SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarter ended March 31, 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 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 April 30, 2000:

Class	Number of Shares Outstanding
Common Stock, par value $.01 per share	21,294,149

Total number of pages 15

MERCURY COMPUTER SYSTEMS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	March 31, 2000 (Unaudited)	June 30, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,040	$ 3,676
Marketable securities	46,275	12,762
Trade accounts receivable, net of allowances of $309 and $376 at March 31, 2000 and June 30, 1999, respectively	17,641	28,915
Inventory	13,574	12,431
Deferred income taxes, net	2,617	2,617
Prepaid expenses and other current assets	5,222	1,392
Total current assets	88,369	61,793
Marketable securities	19,703	8,978
Property and equipment, net	25,908	25,325
Deferred income taxes, net	668	668
Other assets	459	747
Total assets	$135,107	$97,511
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,608	$ 5,580
Accrued expenses	3,161	3,694
Accrued compensation	4,640	4,292
Capital lease - short term	565	434
Notes payable - short term	508	--
Billings in excess of revenues and customer advances	2,267	3,169
Income taxes payable	2,811	2,312
Total current liabilities	18,560	19,481
Capital lease - long term	486	590
Notes payable - long term	13,813	--
Stockholders' equity:		
Common stock, $.01 par value: 40,000,000 shares authorized; 21,256,299 and 10,310,877 shares issued and outstanding at March 31, 2000 and June 30, 1999, respectively	213	103
Additional paid-in capital	33,096	28,515
Retained earnings	69,163	48,945
Accumulated other comprehensive income	(224)	(123)
Total stockholders' equity	102,248	77,440
Total liabilities and stockholders' equity	$135,107	$97,511

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

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

	Three months ended March 31, 2000	Three months ended March 31, 1999	Nine months ended March 31, 2000	Nine months ended March 31, 1999
Net revenue	$32,351	$27,225	$105,619	$76,885
Cost of revenue	9,388	8,229	28,758	25,295
Gross profit	22,963	18,996	76,861	51,590
Operating expenses:				
Selling, general and administrative	9,656	8,668	28,905	24,330
Research and development	7,849	5,373	20,237	14,749
Total operating expenses	17,505	14,041	49,142	39,079
Income from operations	5,458	4,955	27,719	12,511
Interest income	751	313	1,647	1,008
Interest expense	(282)	--	(406)	--
Equity loss in joint venture	(1,136)	--	(2,577)	--
Gain on sale of division, net	3,220	--	3,220	--
Other income, net	53	(24)	130	282
Income before income taxes	8,064	5,244	29,733	13,801
Provision for income taxes	1,974	1,835	9,515	4,829
Net income	$ 6,090	$ 3,409	$ 20,218	$ 8,972
Net income per share:				
Basic	$ 0.29	$ 0.17	$ 0.97	$ 0.44
Diluted	$ 0.26	$ 0.16	$ 0.89	$ 0.42
Weighted average shares outstanding:				
Basic	21,121	20,472	20,893	20,254
Diluted	23,095	21,776	22,611	21,530

