualified options which are not intended to meet the requirements of such Section 422 of the Code, the designation to be in the sole discretion of the Committee. The Plan shall be administered by the Committee in such manner as to permit options to qualify as incentive stock options under the Code.

5. ELIGIBILITY.

Options designated as incentive stock options shall be granted only to employees (including officers and directors who are also employees) of the Company and any of its subsidiaries. Options designated as non-qualified options may be granted to officers, directors, employees, consultants, and advisors of the Company or of any of its subsidiaries. "Subsidiary" or "subsidiaries" shall be as defined in Section 424 of the Code and the Treasury Regulations promulgated thereunder (the "Regulations") and shall include present and future subsidiaries.

The Committee shall, from time to time, at its sole discretion, select from such eligible individuals those to whom options shall be granted and shall determine the number of shares to be subject to each option. In determining the eligibility of an individual to be granted an option, as well as in determining the number of shares to be granted to any individual, the Committee in its sole discretion shall take into account the position and responsibilities of the individual being considered, the nature and value to the Company or its subsidiaries of his or her service and accomplishments, his or her present and potential contribution to the success of the Company or its subsidiaries, and such other factors as the Committee may deem relevant.

No option designated as an incentive stock option shall be granted to any employee of the Company or any subsidiary if such employee owns, immediately prior to the grant of an option, stock representing more than 10% of the combined voting power of all classes of stock of the Company or a parent or a subsidiary, unless the purchase price for the stock under such option shall be at least 110% of its fair market value at the time such option is granted and the option, by its terms, shall not be exercisable more than five years from the date it is granted. In determining the stock ownership under this paragraph, the provisions of Section 424(d) of the Code shall be controlling. In determining the fair market value under this paragraph, the provisions of Section 7 hereof shall apply.

The maximum number of shares of the Company's Common Stock with respect to which an option or options may be granted to any employee in any one taxable year of the Company shall not exceed 100,000 shares, taking into account shares granted during such taxable year under options that are terminated or repriced.

6. OPTION AGREEMENT.

(a) Each option shall be evidenced by an option agreement (the "Agreement") duly executed on behalf of the Company and by the optionee to whom such option is granted, which Agreement shall comply with and be subject to the terms and conditions of the Plan. The Agreement may contain such other terms, provisions and conditions which are not inconsistent with the Plan as may be determined by the Committee, provided that options designated as incentive stock options shall meet all of the conditions for incentive stock options as defined in Section 422 of the Code. The date of grant of an option shall be as determined by the Committee. More than one option may be granted to an individual.

(b) Unless the Agreement specifies otherwise, the Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict any option (whether vested or unvested, exercised or unexercised) at any time if the optionee is not in compliance with all applicable provisions of the Agreement and the Plan, or if the optionee engages in any "Detrimental Activity." For purposes of this Section 6, "Detrimental Activity" shall include: (i) the rendering of services for any organization or engaging directly or indirectly in any business which is or becomes competitive with the Company, or which organization or business, or the rendering of services to such organization or business, is or becomes otherwise prejudicial to or in conflict with the interests of the Company; (ii) the disclosure to anyone outside the Company, or the use in other than the Company's business, without prior written authorization from the Company, of any confidential information or material, as defined in the Company's Employee Confidentiality Agreement or such other agreement regarding confidential information and intellectual property that the optionee and the Company may enter into (collectively, the "Confidentiality

Agreement"), relating to the business of the Company, acquired by the optionee either during or after employment with the Company; (iii) the failure or refusal to disclose promptly and to assign to the Company, pursuant to the Confidentiality Agreement or otherwise, all right, title and interest in any invention or idea, patentable or not, made or conceived by the optionee during employment by the Company, relating in any manner to the actual or anticipated business, research or development work of the Company or the failure or refusal to do anything reasonably necessary to enable the Company to secure a patent where appropriate in the United States and in other countries; (iv) activity that results in termination of the optionee's employment for cause; (v) a material violation of any rules, policies, procedures or guidelines of the Company; (vi) any attempt directly or indirectly to induce any employee of the Company to be employed or perform services elsewhere or any attempt directly or indirectly to solicit the trade or business of any current or prospective customer, supplier or partner of the Company; or (vii) the optionee being convicted of, or entering a guilty plea with respect to, a crime, whether or not connected with the Company.

