SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

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

For the quarter ended December 31, 2000 Commission File Number 0-23599

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

| MASSACHUSETTS | 04-2741391 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| 199 RIVERNECK ROAD<br>CHELMSFORD, MA | 01824 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES __X__ NO _____

Number of shares outstanding of the issuer's classes of common stock as of January 31, 2001:

| Class | Number of Shares Outstanding |
|---|---|
| Common Stock, par value $.01 per share | 21,654,748 |

Total number of pages 15

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

| | December 31, 2000 (Unaudited) | June 30, 2000 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 15,646 | $ 5,850 |
| Marketable securities | 37,414 | 36,784 |
| Trade accounts receivable, net of allowances of $276 and $308 at December 31, 2000 and June 30, 2000, respectively | 28,425 | 25,046 |
| Inventory | 16,432 | 15,975 |
| Deferred income taxes, net | 1,909 | 1,909 |
| Income tax receivable | 1,492 | 722 |
| Prepaid expenses and other current assets | 5,012 | 3,496 |
| Total current assets | 106,330 | 89,782 |
| Marketable securities | 25,579 | 25,705 |
| Property and equipment, net | 28,490 | 27,574 |
| Deferred income taxes, net | 787 | 787 |
| Other assets | 358 | 369 |
| Total assets | $ 161,544 | $ 144,217 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 5,742 | $ 9,231 |
| Accrued expenses | 4,873 | 2,486 |
| Accrued compensation | 6,745 | 6,143 |
| Capital lease - short term | 491 | 580 |
| Notes payable - short term | 577 | 577 |
| Billings in excess of revenues and customer advances | 3,701 | 2,788 |
| Total current liabilities | 22,129 | 21,805 |
| Commitments and contingencies | -- | -- |
| Deferred compensation - long term | 222 | -- |
| Capital lease - long term | 228 | 447 |
| Notes payable - long term | 13,320 | 13,605 |
| Stockholders' equity: | | |
| Common stock, $.01 par value: 40,000,000 shares authorized; 21,593,518 and 21,395,137 shares issued and outstanding at December 31, 2000 and June 30, 2000, respectively | 216 | 214 |
| Additional paid-in capital | 37,598 | 34,446 |
| Retained earnings | 87,858 | 73,841 |
| Accumulated other comprehensive income | (27) | (141) |
| Total stockholders' equity | 125,645 | 108,360 |
| Total liabilities and stockholders' equity | $ 161,544 | $ 144,217 |

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

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

| | Three months ended December 31, 2000 | Three months ended December 31, 1999 | Six months ended December 31, 2000 | Six months ended December 31, 1999 |
|---|---|---|---|---|
| Net revenue | $ 43,325 | $ 35,405 | $ 84,794 | $ 73,268 |
| Cost of revenue | 14,189 | 9,333 | 27,313 | 19,370 |
| Gross profit | 29,136 | 26,072 | 57,481 | 53,898 |
| Operating expenses: | | | | |
| Selling, general and administrative | 12,779 | 10,144 | 24,902 | 19,249 |
| Research and development | 7,954 | 6,851 | 14,697 | 12,388 |
| Total operating expenses | 20,733 | 16,995 | 39,599 | 31,637 |
| Income from operations | 8,403 | 9,077 | 17,882 | 22,261 |
| Interest income | 1,004 | 574 | 1,932 | 896 |
| Interest expense | (268) | (106) | (543) | (124) |
| Equity loss in joint venture | (476) | (926) | (1,711) | (1,441) |
| Gain on sale of division, net | 1,600 | -- | 3,200 | -- |
| Other income (expenses), net | (104) | 93 | (147) | 77 |
| Income before income taxes | 10,159 | 8,712 | 20,613 | 21,669 |
| Provision for income taxes | 3,251 | 2,876 | 6,596 | 7,541 |
| Net Income | $ 6,908 | $ 5,836 | $ 14,017 | $ 14,128 |
| Net income per share | | | | |
| Basic | $ 0.32 | $ 0.28 | $ 0.65 | $ 0.68 |
| Diluted | $ 0.30 | $ 0.26 | $ 0.61 | $ 0.63 |
| Weighted average shares outstanding: | | | | |
| Basic | 21,484 | 20,871 | 21,445 | 20,779 |
| Diluted | 23,006 | 22,660 | 22,876 | 22,370 |

