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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .**

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.)**
201 RIVERNECK ROAD CHELMSFORD, MA	**01824**
(Address of principal executive offices)	**(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:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $.01 Per Share	NASDAQ Global Select Market
Preferred Stock Purchase Rights	

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately $392.6 million based upon the closing price of the Common Stock as reported on the Nasdaq Global Select Market on December 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter.

Shares of Common Stock outstanding as of July 31, 2012: 31,018,894 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on October 17, 2012 (the "Proxy Statement") are incorporated by reference into Part III of this report.

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MERCURY COMPUTER SYSTEMS, INC.

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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in this annual report on Form 10-K, including in the section entitled "Risk Factors."

When used in this report, the terms "Mercury," "we," "our," "us," and "the Company" refer to Mercury Computer Systems, Inc. and its consolidated subsidiaries, except where the context otherwise requires or as otherwise indicated. The term "fiscal" with respect to a year refers to the period from July 1 to June 30. For example, fiscal 2012 refers to the period from July 1, 2011 to June 30, 2012.

ITEM 1. BUSINESS

Our Company

We design, manufacture and market commercially-developed, high-performance embedded, real-time digital signal and image processing sub-systems and software for specialized defense and commercial markets. Our solutions play a critical role in a wide range of applications, processing and transforming sensor data to information for storage, analysis and interpretation. Our goal is to grow and build on our position as a critical component of the defense and intelligence industrial base and be the leading provider of open and affordable sensor processing subsystems for intelligence, surveillance and reconnaissance ("ISR"), electronic warfare ("EW"), and missile defense applications. In military reconnaissance and surveillance platforms, our sub-systems receive, process, and store real-time radar, video, sonar and signals intelligence data. We provide radio frequency ("RF") and microwave products for enhanced signal acquisition and communications in military and commercial applications. Additionally, Mercury Federal Systems, our wholly owned subsidiary, focuses on direct and indirect contracts supporting the defense, intelligence, and homeland security agencies. We have growing capabilities in the area of "Big Data" processing, analytics and analysis in support of both the U.S. Department of Defense ("DoD") and to the intelligence community as they enhance their ability to acquire, process and exploit large amounts of data for both real-time analytics and "forensic" analysis.

Our products and solutions address mission-critical requirements within the defense industry for C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance) and electronic warfare, systems and services, and target several markets including maritime defense, airborne reconnaissance, ballistic missile defense, ground mobile and force protection systems and tactical communications and network systems. Our products or solutions have been deployed in more than 300 different programs with over 25 different prime defense contractors. We deliver commercially developed technology and solutions that are based on open system architectures and widely adopted industry standards, and support all of this with services and support capabilities.

Our revenue, income from continuing operations and adjusted EBITDA for fiscal 2012 were $244.9 million, $22.6 million and $48.9 million, respectively. Our revenue, income from continuing operations and adjusted EBITDA for fiscal 2011 were $228.7 million, $18.5 million and $40.9 million, respectively. Our revenue, income from continuing operations and adjusted EBITDA for fiscal 2010 were $199.8 million, $28.1 million and $29.9 million, respectively. See the Non-GAAP Financial Measures section of this annual report for a reconciliation of our adjusted EBITDA to income from continuing operations.

Our operations are presently organized in the following two business segments:

Advanced Computing Solutions, or ACS. This business segment is focused on specialized, high-performance embedded, real-time digital signal and image processing solutions that encompass signal acquisition, including microwave front-end, digitization, digital signal processing, exploitation processing, high capacity digital storage

and communications, targeted to key market segments, including defense, communications and other commercial applications. ACS's open system architecture solutions span the full range of embedded technologies from board level products to fully integrated sub-systems. Our products utilize leading-edge processor and other technologies architected to address highly data-intensive applications that include signal, sensor and image processing within environmentally challenging and size, weight and power constrained military and commercial applications. In addition, ACS has a portfolio of RF and microwave sub-assemblies to address needs in EW, signal intelligence ("SIGINT"), electronic intelligence ("ELINT"), and high bandwidth communications subsystems.

These products are highly optimized for size, weight and power, as well as for the performance and ruggedization requirements of our customers. Customized design and sub-systems integration services extend our capabilities to tailor solutions to meet the specialized requirements of our customers. We continue to innovate our technologies around challenging requirements and have technologies available today and planned for the future to address them as they evolve and become increasingly demanding.

With the addition of KOR Electronics ("KOR") in December 2011, we added a focus on the exploitation of RF signals. Leveraging our analog-to-digital and digital-to-analog technologies and expertise, KOR delivers innovative high end solutions and services to the defense communities:

- DRFM (Digital Radio Frequency Memory) products which offer state of the art performance at low cost, for EW applications; and
- radar and EW environment test and simulator products that are DRFM based and use modular and scalable building blocks including commercial-off-the-shelf hardware.