(c) Upon exercise, payment, or delivery pursuant to an option, the optionee shall certify in a manner acceptable to the Company that he or she is in compliance with the terms and conditions of the Plan. In the event an optionee engages in any Detrimental Activity as set forth in paragraphs (b) (i)-(viii) of this Section 6 prior to, or during the six (6) months after, any exercise, payment, or delivery pursuant to an option, such exercise, payment, or delivery may be rescinded by the Company within two (2) years thereafter. In the event of any such rescission, the optionee shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment, or delivery, in such manner and on such terms and conditions as may be required, and the Company shall also be entitled to set-off against the amount of any such gain any amount owed to the optionee by the Company, and to be reimbursed for any attorney's fees or other costs or expenses incurred in enforcing this Section 6 of the Plan.

#### 7. OPTION PRICE.

The option price or prices of shares of the Company's Common Stock for options designated as non-qualified stock options shall be determined by the Committee, but in no event shall the option price of a non-qualified stock option be less than 100% of the fair market value of such Common Stock at the time the option is granted, as determined by the Committee. The option price or prices of shares of the Company's Common Stock for incentive stock options shall be not less than the fair market value of such Common Stock at the time the option is granted as determined by the Committee in accordance with the Regulations promulgated under Section 422 of the Code. If the shares of Common Stock are listed on any

national securities exchange, or traded on the National Association of Securities Dealers Automated Quotation System ("Nasdaq") National Market System, the fair market value of a share of Common Stock on the date of grant of an option shall be the closing price, if any, on the largest such exchange, or if not traded on an exchange, the Nasdaq National Market System on such day, or if the date of grant is not a business day, the business day immediately preceding the date of the grant, or if there are no sales of shares of Common Stock on the date of grant or on the business day immediately preceding the date of grant, the fair market value of a share of Common Stock shall be determined by taking a weighted average of the means between the highest and lowest sales on the nearest date before and the nearest date after the date of grant in accordance with Treasury Regulations Section 25.2512-2. If the shares are not then either listed on any such exchange or quoted in NASDAQ/NM, the fair market value shall be the mean between the average of the "Bid" and the average of the "Ask" prices, if any, as reported in the National Daily Quotation Service for the date of grant, or if the date of grant is not a business day the business day immediately preceding the date of the grant of the option, or, if none, shall be determined by taking a weighted average of the means between the highest and lowest sales prices on the nearest date before and the nearest date after the date of grant in accordance with Treasury Regulations Section 25.2512-2. If the fair market value cannot be determined under the preceding two sentences, it shall be determined in good faith by the Committee.

8. MANNER OF PAYMENT; MANNER OF EXERCISE.

(a) Options granted under the Plan may provide for the payment of the exercise price, as determined by the Committee and set forth in the Option Agreement, by delivery of (i) cash or a check payable to the order of the Company in an amount equal to the exercise price of such options, (ii) shares of Common Stock of the Company owned by the optionee having a fair market value equal in amount to the exercise price of the options being exercised, (iii) any combination of (i) and (ii), provided, however, that payment of the exercise price by delivery of shares of Common Stock of the Company owned by such optionee may be made only if such payment does not result in a charge to earnings for financial accounting purposes as determined by the Committee, or (iv) payment may also be made by delivery of a properly executed exercise notice to the Company, together with a copy of irrevocable instruments to a broker to deliver promptly to the Company the amount of sale or loan proceeds to pay the exercise price. The fair market value of any shares of the Company's Common Stock which may be delivered upon exercise of an option shall be determined by the Committee in accordance with Section 7 hereof. To facilitate clause (iv) above, the Company may enter into agreements for coordinated procedures with one or more brokerage firms. The date of exercise shall be the date of delivery of such exercise notice.