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

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

| | Six Months Ended December 31, 2000 | 1999 |
|---|---|---|
| Cash flows provided from operating activities: | | |
| Net income | $ 14,017 | $ 14,128 |
| Adjustments to reconcile net income to net cash Provided by (used in) operating activities: | | |
| Depreciation and amortization | 2,977 | 2,388 |
| Amortization of capitalized software development costs | -- | 156 |
| Gain on sale of division, net | (3,200) | -- |
| Provision for inventory write-downs | 2,087 | 1,303 |
| Equity loss in joint venture | 1,733 | 1,441 |
| Tax benefit from disqualified dispositions | 1,137 | -- |
| Other non-cash | (28) | -- |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (3,419) | 4,488 |
| Inventory | (2,577) | (99) |
| Prepaid expenses and other current assets | (1,344) | 376 |
| Other assets | (991) | (117) |
| Accounts payable | (3,488) | (1,914) |
| Accrued expenses and compensation | 2,099 | (489) |
| Deferred compensation | 222 | -- |
| Billings in excess of revenues and customer advances | 930 | (1,100) |
| Income taxes receivable | (763) | -- |
| Income taxes payable | -- | 734 |
| Net cash provided by operating activities | 9,392 | 21,295 |
| Cash flows from investing activities: | | |
| Purchase of marketable securities | (50,301) | (71,616) |
| Sale of marketable securities | 50,093 | 38,944 |
| Purchases of property and equipment | (3,875) | (1,701) |
| Proceeds from sale of division net of selling costs | 3,200 | -- |
| Investment in joint venture | (60) | (2,500) |
| Net cash used in investing activities | (943) | (36,873) |
| Cash flows from financing activities: | | |
| Proceeds from employee stock purchase plan and the exercise of stock options | 2,017 | 2,071 |
| Proceeds from issuance of notes | -- | 14,500 |
| Payments of debt | (308) | (45) |
| Principal payments under capital lease obligations | (285) | (229) |
| Net cash (used in) provided by financing activities | 1,424 | 16,297 |
| Net increase in cash and cash equivalents | 9,873 | 719 |
| Effect of exchange rate change on cash and cash equivalents | (77) | 128 |
| Cash and cash equivalents at beginning of period | 5,850 | 3,676 |
| Cash and cash equivalents at end of period | $ 15,646 | $ 4,523 |
| Cash paid during the period for: | | |
| Interest | $ 543 | $ 124 |
| Income taxes | 7,839 | 6,532 |

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

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

A. BASIS OF PRESENTATION

These consolidated financial statements should be read in conjunction with the Company's financial statements and footnotes included in the Company's Form 10-K, filed with the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows of Mercury Computer Systems, Inc.

B. INVENTORY

| | December 31, 2000 | June 30, 2000 |
|---|---|---|
| Raw materials | $ 6,807 | $ 4,252 |
| Work in process | 4,796 | 7,415 |
| Finished goods | 4,829 | 4,308 |
| Total | $16,432 | $15,975 |

C. NET INCOME PER COMMON SHARE

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

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Net income | $ 6,908 | $ 5,836 | $14,017 | $14,128 |
| Shares used in computation: | | | | |
| Weighted average common shares outstanding used in computation of basic net income per share | 21,484 | 20,871 | 21,445 | 20,779 |
| Dilutive effect of stock options | 1,522 | 1,789 | 1,431 | 1,591 |
| Shares used in computation of diluted net income per share | 23,006 | 22,660 | 22,876 | 22,370 |
| Basic net income per share | $ 0.32 | $ 0.28 | $ 0.65 | $ 0.68 |
| Dilutive net income per share | $ 0.30 | $ 0.26 | $ 0.61 | $ 0.63 |