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

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

	Nine months ended March 31, 2000	Nine months ended March 31, 1999
Cash flows provided from operating activities:		
Net income	$ 20,218	$ 8,972
Adjustments to reconcile net income to net cash Provided by (used in) operating activities:		
Depreciation and amortization	3,682	2,978
Gain on sale of division, net	(3,220)	--
Equity loss in joint venture	2,577	--
Provision for inventory write-downs	2,028	2,299
Stock option compensation expense	292	--
Changes in assets and liabilities:		
Trade accounts receivable	11,282	(1,210)
Contracts in progress	--	(668)
Inventory	(3,510)	(3,714)
Prepaid expenses and other current assets	(3,830)	308
Other assets	64	70
Accounts payable	(972)	1,866
Accrued expenses and compensation	(757)	2,926
Billings in excess of revenues and customer advances	(891)	(67)
Income taxes payable	499	(338)
Net cash provided by operating activities	27,462	13,422
Cash flows from investing activities:		
Purchase of marketable securities	(107,411)	(72,204)
Sale of marketable securities	63,083	76,609
Purchases of property and equipment	(3,747)	(17,618)
Proceeds from sale of division net of selling costs	3,930	--
Investment in joint venture	(2,500)	--
Capitalized software development costs	--	(775)
Note receivable from related parties	--	325
Net cash used in investing activities	(46,645)	(13,663)
Cash flows from financing activities:		
Proceeds from employee stock purchase plan and the exercise of stock options	4,416	2,117
Proceeds from issuance of notes	14,500	--
Payments of debt	(179)	--
Payments of capital lease obligations	(363)	--
Net cash provided by financing activities	18,374	2,117
Net increase in cash and cash equivalents	(809)	1,876
Effect of exchange rate change on cash and cash equivalents	173	25
Cash and cash equivalents at beginning of period	3,676	6,054
Cash and cash equivalents at end of period	$ 3,040	$ 7,955
Cash paid during the period for:		
Interest	$ 406	$ --
Income taxes	7,429	4,361
Supplemental disclosure of noncash investing and financing activities :		
Acquisition of equipment through capital lease transactions	390	--

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

	March 31, 2000	June 30, 1999
Raw materials	$ 4,192	$ 3,508
Work in process	6,275	6,841
Finished goods	3,107	2,082
Total	$13,574	$12,431

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 March 31,		Nine Months Ended March 31,	
	2000	1999	2000	1999
Net income	$ 6,090	$ 3,409	$20,218	$ 8,972
Shares used in computation:				
Weighted average common shares outstanding used in computation of basic net income per share	21,121	20,472	20,893	20,254
Dilutive effect of stock options	1,974	1,304	1,718	1,276
Shares used in computation of diluted net income per share	23,095	21,776	22,611	21,530
Basic net income per share	$ 0.29	$ 0.17	$ 0.97	$ 0.44
Dilutive net income per share	$ 0.26	$ 0.16	$ 0.89	$ 0.42

Options to purchase 19,084 and 157,334 shares of common stock outstanding during the three months ended March 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 14,890 and 112,032 shares of common stock outstanding during the nine months ended March 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 respective periods.

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. Accordingly, the Company will adopt the provisions of SFAS No. 133 in the first quarter of its fiscal year 2001, which commences on July 1, 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

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

a hedge transaction and the type of hedge transaction. Management anticipates that, due to its limited use of derivative instruments, the adoption of SFAS No. 133 will not have a material impact on its financial position or results of operations.

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 first quarter of the 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 does not expect the application to have a material effect on their financial statements. However, the final evaluation of SAB 101 is not yet complete.

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 Company does not expect the application of FIN 44 to have a material impact on the Company's financial position or results of operations.

E. COMPREHENSIVE INCOME

Mercury's total comprehensive income was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2000	1999	2000	1999
Net income	$6,090	$3,409	$20,218	$8,972
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(104)	(38)	(14)	77
Unrealized gain or (loss) on securities	1	(15)	(59)	(2)
Other comprehensive income	(103)	(53)	(73)	75
Total comprehensive income	$5,987	$3,356	$20,145	$9,047

F. OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

During the three and nine month periods ended March 31, 2000, the Company had eight principal operating segments: North American defense and commercial, medical imaging, international defense and commercial, shared storage, digital wireless, digital video, research and development, and other commercial businesses. 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 and commercial segment, medical imaging segment, shared storage segment, other defense and commercial segment, and research and development segment. The other defense and commercial segment is comprised of international defense and commercial, digital wireless, digital video, and other commercial businesses unrelated to the defense or medical imaging businesses. Effective January 18, 2000 the Company sold its shared storage division. See note H.

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, 1999.