(b) To the extent that the right to purchase shares under an option has accrued and is in effect, options may be exercised in full at one time or in part from time to time, by giving written notice, signed by the person or persons exercising the option, to the Company, stating the number of shares with respect to which the option is being exercised, accompanied by payment in full for such shares as provided in subparagraph (a) above. Upon such exercise, delivery of a certificate for paid-up non-assessable shares shall be made at the principal office of the Company to the person or persons exercising the option at such time, during ordinary business hours, after 9:00 a.m. but not more than thirty (30) days from the date of receipt of the notice by the Company, as shall be designated in such notice, or at such time, place and manner as may be agreed upon by the Company and the person or persons exercising the option. Upon exercise of the option and payment as provided above, the optionee shall become a stockholder of the Company as to the Shares acquired upon such exercise.

9. VESTING OF OPTIONS.

Except as otherwise provided in an optionee's Agreement, each option granted under the Plan shall, subject to Section 10 and Section 12 hereof, be exercisable with reference to the option's Vesting Reference Date (the date selected by the Committee) as follows: prior to the First Anniversary Date of the Vesting Reference Date - zero percent (0%); on the First Anniversary Date of the Vesting Reference Date - twenty five percent (25%); on the Second Anniversary Date of the Vesting Reference Date - fifty percent (50%); on the Third Anniversary Date of the Vesting Reference Date - seventy-five percent (75%); and on the Fourth Anniversary Date of the Vesting Reference Date - one hundred percent (100%). Notwithstanding any other provisions of this section, in the event of a Change of Control (as hereinafter defined) of the Company, fifty percent (50%) of the unvested shares of each Participant with a minimum of six months' service will automatically be fully Vested; in the event of a Change of Control of the Company not approved by the Board of Directors prior to such Change of Control, all of the Shares shall be fully Vested immediately upon such Change of Control. For purposes of the Plan, a "Change of Control" shall be deemed to have occurred if any of the following conditions have occurred: (1) the merger or consolidation of the Company with another entity where the Company is not the surviving entity and where after the merger or consolidation (i) its stockholders prior to the merger or consolidation hold less than 50% of the voting stock of the surviving entity and (ii) its Directors prior to the merger or consolidation are less than a majority of the Board of the surviving entity; (2) the sale of all or substantially all of the Company's assets to a third party and subsequent to the transaction (i) its stockholders hold less than 50% of the stock of said third party and (ii) its Directors are less than a majority of the Board of said third party; (3) a transaction or series of related transactions, including a

merger of the Company with another entity where the Company is the surviving entity, whereby 50% or more of the voting stock of the Company is transferred to parties who are not prior thereto stockholders or affiliates of the Company; or (4) the Continuing Directors shall not constitute a majority of the Board of Directors of the Company. The term "Continuing Directors" shall mean a member of the Board of Directors of the Company who either was a member of the Board of Directors of the Company on the date this Plan was adopted by the Board of Directors or who subsequently became a director of the Company and whose initial appointment, initial election or initial nomination for election by the Company's shareholders subsequent to such date was approved by a vote of a majority of the Continuing Directors then on the Board of Directors of the Company.

To the extent that an option to purchase shares is not exercised by an optionee when it becomes initially exercisable, it shall not expire but shall be carried forward and shall be exercisable, on a cumulative basis, until the expiration of the exercise period. No partial exercise may be made for less than fifty (50) full shares of Common Stock.

Notwithstanding the foregoing, the Committee may in its discretion (i) specifically provide for another time or times of exercise (but not delay a vesting period) or (ii) accelerate the exercisability of any option subject to such terms and conditions as the Committee deems necessary and appropriate.

10. TERM AND EXERCISABILITY OF OPTIONS; RELATIONSHIP TO VESTING; NON-EMPLOYEE OPTIONS.

(a) TERM AND EXERCISABILITY.

(1) The term of each option shall be as stated in the optionee's Agreement, provided, however, that the term of an option shall not exceed ten (10) years from the date of the granting thereof, subject to earlier termination as provided in the Plan and the Agreement.