Options to purchase 158,250 and 0 shares of common stock outstanding during the three months ended December 31, 2000 and 1999, respectively, were not included in the calculation of diluted net income per common share because the option price was greater than the average market price of the common shares during the period. Options to purchase 274,915 and 25,587 shares of common stock outstanding during the six months ended December 31, 2000 and 1999, respectively, were not included in the calculation of diluted net income per common share because the option price was greater than the average market price of the common shares during the period.

D. NEW ACCOUNTING PRONOUNCEMENTS

In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which was issued in June 1998. SFAS No. 137 defers the effective date of SFAS No. 133 to the first quarter of fiscal years beginning after June 15, 2000. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in either current earnings or accumulated other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The adoption of SFAS No. 133 did not have a material impact on the Company's financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements". SAB 101 summarizes the staff's view in applying generally accepted accounting principles to selected revenue recognition issues. The application of the guidance in SAB 101 will be required in the Company's fourth quarter of fiscal year 2001. The effects of applying this guidance will be reported as a cumulative effect adjustment resulting from a change in accounting principle. The Company has not completed its evaluation of SAB 101 and therefore is unable to determine its impact.

In March 2000, the Financial Accounting Standard Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an interpretation of APB Opinion No. 25" ("FIN 44"). FIN 44 clarifies the application of APB Opinion No. 25 and among other issues clarifies the following: the definition of an employee for purposes of applying APB Opinion No. 25; the criteria for determining whether a plan qualifies as a noncompensatory plan; the accounting consequence of various modifications to the terms of previously fixed stock options or awards; and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain conclusions in FIN 44 cover specific events that occurred after either December 15, 1998 or January 12, 2000. The application of FIN 44 did not have a material impact on the Company's financial position or results of operations.

E. COMPREHENSIVE INCOME

Mercury's total comprehensive income was as follows:

| | Three Months Ended December 31, 2000 | Three Months Ended December 31, 1999 | Six Months Ended December 31, 2000 | Six Months Ended December 31, 1999 |
|---|---|---|---|---|
| Net income | $ 6,908 | $ 5,836 | $ 14,017 | $ 14,128 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation adjustments | (158) | 2 | (124) | 90 |
| Unrealized gain or (loss) on securities | 148 | (48) | 203 | (60) |
| Other comprehensive income | (10) | (46) | 79 | 30 |
| Total comprehensive income | $ 6,898 | $ 5,790 | $ 14,096 | $ 14,158 |

F. OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

During the three month period ended December 31, 2000, the Company had six principal operating segments: North American defense, international defense, medical imaging, commercial businesses, wireless communications, and research and development. These operating segments were determined based upon the nature of the products offered to customers, the market characteristics of each operating segment, and the Company's management structure. The Company has five reportable segments: North American defense segment, medical imaging segment, commercial segment, other defense and commercial segment, and research and development segment. The other commercial segment is comprised of international defense, wireless communications, and other commercial businesses unrelated to the defense or medical businesses. A new commercial operating segment was established during the first quarter of fiscal 2000. Previously, most commercial businesses were included with the North American and international operating segments. Historical information was not restated to reflect this business reorganization because it is impractical to obtain the necessary information.