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

The following table provides operating segment information for the three and nine-month periods ended March 31, 2000 and 1999:

	North American Defense and Commercial Segment (2)	Medical Imaging Segment	Shared Storage Segment	Other Defense and Commercial Segment	Research and Development Segment	Corporate	Consolidated
THREE MONTHS ENDED MARCH 31, 2000:							
Sales to unaffiliated customers	18,733	7,549	241	5,828	--	--	32,351
Income (loss) before taxes (1)	11,940	2,805	(109)	3,270	(7,311)	(2,531)	8,064
Depreciation/amort. expense	107	10	15	29	311	666	1,138
THREE MONTHS ENDED MARCH 31, 1999:							
Sales to unaffiliated customers	20,673	3,762	424	2,366	--	--	27,225
Income (loss) before taxes (1)	13,272	1,348	(516)	215	(5,043)	(4,032)	5,244
Depreciation/amort. expense	82	16	21	23	278	631	1,051
NINE MONTHS ENDED MARCH 31, 2000:							
Sales to unaffiliated customers	72,805	19,385	1,841	11,588	--	--	105,619
Income (loss) before taxes (1)	50,516	7,630	(581)	4,068	(18,953)	(12,947)	29,733
Depreciation/amort. expense	175	32	59	103	884	2,429	3,682
NINE MONTHS ENDED MARCH 31, 1999:							
Sales to unaffiliated customers	56,882	11,176	1,676	7,151	--	--	76,885
Income (loss) before taxes (1)	36,022	4,366	(1,284)	1,788	(13,939)	(13,152)	13,801
Depreciation/amort. expense	155	51	60	121	825	1,766	2,978

(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.

(2) The North American defense and commercial segment differs in definition from the defense market segment described in the Company's management discussion and analysis ("MD&A"). The defense market segment in the MD&A refers to the worldwide defense market. The North American defense and commercial segment is an operating segment as defined by Statement No. 131 and includes (i) the defense business in North America and (ii) a portion of the Company's North American commercial business.

G. LENDING AGREEMENT

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 value of the Notes amounted to $14,500,000. The Company's corporate headquarters and an adjacent building with a combined cost basis of $17,670,000, secure the Notes.

H. SALE OF DIVISION

On January 18, 2000, the Company completed the sale of its Shared Storage Business Unit ("SSBU") to International Business Machines Corporation ("IBM"). Proceeds from the sale total $23.5 million. Payments are structured with an initial payment of $5.5 million (including $1.0 million to be held in escrow until the final payment), followed by 12 quarterly contingent payments of $1.5 million plus 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 has recorded a $3.2 million gain on the sale of this division which includes cash received of $4.5 million less legal and advisory costs of $0.6 million, compensation costs of $0.5 million, and the net book value of equipment and inventories sold of $0.2 million.

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

I. EQUITY LOSS IN JOINT VENTURE

In September, 1999, the Company formed a new joint venture company, AgileVision, LLC, ("AgileVision") 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 initial contribution to AgileVision was $2.5 million in cash. During the three months and nine months ended March 31, 2000, the Company recognized $1.1 and $2.6 million, respectively, in expenses related to the operation of AgileVision. No expenses were recognized during the three months or nine months ended March 31, 1999 since AgileVision was not formed until fiscal 2000. On May 1, 2000, the Company contributed an additional $1.0 million to AgileVision in accordance with the joint venture agreement.

Summarized Income Statement results for AgileVision are as follows:

	Three Months Ended March 31, 2000	Nine Months Ended March 31, 2000
Expenses	$(1,136)	$(2,577)
Loss from continuing operations	(1,136)	(2,577)
Net loss	$(1,136)	$(2,577)

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 19% from $27.2 million during the three months ended March 31, 1999 to $32.4 million during the three months ended March 31, 2000. The Company's total revenues increased 37% from $76.9 million during the nine months ended March 31, 1999 to $105.6 million during the nine months ended March 31, 2000.