In fiscal 2012, ACS accounted for 88% of our total net revenues.

Mercury Federal Systems, or MFS. This business segment is focused on services and support work with the DoD and federal intelligence and homeland security agencies, including designing, engineering, and deploying new ISR capabilities to address present and emerging threats to U.S. forces. With the addition of Paragon Dynamics, Inc. ("PDI"), our MFS segment also provides sophisticated analysis and exploitation, multi-sensor data fusion and enrichment, and data processing services for the U.S. intelligence community. MFS is part of our long-term strategy to expand our software and services presence and pursue growth within the intelligence community. MFS offers a wide range of engineering architecture and design services that enable clients to deploy leading edge computing capabilities for ISR applications on an accelerated time cycle. This business segment enables us to combine classified intellectual property with the commercially developed application-ready sub-systems being developed by ACS, providing customers with platform-ready, affordable ISR sub-systems. In fiscal 2012, MFS accounted for 12% of our total net revenues, which include six months of PDI revenues of $7.9 million.

Recent Developments

Subsequent to the end of fiscal 2012, on August 8, 2012, we acquired Micronetics, Inc. Based in Hudson, New Hampshire, Micronetics is a leading designer and manufacturer of microwave and RF subsystems and components for defense and commercial customers. Adding Micronetics is the next logical next step in our journey to provide end-to-end sensor processing capabilities to our customers. Specifically, Micronetics further expands our technology and subsystems integration capabilities for the acquire, digitize and disseminate stages of the sensor processing chain. From a product perspective, Micronetics brings us a portfolio of high-value components and subsystems. At the same time, Micronetics' engineering and manufacturing capabilities provide the RF side of our business with the scalability we need not only to continue to deliver on some of our own higher volume programs, but to support growth in the business as we expand our customer base and program access.

During the fourth quarter of fiscal 2012, we announced a restructuring plan ("2012 Plan") affecting both the ACS and MFS business segments. The 2012 Plan primarily consisted of involuntary separation costs related to

the reduction in force which eliminated 41 positions largely in the engineering and manufacturing functions; and facility costs related to outsourcing of certain manufacturing activities at our Huntsville, Alabama site. The 2012 Plan for which expense of $2.8 million was recorded in fiscal 2012 was implemented to cope with the near-term uncertainties in the defense industry and improve our overall business scalability. Future restructuring expenses of approximately $0.7 million associated with the 2012 Plan are expected in fiscal 2013 as we start transitioning the manufacturing activities formerly conducted at the Huntsville, Alabama facility to our contract manufacturing partner. We expect to realize approximately $5.3 million in annual savings from these activities.

On December 30, 2011, we acquired both KOR and its wholly-owned subsidiary, PDI. Based in Cypress, California, KOR designs and develops DRFM units for a variety of modern EW applications, as well as radar environment simulation and test systems for defense applications. Based in Aurora, Colorado, PDI provides sophisticated analytic exploitation services and customized multi-intelligence data fusion solutions for the U.S. intelligence community. We are working to ensure that capabilities of KOR and PDI are integrated into a framework whereby we can deliver agile, affordable solutions to the markets we collectively serve. We are working to rapidly integrate these new capabilities into our overall organization.

Our History

Since 1981, we have operated as a provider of advanced embedded computing products primarily for end markets in the defense industry. Over time, we expanded our business to focus on a number of commercial end markets, including the biotechnology, embedded systems and professional services, visual imaging software and life sciences markets. While this strategy was designed to expand our target market, in the mid-2000's many of these new businesses required large investments, which significantly reduced our profitability, and we found ourselves spread across several disparate, unprofitable end-user segments.

In November 2007, we embarked on a strategy to refocus the business and return to growth and profitability. Since then, we have successfully sold or shut down five non-core business units, returned the Company to profitability and growth and transformed the Company into a best-of-breed provider of affordable, open architecture, commercially-developed, application-ready and multi-intelligence sub-systems for our primary defense embedded computing end markets. Our refocused business combined with improved operations has led to improved overall financial performance, including:

- increasing defense sales from $131.9 million in fiscal 2008 to $229.9 million in fiscal 2012 representing approximately 74% growth, and increasing defense sales as percentage of revenue from 69% in fiscal 2008 to 94% in fiscal 2012;
- increasing income from continuing operations from a loss of $4.4 million in fiscal 2008 to income of $22.6 million in fiscal 2012 and increasing income from continuing operations as a percentage of net revenues from negative 2% for fiscal 2008 to 9% for fiscal 2012;
- increasing adjusted EBITDA from $22.5 million in fiscal 2008 to adjusted EBITDA of $48.9 million in fiscal 2012;
- improving our cash flow from operations of $13.7 million in fiscal 2008 to $31.9 million in fiscal 2012; and
- improving our balance sheet by reducing total indebtedness from $125.0 million at June 30, 2008 to zero at June 30, 2010, 2011 and 2012.