The accounting policies of the business segments are the same as those described in "Note B: Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended June 30, 2000. The following table provides operating segment information for the three-month and six month periods ended December 31, 2000 and 1999:

| | North American Defense Segment | Medical Imaging Segment | Commercial Segment | Other Defense and Commercial Segment | Research and Development Segment | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| THREE MONTHS ENDED DECEMBER 31, 2000 | | | | | | | |
| Sales to unaffiliated customers | $24,276 | $10,439 | $ 4,661 | $ 3,949 | -- | -- | $43,325 |
| Income (loss) before taxes(1) | 16,245 | 3,546 | 2,694 | 1,360 | (7,955) | (5,730) | 10,159 |
| Depreciation/amort. expense | 196 | 13 | 3 | 75 | 434 | 811 | 1,532 |
| THREE MONTHS ENDED DECEMBER 31, 1999: | | | | | | | |
| Sales to unaffiliated customers | $23,819 | $ 6,875 | -- | $ 4,711 | -- | -- | $35,405 |
| Income (loss) before taxes(1) | 16,637 | 2,807 | -- | 476 | (6,417) | (4,791) | 8,712 |
| Depreciation/amort. expense | 34 | 11 | -- | 63 | 301 | 878 | 1,287 |
| SIX MONTHS ENDED DECEMBER 31, 2000: | | | | | | | |
| Sales to unaffiliated customers | $52,005 | $19,317 | $ 7,996 | $ 5,476 | -- | -- | $84,794 |
| Income (loss) before taxes(1) | 34,641 | 6,259 | 4,360 | 1,334 | (14,698) | (11,282) | 20,613 |
| Depreciation/amort. expense | 384 | 21 | 4 | 142 | 813 | 1,613 | 2,977 |
| SIX MONTHS ENDED DECEMBER 31, 1999: | | | | | | | |
| Sales to unaffiliated customers | $54,072 | $11,836 | -- | $ 7,360 | -- | -- | $73,268 |
| Income (loss) before taxes(1) | 38,576 | 4,825 | -- | 326 | (11,642) | (10,416) | 21,669 |
| Depreciation/amort. expense | 68 | 22 | -- | 118 | 573 | 1,763 | 2,544 |

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

G. EQUITY LOSS IN JOINT VENTURE

In September, 1999, the Company formed AgileVision as a joint venture with Sarnoff Corporation, the developer of color television and a pioneer in the creation of digital television ("DTV"). AgileVision 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. As of December 31, 2000, the Company has contributed $4,560,000 to Agilevision. During the three month periods ended December 31, 2000 and 1999, the Company recognized $476,000 and $926,000, respectively, in expenses related to the operations of Agilevision. During the six month periods ended December 31, 2000 and 1999, the Company recognized $1.7 million and $1.4 million, respectively, in expenses related to the operations of Agilevision.

Summarized Income Statements for AgileVision during the periods ended December 31, 2000 and 1999 are as follows:

| | Three Months Ended December 31, 2000 | 1999 | Six Months Ended December 31, 2000 | 1999 |
|---|---|---|---|---|
| Expenses | $ 476 | $ 926 | $1,711 | $1,441 |
| Loss from continuing operations | 476 | 926 | 1,711 | 1,441 |
| Net loss | $ 476 | $ 926 | $1,711 | $1,441 |

Summarized Statements of Financial Position of AgileVision:

| | December 31, 2000 | June 30, 2000 |
| --- | --- | --- |
| Current assets | $ 359 | $ 1,009 |
| Non-current assets | 34 | 12 |
| Total assets | 393 | 1,021 |
| Current liabilities | 2,023 | 2,744 |
| Non-current liabilities | 2,000 | -- |
| Shareholders' equity | (3,630) | (1,723) |
| Total liabilities and equity | $ 393 | $ 1,021 |

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

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

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

RESULTS OF OPERATIONS

REVENUES

The Company's total revenues increased 22% from $35.4 million during the three months ended December 31, 1999 to $43.3 million during the three months ended December 31, 2000. Revenue increased 16% from $73.3 million during the six months ended December 31, 1999 to $84.8 million during the six months ended December 31, 2000.

Defense electronics revenues increased 12% from $25.2 million or 72% of total revenues during the three months ended December 31, 1999 to $28.2 million or 65% of total revenues during the three months ended December 31, 2000. Defense electronics revenues increased 3% from $55.8 million or 76% of total revenues during the six months ended December 31, 1999 to $57.3 million or 67% of total revenues during the six months ended December 31, 2000. The increase in revenues was due primarily to continued strong demand for defense electronics products.