Defense electronics revenues decreased 7% from $21.7 million or 80% of total revenues during the three months ended March 31, 1999 to $20.3 million or 63% of total revenues during the three months ended March 31, 2000. This decline in revenue was due to the delay in fulfilling customer orders for the delivery of next-generation technology. There is a slight possibility these delays could affect delivery of product in the fourth quarter. However, management does not anticipate this will have a significant impact on fourth quarter revenues. Defense electronics revenues increased 30% from $58.7 million or 76% of total revenues during the nine months ended March 31, 1999 to $76.1 million or 72% of total revenues during the nine months ended March 31, 2000. The increase in revenues during the nine month period was due primarily to strong unit demand for defense electronics products, largely comprised of, advanced military applications in radar, sonar and airborne surveillance.

Medical imaging revenues increased 101% from $3.8 million or 14% of total revenues during the three months ended March 31, 1999 to $7.6 million or 23% of total revenues during the three months ended March 31, 2000. Medical imaging revenues increased 73% from $11.2 million or 15% of total revenues during the nine months ended March 31, 1999 to $19.4 million or 18% of total revenues during the nine months ended March 31, 2000. The increase in medical imaging revenues reflects the ramp-up to production volume of product for our customer's computed tomography ("CT") imaging systems.

Other revenues increased 166% from $1.7 million or 6% of total revenues during the three months ended March 31, 1999 to $4.5 million or 14% of total revenues during the three months ended March 31, 2000. Other revenues increased 43% from $7.0 million or 9% of total revenues during the nine months ended March 31, 1999 to $10.2 million or 10% of total revenues during the nine months ended March 31, 2000. The increase in other revenues was due primarily to the addition of a new commercial customer.

COST OF REVENUES

Cost of revenues increased 14% from $8.2 million during the three months ended March 31,1999 to $9.4 million during the three months ended March 31, 2000. Cost of revenues increased 14% from $25.3 million during the nine months ended March 31,1999 to $28.8 million during the nine months ended March 31, 2000. As a percent of total revenues, cost of revenues decreased from 30% and 33% for the three and nine months ended March 31, 1999, respectively to 29% and 27% for the three and nine months ended March 31, 2000, respectively. This decrease in cost as a percentage of revenue was primarily due to a decline in component costs and the relationship of fixed manufacturing costs to the higher level of sales.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general, and administrative expenses increased 11% from $8.7 million during the three months ended March 31, 1999 to $9.7 million during the three months ended March 31, 2000. Selling, general, and administrative expenses increased 19% from $24.3 million during the nine months ended March 31, 1999 to $28.9 million during the nine months ended March 31, 2000. These increases reflect the hiring of additional sales and administrative personnel, increased commissions associated with higher sales volume, and the ongoing development of the Company's financial, administrative and management infrastructure to support the Company's growth.

RESEARCH AND DEVELOPMENT

Research and development expenses increased 46% from $5.4 million during the three months ended March 31, 1999 to $7.8 million during the three months ended March 31, 2000. Research and development expenses increased 37% from $14.7 million during the nine months ended March 31, 1999 to $20.2 million during the nine months ended March 31, 2000. These increases were due primarily to the hiring of additional software and hardware engineers to develop and enhance the features and functionality of the Company's products.

INCOME FROM OPERATIONS

Income from operations increased 10% from $5.0 million during the three months ended March 31, 1999 to $5.5 million during the three months ended March 31, 2000. Income from operations nearly doubled from $12.5 million during the nine months ended March 31, 1999 to $27.7 million during the nine months ended March 31, 2000. This increase is associated with higher sales volume coupled with improved operating efficiency.

Included in income from operations during the three months ended March 31, 2000 were $241,000 in software revenues and $350,000 in direct expenses related to the shared storage business. Included in income from operations during the three months ended March 31, 1999 were $424,000 in hardware and software revenues and approximately $940,000 in direct expenses related to the shared storage business. Included in income from operations during the nine months ended March 31, 2000 were $1.8 million in hardware and software revenues and $2.4 million in direct expenses related to the shared storage business. Included in income from operations during the nine months ended March 31, 1999 were $1.7 million in hardware and software revenues and $3.0 million in direct expenses related to the shared storage business. The direct expenses include expenses from marketing and engineering activities, primarily related to compensation, trade shows, prototype development and direct costs related to the sale of the product, including certain hardware costs.