(2) Except as otherwise provided in the optionee's Agreement, or this Section 10, an option granted to any employee who ceases to be an employee of the Company or one of its subsidiaries shall terminate ninety (90) days after the date of such optionee ceases to be an employee of the Company or one of its subsidiaries, or on the last day of the term of the option, whichever occurs first.

(3) Except as otherwise provided in the optionee's Agreement, if such termination of employment is because of dismissal for cause or because the employee is in breach of any employment agreement, such option will terminate on the date the optionee ceases to be an employee of the Company or one of its subsidiaries, or on the last day of the term of the option, whichever occurs first.

(4) Except as otherwise provided in the optionee's Agreement, if such termination of the employment is because the optionee has become permanently disabled (within the meaning of Section 22(e)(3) of the Code), such option shall terminate on the last day of the twelfth month from the date such optionee ceases to be an employee, or on the last day of the term of the option, whichever occurs first.

(5) Except as otherwise provided in the optionee's Agreement, in the event of the death of an optionee, any option granted to such optionee shall terminate on the last day of the twelfth month from the date of death, or on the last day of the term of the option, whichever occurs first.

(6) Except as otherwise provided in the optionee's Agreement, if such termination of employment is because of the retirement of the optionee on or after attaining the minimum age, completing the minimum number of years of service, and satisfying of all other conditions specified for retirement status under the Company's Retirement Policy Statement as in effect at the time of the grant of the option, such option will terminate on the date that is five (5) years after the date the optionee ceases to be an employee of the Company or one of its subsidiaries, or the last day of the term of the option, whichever occurs first.

(7) Notwithstanding subparagraphs (2) through (6) above, the Committee shall have the authority to extend the expiration date of any outstanding option in circumstances in which it deems such action to be appropriate.

(b) RELATIONSHIP TO VESTING. Except as otherwise provided in the optionee's agreement, an option granted to an employee who ceases to be an employee of the Company or one of its subsidiaries, whether by having become permanently disabled, as defined in Section 22(e)(3) of the Code, by death, or otherwise, shall be exercisable only to the extent that the right to purchase shares under such option has vested and accrued on the date that such optionee ceases to be an employee of the Company or one of its subsidiaries.

(c) NON-EMPLOYEE OPTIONS. The term of an option granted to a non-employee director, a consultant, or any other person who is not an employee of the Company or one of its subsidiaries shall be stated in the optionee's Agreement, provided, however, that the term of an option shall not exceed ten (10) years from the date of the granting thereof, subject to earlier termination as provided in the Plan and the Agreement. An option granted to a non-employee director, a consultant, or any other person who is not an employee of the Company or one of its subsidiaries shall be exercisable only to the extent so provided in the optionee's Agreement.

#### 11. OPTIONS NOT TRANSFERABLE.

The right of any optionee to exercise any option granted to him or her shall not be assignable or transferable by such optionee otherwise than by will or the laws of descent and distribution, and any such option shall be exercisable during the lifetime of such optionee only by him; provided, however, that in

the case of a non-qualified stock option, the Committee may permit transferability of such options on such terms and conditions as determined by the Committee and set forth in the Option Agreement. Any option granted under the Plan shall be null and void and without effect upon the bankruptcy of the optionee to whom the option is granted, or upon any attempted assignment or transfer, except as herein provided, including without limitation any purported assignment, whether voluntary or by operation of law, pledge, hypothecation or other disposition, attachment, divorce, trustee process or similar process, whether legal or equitable, upon such option.

12. RECAPITALIZATIONS, REORGANIZATIONS AND THE LIKE.

(a) In the event that the outstanding shares of the Common Stock of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of any reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, combination of shares, or dividends payable in capital stock, appropriate adjustment shall be made in the number and kind of shares as to which options may be granted under the Plan and as to which outstanding options or portions thereof then unexercised shall be exercisable, to the end that the proportionate interest of the optionee shall be maintained as before the occurrence of such event; such adjustment in outstanding options shall be made without change in the total price applicable to the unexercised portion of such options and with a corresponding adjustment in the option price per share.