Medical imaging revenues increased 51% from $6.9 million or 19% of total revenues during the three months ended December 31, 1999 to $10.4 million or 24% of total revenues during the three months ended December 31, 2000. Medical imaging revenues for the six months ended December 31, 2000 increased 64% to $19.3 million or 23% of total revenues from $11.8 million or 16% or total revenues for the six months ended December 31, 1999. The increase in medical imaging revenues is primarily due to strong growth in both magnetic resonance imaging (MRI) and computed tomography (CT) systems, along with initial production shipments for the Company's first digital cardiology design win.

Other revenues increased 42% from $3.3 million or 9% of total revenues during the three months ended December 31, 1999 to $4.7 million or 11% of total revenues during the three months ended December 31, 2000. Other revenues for the six months ended December 31, 2000 increased 43% to $8.1 million or 10% of total revenues from $5.7 million or 8% of total revenues for the six months ended December 31, 1999. The increase in other revenues was due primarily to the shipments of imaging systems into the semiconductor industry, along with continued sales growth to commercial customers.

COST OF REVENUES

Cost of revenues increased 52% from $9.3 million during the three months ended December 31,1999 to $14.2 million during the three months ended December 31, 2000. As a percent of total revenues, cost of revenues increased from 26% during the three month period ended December 31, 1999 to 33% for the three months ended December 31, 2000. For the six months ended December 31, 2000, cost of revenues increased by 41% to $27.3 million from $19.4 million during the six months ended December 31, 1999. As a percent of revenues, cost of revenues increased from 26% during the six months ended December 31, 1999 to 32% during the six months ended December 31, 2000. This increase in cost as a percentage of total revenue was primarily due to an increase in certain processing and component costs, to a shift in product mix and costs associated with re-establishing certain discontinued standard parts.

## SELLING, GENERAL AND ADMINISTRATIVE

Selling, general, and administrative expenses increased 26% from $10.1 million during the three months ended December 31, 1999 to $12.8 million during the three months ended December 31, 2000. Selling, general and administrative expenses increased 29% from $19.2 million during the six months ended December 31, 1999 to $24.9 million during the six months ended December 31, 2000. The increase 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

Research and development expenses increased 16% from $6.9 million during the three months ended December 31, 1999 to $8.0 million during the three months ended December 31, 2000. Research and development expenses increased by 19% from $12.4 million during the six months ended December 31, 1999 to $14.7 million during the six months ended December 31, 2000. The increase in research and development 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 products and the introduction of new products in response to demand for next generation products. Even with the increase in research and development expenses as compared with a year ago, expenses are running lower than management's expectations due to the delay in certain prototyping activities. Management anticipates that in the near term, research and development expenses will increase as certain projects enter into the prototyping phase.

## INCOME FROM OPERATIONS

Income from operations decreased 7% from $9.1 million during the three months ended December 31, 1999 to $8.4 million during the three months ended December 31, 2000. Income from operations decreased to $17.9 million during the six months ended December 31, 2000 from $22.3 million during the six months ended December 31, 1999. This decrease is associated with lower gross margins coupled with increased operating expenses.

Included in income from operations during the six months ended December 31, 1999 were $1.6 million in hardware and software revenues and approximately $2.0 million in direct expenses related to the shared storage business (the "SSBU"). The direct expenses include expenses from marketing and engineering activities, primarily related to compensation, trade shows, prototype development and direct costs related to the sale of the product, including certain hardware costs. The SSBU was sold during January, 2000 and therefore, the company did not record any operating income from this business unit during the three and six months ended December 31, 2000.