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 initial contribution to AgileVision was $2.5 million in cash. During the three months and nine months ended March 31, 2000, the Company recognized $1.1 million and $2.6 million, respectively, in expenses related to the operation of AgileVision. No expenses were recognized during the three months or nine months ended March 31, 1999. On May 1, 2000, the Company contributed an additional $1.0 million to AgileVision in accordance with the joint venture agreement.

PROVISION FOR INCOME TAX

The Company recorded a tax provision of $2.0 million during the three months ended March 31, 2000 reflecting a 24% tax rate as compared to a $1.8 million tax provision during the three months ended March 31, 1999, reflecting a 35% tax rate. The Company recorded a tax provision of $9.5 million during the nine months ended March 31, 2000 reflecting a 32% tax rate as compared to a $4.8 million tax provision during the nine months ended March 31, 1999 reflecting a 35% tax rate. The decrease in the tax rate was primarily due to a reduction in state taxes.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2000, the Company had cash and marketable investments of approximately $69.0 million. During the nine months ended March 31, 2000, the Company generated approximately $27.5 million in cash from operations compared to $13.4 million generated during the nine months ended March 31, 1999. The increase in cash generated from operations was primarily due to increased profitability. Days sales outstanding was 49 days and 61 days at March 31, 2000 and 1999, respectively.

During the nine months ended March 31, 2000, the Company's investing activities used cash of $46.6 million which consisted of $44.3 million for the purchase of marketable securities (net of sales), $2.5 million for the investment in Agile Vision, and $3.7 million for computers, furniture and equipment. These payments were offset by the receipt of $3.9 million, net of selling costs for the sale of a division. During the nine months ended March 31, 1999, the Company's investing activities used cash of $13.7 million, consisting of $8.4 million for the purchase of an existing office building, $6.2 million related to the development of additional office space, $3.0 million for computers, furniture equipment and leasehold improvements, and $775,000 for capitalized software. These cash outflows were partially offset by the net sale of marketable securities of $4.4 million and a reduction in notes receivable from related parties amounting to $325,000.

During the nine months ended March 31, 2000 the Company's financing activities generated cash of $18.4 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, $4.4 million in cash was 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 $542,000. During the nine months ended March 31, 1999, the Company's financing activities provided approximately $2.1 million in cash, all related to the employee stock purchase plan and the exercise of stock options.

On January 18, 2000, the Company completed the sale of its Shared Storage Business Unit ("SSBU") to International Business Machines Corporation ("IBM"). Anticipated proceeds from the sale total $23.5 million. Payments are structured with an initial payment of $5.5 million (including $1.0 million to be held in escrow until the final payment), followed by 12 quarterly contingent payments of $1.5 million plus 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.

Management believes that the Company's available cash, cash generated from operations, and the cash generated from the sale of the SSBU as described above, 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.

YEAR 2000 COMPLIANCE

The Company is aware of the potential for industry wide business disruption which could be caused by computer systems, software products and embedded micro-processing chips which may be coded to accept only two-digit entries in the date code field and may not be able to distinguish 20th century dates from 21st century dates. The Company believes it has implemented a prudent plan to address these issues within our Company and our supply chain.

State of Readiness. The Company has completed the process of evaluating the Year 2000 readiness of hardware and software products sold by the Company ("Products"), information technology systems used in its operations ("IT Systems"), and its non-IT Systems such as building security, voice mail and other systems. This evaluation has covered a number of phases: (i) identification of all Products, IT Systems, and non-IT Systems; (ii) assessment of repair or replacement requirements; (iii) repair or replacement; (iv) testing; (v) implementation; and (vi) creation of contingency plans in the event of Year 2000 failures. As of the date of this report, the Company has not experienced any business disruption resulting from any Year 2000 failures from either its Products, IT Systems, or non-It Systems.