(b) In addition, unless otherwise determined by the Committee in its sole discretion, in the case of any Change of Control of the Company, the purchaser(s) of the Company's assets or stock may, in his, her or its discretion, deliver to the optionee the same kind of consideration that is delivered to the stockholders of the Company as a result of such sale, conveyance or Change of Control, or the Committee may cancel all outstanding options in exchange for consideration in cash or in kind, which consideration in both cases shall be equal in value to the value of those shares of stock or other securities the optionee would have received had the option been exercised (to the extent then exercisable) and no disposition of the shares acquired upon such exercise been made prior to such Change of Control, less the option price therefor. Upon receipt of consideration by the optionee, his or her option shall immediately terminate and be of no further force and effect. The value of the stock or other securities the optionee would have received if the option had been exercised shall be determined in good faith by the Committee, and in the case of shares of the Common Stock of the Company, in accordance with the provisions of Section 7 hereof. The Committee shall also have the power and right to accelerate the exercisability of any options, notwithstanding any limitations in this Plan or in the Agreement upon such Change of Control. Upon

such acceleration, any options or portion thereof originally designated as incentive stock options that no longer qualify as incentive stock options under Section 422 of the Code as a result of such acceleration shall be redesignated as non-qualified stock options.

(c) Upon dissolution or liquidation of the Company, all options granted under this Plan shall terminate, but each optionee (if at such time in the employ of or otherwise associated with the Company or any of its subsidiaries) shall have the right, immediately prior to such dissolution or liquidation, to exercise his or her option to the extent then exercisable.

(d) No fraction of a share shall be purchasable or deliverable upon the exercise of any option, but in the event any adjustment hereunder of the number of shares covered by the option shall cause such number to include a fraction of a share, such fraction shall be adjusted to the nearest smaller whole number of shares.

13. NO SPECIAL EMPLOYMENT RIGHTS.

Nothing contained in the Plan or in any option granted under the Plan shall confer upon any option holder any right with respect to the continuation of his or her employment by the Company (or any subsidiary thereof) or interfere in any way with the right of the Company (or any subsidiary thereof), subject to the terms of any separate employment agreement to the contrary, at any time to terminate such employment or to increase or decrease the compensation of the option holder from the rate in existence at the time of the grant of an option. Whether an authorized leave of absence, or absence in military or government service, shall constitute termination of employment shall be determined by the Committee at the time.

14. WITHHOLDING.

The Company's obligation to deliver shares upon the exercise of any option granted under the Plan and any payments or transfers under Section 12 hereof shall be subject to the option holder's satisfaction of all applicable Federal, state and local income, excise, employment and any other tax withholding requirements.

15. RESTRICTIONS ON ISSUE OF SHARES.

(a) Notwithstanding the provisions of Section 8, the Company may delay the issuance of shares covered by the exercise of an option and the delivery of a certificate for such shares until one of the following conditions shall be satisfied:

(1) The shares with respect to which such option has been exercised are at the time of the issue of such shares effectively registered or qualified under applicable Federal and state securities acts now in force or as hereafter amended; or

(2) Counsel for the Company shall have given an opinion, which opinion shall not be unreasonably conditioned or withheld, that such shares are exempt from registration and qualification under applicable Federal and state securities acts now in force or as hereafter amended.

(b) It is intended that all exercises of options shall be effective, and the Company shall use its best efforts to bring about compliance with the above conditions within a reasonable time, except that the Company shall be under no obligation to qualify shares or to cause a registration statement or a post-effective amendment to any registration statement to be prepared for the purpose of covering the issue of shares in respect of which any option may be exercised, except as otherwise agreed to by the Company in writing.