## 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 will provide broadcasters and cable providers equipment to optimize their DTV investment and develop new broadband media commerce revenue streams. These master control systems 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 contribution, to date, to AgileVision was $4.6 million. During the three month periods ended December 31, 2000 and 1999 the Company recognized $476,000 and $926,000, respectively in expenses related to the operations of AgileVision. During the six month periods ended December 31, 2000 and 1999, the Company recognized $1.7 million and $1.4 million, respectively, in expenses related to the operations of AgileVision.

## PROVISION FOR INCOME TAX

The Company recorded a tax provision of $3.3 million during the three months ended December 31, 2000 reflecting a 32% tax rate as compared to a $2.9 million tax provision during the three months ended December 31, 1999, reflecting a 33% tax rate. The Company recorded a tax provision of $6.6 million during the six months ended December 31, 2000 reflecting a 32% tax rate as compared to a $7.5 million tax provision during the six months ended December 31, 1999, reflecting a 35% tax rate. The decrease in the tax rate was due primarily to the expiration of the research and experimentation tax credit last year. Congress reinstated the tax credit during the second half of fiscal 2000, thus favorably affecting the Company's current tax rate.

## LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2000, the Company had cash and marketable investments of approximately $78.6 million. During the six months ended December 31, 2000, the Company generated approximately $9.4 million in cash from operations compared to $21.3 million generated during the six months ended December 31, 1999. Trade accounts receivable increased using $3.4 million, primarily attributable to the increase in revenue late in the period and trade accounts payable decreased using $3.5 million, primarily attributable to payments to key product suppliers. Days sales outstanding was 59 days and 62 days at December 31, 2000 and 1999, respectively.

During the six months ended December 31, 2000, the Company's investing activities used cash of $943,000. During the period, investing activities consisted of $3.9 million for the purchase of computers, furniture and equipment. These cash outflows partially offset the receipt of $3.2 million net of selling costs from proceeds received on the sale of the SSBU division. During the six months ended December 31, 1999, the Company's investing activities used cash of $36.9 million, which consisted of $32.7 million for the purchase of marketable securities (net of sales), $2.5 million for the investment in a joint venture, and $1.7 million for the purchase of computers, furniture equipment and leasehold improvements.

During the six months ended December 31, 2000, the Company's financing activities provided approximately $1.4 million. These financing activities consisted primarily of inflows from the exercise of stock options and proceeds received from the employee stock purchase plan, offset by outflows from payment under capital lease obligations and debt. During the six months ended December 31, 1999, the Company's financing activities provided cash of $16.3 million, which consisted primarily of $14.5 million in proceeds received upon the issuance of two 7.30% senior secured financing notes. These notes are due November 2014. In addition, $2.1 million in cash was generated in the six months ended December 31, 1999 from the employee stock purchase plan and the exercise of stock options.

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

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

INTEREST RATE RISK MANAGEMENT

There were no material changes in the Company's exposure to market risk from June 30, 2000.

PART II. OTHER INFORMATION

ITEM 2. Use of Proceeds from Registered Securities:

None.

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

On November 16, 2000, the Company held a Special Meeting in lieu of the 2000 Annual Meeting of Stockholders (the "Meeting"). At the meeting, James R. Bertelli and R. Schorr Berman were reelected as directors for terms ending in 2002. The voting results were as follows:

James R. Bertelli For 17,181,930 Withheld 190,243
R. Schorr Berman For 17,179,990 Withheld 192,183

The terms of the following Directors continued after the meeting:

Dr. Albert P. Belle Isle
James A. Dwyer
Melvin Sallen
Dr. Gordon B. Baty
Sherman N. Mullin

ITEM 5. Other Information

Effective December 1, 2000, R. Schorr Berman resigned as a director of the Company.

Effective January 15, 2001, Russell K. Johnsen and Michael Schneider were elected to the Company's Board of Directors.

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

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

MERCURY COMPUTER SYSTEMS, INC.
SIGNATURE

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

MERCURY COMPUTER SYSTEMS, INC.

Date: February 14, 2001

By: /s/ G. Mead Wyman

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