During this period of improving financial performance, we continued to have success on programs such as Aegis, Global Hawk, Predator and Reaper and have reinvested in our business. We improved our position as a best-of-breed provider in our target markets, with major design wins including the Patriot missile program, the JCREW I1B1 program, which is the DoD's principal program to counter improvised explosive devices, or IEDs, and the Surface Electronic Warfare Improvement Program, or SEWIP, the EW improvement program for surface

vessels to counteract a variety of emerging threats. In fiscal 2010, we grew organically, improved our working capital position and profitability metrics, continued to refresh our product portfolio, and grew our services and systems integration business. We strengthened our position in our core ISR, EW and ballistic missile defense markets and believe our position in these markets will continue to grow. In fiscal 2011 and 2012, we continued to strengthen and grow our core business by enhancing our product portfolio and increasing our ISR, EW, and missile defense system domain expertise and capabilities. We continue to be successful on our existing programs and to pursue new design wins on high growth, high priority programs. In response to new and emerging threats, and the need for better intelligence in shorter time frames, we have developed new products and capabilities that, in conjunction with our customers, seek to address those areas of concern. We have also grown and anticipate growing further through acquisitions of performing companies that will complement, strengthen and grow our core business. As a result of these efforts, we believe we are well-positioned to capture existing and future growth opportunities in our end markets. We also continually look at our organizational, product development and go-to-market capabilities to ensure we maintain an orientation towards “time to value” for our customers. This approach will help us reach our goal of providing the best solutions as we apply our commercially developed technologies to solve complex customer problems.

Our Market Opportunity

Our market opportunity is defined by the growing demand for advanced sensor processing capabilities within the defense industry, as well as the burgeoning needs of the intelligence community to handle big data processing, analytics and analysis challenges. Our primary market has historically been the defense sector, specifically C4ISR, EW, and ballistic missile defense; and commercial markets, which include commercial communications and other commercial computing markets. We believe we are well-positioned in growing, sustainable market segments of the defense sector that leverage advanced technology to improve warfighter capability and provide enhanced force protection capabilities.

We believe there are a number of evolving trends that are reshaping our target market and accordingly provide us with attractive growth opportunities, including:

The U.S. defense electronics market is large. We have expanded our target market and are well-positioned from a DoD budget, program and platform perspective. Despite expected DoD defense budget cuts, the portion most relevant to our business is projected to remain stronger than the defense budget as a whole. DoD defense electronics spending was approximately $39.5 billion in government fiscal year 2012, and is projected to increase to $40.4 billion in government fiscal year 2013. Defense electronic spending represents approximately 6% of the total DoD spending annually. We believe ISR, EW and ballistic missile defense have a high priority for future DoD spending. We have positioned ourselves well in these important areas and have won a position on many programs and platforms. We are a best-of-breed provider in the design and development of performance optimized electronic sub-systems for the ISR and EW markets. As a leader in these markets, we often contract with multiple prime defense contractors as they bid for a particular project, thereby increasing our chance of a successful outcome.

The rapidly expanding demand for tactical ISR is leading to significant growth in sensor data, causing even greater demand for the capability of our products to process data onboard the platform. An increase in the prevalence and resolution of ISR sensors is generating significant growth in the associated data that needs to be turned into information for the warfighter in a timely manner. In addition, several factors are driving the defense and intelligence industries to demand greater capability to collect and process data onboard the aircraft, unmanned aerial vehicles, or UAVs, ships and other vehicles, which we refer to collectively as platforms. Each platform has limited communications bandwidth and cannot realistically transmit all the data that is collected onboard the platform, and this problem will increase over time as sensor generated data will continue to outstrip data communication capabilities. Looking forward, we believe our armed forces will need platforms that operate more autonomously and possibly in denied communication environments. In addition, the platforms themselves require increased persistence, and reducing the need to communicate data off the platform can help increase the

ability of the platform to remain on or fly above the battlefield for extended periods. Finally, the scarcity and cost of human analysts, the demand for timely and relevant quality information and the increasing need to fuse data not only from multiple onboard sensors but also with intelligence generated from other platforms is causing even greater demand for the onboard processing capabilities our products provide.

IEDs, rogue nations' missile programs and threats from peer nations are causing greater investment in new EW and ballistic missile defense capabilities. Existing threats, such as IEDs in the form of roadside bombs, continue to be effective weapons of choice for insurgents. We have developed responses for these existing threats, including providing the core radio frequency and signal processing for the JCREW I1B1 counter-IED program. Our acquisition of LNX significantly increased our content on the JCREW I1B1 program. JCREW I1B1 is the program of record for counter-IED. While we believe that the program will remain in development longer than the previously planned Milestone C highlighted in the government fiscal year 2013 budget request, the U.S. Marine Corps has requested significant funding for JCREW in the government fiscal year 2013 budget.