16. PURCHASE FOR INVESTMENT; RIGHTS OF HOLDER ON SUBSEQUENT REGISTRATION.

Unless the shares to be issued upon exercise of an option granted under the Plan have been effectively registered under the Securities Act of 1933, as now in force or hereafter amended, the Company shall be under no obligation to issue any shares covered by any option unless the person who exercises such option, in whole or in part, shall give a written representation and undertaking to the Company which is satisfactory in form and scope to counsel for the Company and upon which, in the opinion of such counsel, the Company may reasonably rely, that he or she is acquiring the shares issued pursuant to such exercise of the option for his or her own account as an investment and not with a view to, or for sale in connection with, the distribution of any such shares, and that he or she will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act of 1933, or any other applicable law, and that if shares are issued without such registration, a legend to this effect may be endorsed upon the securities so issued. In the event that the Company shall, nevertheless, deem it necessary or desirable to register under the Securities Act of 1933 or other applicable statutes any shares with respect to which an option shall have been exercised, or to qualify any such shares for exemption from the Securities Act of 1933 or other applicable statutes, then the Company may take such action and may require from each optionee such information in writing for use in any registration statement, supplementary registration statement, prospectus, preliminary prospectus or offering circular as is reasonably necessary for such purpose and may require reasonable indemnity to the Company and its officers and directors and controlling persons from such holder against all losses, claims, damages and liabilities arising from such use of the information so furnished and caused by any untrue statement of any material fact therein or caused by the omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made.

17. MODIFICATION OF OUTSTANDING OPTIONS.

The Committee may authorize the amendment of any outstanding option with the consent of the optionee when and subject to such conditions as are deemed to be in the best interests of the Company and in accordance with the purposes of this Plan.

18. APPROVAL OF STOCKHOLDERS.

The Plan shall be subject to approval by the vote of stockholders holding at least a majority of the voting stock of the Company present, or represented, and entitled to vote at a duly held stockholders' meeting, or by written consent of the stockholders as provided for under applicable state law, within twelve (12) months after the adoption of the Plan by the Board of Directors and shall take effect as of the date of adoption by the Board of Directors upon such approval. The Committee may grant options under the Plan prior to such approval, but any such option shall become effective as of the date of grant only upon such approval and, accordingly, no such option may be exercisable prior to such approval.

19. TERMINATION AND AMENDMENT.

Unless sooner terminated as herein provided, the Plan shall terminate ten (10) years from the date upon which the Plan was duly adopted by the Board of Directors of the Company. The Board of Directors may at any time terminate the Plan or make such modification or amendment thereof as it deems advisable; provided, however, that except as provided in this Section 19, the Board of Directors may not, without the approval of the stockholders of the Company obtained in the manner stated in Section 19, increase the maximum number of shares for which options may be granted or change the designation of the class of persons eligible to receive options under the Plan, or make any other change in the Plan which requires stockholder approval under applicable law or regulations.

20. RESERVATION OF STOCK.

The Company shall at all times during the term of the Plan reserve and keep available such number of shares of stock as will be sufficient to satisfy the requirements of the Plan and shall pay all fees and expenses necessarily incurred by the Company in connection therewith.

21. LIMITATION OF RIGHTS IN THE OPTION SHARES.

An optionee shall not be deemed for any purpose to be a stockholder of the Company with respect to any of the options except to the extent that the option shall have been exercised with respect thereto and, in addition, a certificate shall have been issued theretofore and delivered to the optionee.

22. NOTICES.

Any communication or notice required or permitted to be given under the Plan shall be in writing, and mailed by registered or certified mail or delivered by hand, if to the Company, to its principal place of

business, attention: President, and, if to an optionee, to the address as appearing on the records of the Company.



## SUBSIDIARIES OF THE REGISTRANT

NAME	JURISDICTION OF ORGANIZATION
Mercury Computer Securities Corporation	Massachusetts
Riverneck Road	Delaware
199 Riverneck LLC	Delaware
Mercury Computer International Sales Corporation	Delaware
Mercury Computer Systems BV	The Netherlands
Nihon Mercury Computer Systems KK	Japan
Mercury Computer Systems SARL	France
Mercury Systems Ltd	United Kingdom
Mercury Computer Systems Export, Incorporated	Barbados
Myriad Logic, Inc.	Maryland

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-53291 and No. 333-52864) of Mercury Computer Systems, Inc. of our report dated July 31, 2002 relating to the financial statements and financial statement schedule, which appears in this Form 10-K/A.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts  
September 26, 2002