Products. The Company has completed a review of the source code for all versions of its Products sold after January 1, 1997. Based on such review the Company believes that such Products are "Year 2000 Compliant," meaning that when used properly and in conformity with the product information provided by the Company, the product furnished by the Company will accurately store, display, process, provide, and/or receive data from, into, and between 1999 and 2000, including leap year calculations, provided that all technology used in combination with the Company product properly exchanges date data with the Company product. In general, software provided by the

Company does not require the user to input date fields and depends instead on date information supplied by host operating systems not manufactured by the Company. Therefore, the assessment of whether a complete system or device in which a Product is embedded will operate correctly for an end-user depends in large part on the Year 2000 Compliance of the system's other components, most of which are supplied by parties other than the Company. For this reason, end-users must consult with the manufacturers of host operating systems and test such systems in their entirety for Year 2000 Compliance. The Company has determined that it is not feasible to test versions of its Products sold prior to January 1, 1997. However, based on similarities in source code between prior and current Product versions, the Company believes that versions of its Products sold prior to January 1, 1997 are Year 2000 Compliant.

IT and Non-IT Systems. The Company has compiled a comprehensive list of the Company's IT and non IT systems. Based on the Company's internal assessment, the Company believes that most of these systems are Year 2000 compliant. The source code underlying the Company's financial and accounting software has been reprogrammed and tested using the Company's internal technical resources. The Company has determined to its satisfaction that its financial and accounting system is Year 2000 Compliant.

Third Parties. The Company relies, both domestically and internationally, upon various vendors, governmental agencies, utility companies, telecommunications service companies, delivery service companies and other service providers who are outside of the Company's control. The Company has completed a questionnaire-based assessment of its primary vendors to assess their ability to continue to provide goods and services to the Company from, into and between 1999 and 2000. While the Company has received assurances from vendors regarding their Year 2000 compliance status, the Company may never be able to know with certainty whether its vendors are compliant. Failure of critical vendors to achieve Year 2000 compliance could result in delayed deliveries of products and services to the Company. If such delays are extensive, they could have a material adverse effect on the Company's business.

Costs. Most of the Company's effort toward Year 2000 readiness is funded as ongoing operating expense. Expenditures directly related to the Year 2000 readiness program, consisting of dedicated staff and consulting services, were estimated at less than $1,000,000.

Risks. The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities. Such failures could materially and adversely affect the Company's results of operations, liquidity and financial condition. Due to the general uncertainty inherent with the Year 2000 issue, resulting in large part from the uncertainty of the Year 2000 readiness of third-parties outside of the Company's control, the Company is unable to determine at this time whether the consequences of a Year 2000 failure will have a material impact on the Company's results of operations, liquidity, or financial position. The Year 2000 compliance project is expected to reduce, but not eliminate, the Company's level of uncertainty about the Year 2000 issue and in particular, about the Year 2000 compliance and readiness of its critical vendors. The Company believes that, with the completion of the Year 2000-compliance project, the possibility of significant interruptions to normal operations has been significantly reduced.

Contingency Plan. The Company has developed a contingency plan for its information technology infrastructure as well as non-IT elements. This plan includes provisions for additional customer and facility support.

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, 1999.

PART II. OTHER INFORMATION

ITEM 2. Use of Proceeds from Registered Securities:
None

ITEM 4. Submission of Matters to a Vote of Security Holders
None

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

(a) Exhibits.

Financial Data Schedule Filed as attached in exhibit 27.1

(b) Reports on Form 8-K.

On February 2, 2000, the Company filed Form 8-K disclosing the sale of its Shared Storage Business Unit to IBM.

MERCURY COMPUTER SYSTEMS, INC.
SIGNATURE

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

MERCURY COMPUTER SYSTEMS, INC.

Date: May 12, 2000 By: /s/ G. MEAD WYMAN

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

5
1
US DOLLARS

3-MOS
JUN-30-2000
JAN-01-2000
MAR-31-2000
1
3,040
65,978
17,950
309
13,574
88,369
44,116
18,208
135,107
18,560
14,299
0
0
213
102,035
135,107
32,351
32,351
9,388
9,388
15,368
0
(469)
8,064
1,974
6,090
0
0
0
6,090
.29
.26