There are also new and emerging threats, such as peer nations developing stealth technologies, including stealth aircraft and new anti-ship ballistic missiles that potentially threaten the U.S. naval fleet. Finally, U.S. armed forces require enhanced signals intelligence and jamming capabilities. In response to these emerging threats, we have engaged in the following:

- we provide the core radar processing on both the Aegis ballistic missile defense systems as well as the Patriot missile system, a ground-based missile defense platform;
- in the fall of 2010, we were selected by Lockheed Martin to work on SEWIP, the surface EW improvement program designed to upgrade the Naval Surface Fleet EW capability and counteract a range of new peer threats;
- we provide radar processing capabilities for the F-22 Raptor and F-35 Joint Strike Fighter, the latest generation of U.S. stealth-enabled fighters; and
- to respond to the need for enhanced signals intelligence and jamming capabilities, we recently achieved a new design win for the next generation of the airborne signals intelligence payload, or ASIP, program.

The long-term DoD budget pressure is pushing more dollars toward upgrades of the electronic sub-systems on existing platforms, which may increase demand for our products. The DoD is moving from major new weapons systems developments to upgrades of the electronic sub-systems on existing platforms. These upgrades are expected to include more sensors, signal processing, ISR algorithms, multi-INT fusion exploitation, computing and communications. We believe that upgrades to provide new urgent war fighting capability, driven by combatant commanders, are occurring more rapidly than traditional prime defense contractors can easily react to. We believe these trends will cause prime defense contractors to increasingly seek out our high performance, cost-effective open architecture products.

Defense procurement reform is causing the prime defense contractors to outsource more work to best-of-breed companies. The U.S. government is intensely focused on making systems more affordable and shortening their development time. As a company that provides commercial items to the defense industry, we believe our products are often more affordable than products with the same functionality developed by a prime defense contractor. Prime defense contractors are increasingly being asked to work under firm fixed price contract awards, which can pressure profit margins and increase program risk. Prime defense contractors are also being asked to produce systems much more rapidly than they have in the past. In addition, the U.S. government is demanding more use of commercial items and open system architectures. In this budget environment, there are fewer research and development dollars available with which prime defense contractors can invest early-on to differentiate their offerings while competing for new program awards or re-competes. As a result, prime defense contractors are generally trying to adjust their cost model from a high fixed cost model to a variable cost model.

All of these factors are forcing the prime defense contractors to outsource more work to best-of-breed subcontractors, and we have transformed our business model over the last several years to address these long-term outsourcing needs and other trends.

A Growing Role in Big Data. In a world of increasing information flow, the intelligence community and DoD are faced with the problem of processing extremely large volumes of data, and transforming that data into actionable intelligence. We have technologies and solutions that are currently being used, and will be seeing increased usage moving forward, for these types of applications. We will continue to invest in technologies and service capabilities that enhance our value in this important area. We leverage both traditional computing models and increasingly leverage cloud-based applications and analytic process to allow us to efficiently process and analyze Big Data on shared application platforms.

Our Business Strategy

Our long-term strategy is to become a mission critical supplier to the prime defense contractors and intelligence community and a leading provider of more affordable, open architecture, commercially-developed, application-ready and multi-intelligence sub-systems.

We intend to achieve this objective through continued investment in advanced new products and solutions development in the fields of radio frequency, analog-to-digital and digital to analog conversion, advanced multi- and many-core sensor processing systems including GPUs, digital storage, and DRFM solutions as well as software defined communications capabilities. In fiscal 2008, we established our services and systems integration, or SSI, business to become a commercial outsourcing partner to the large prime defense contractors as they seek the more rapid design, development and delivery of affordable, best-of-breed, application-ready ISR sub-system solutions. We believe that services-led engagements in SSI may lead to long-term production sub-system annuity revenues that will continue long after the initial services are delivered. This business model positions us to be paid for work we would have previously expensed through our own income statement, to team concurrently with multiple prime defense contractors as they pursue new business with the government, and to engage with our customers much earlier in the design cycle and ahead of our competition. In fiscal 2008, we also established MFS—the ISR systems and technology services arm of Mercury. Our goal in MFS is to enhance the application-ready sub-systems from ACS with classified, domain-specific intellectual property that results in the delivery of platform-ready ISR sub-system solutions to our prime customers.

Key elements of our strategy to accomplish our continued growth objectives include:

Achieve Design Wins on High Growth, High Priority Defense Programs. We believe that the most significant long-term, leading indicator in our business is the number and probable value of design wins awarded. We believe our advanced embedded signal processing solutions position us well going forward to capture design wins on key high growth, high priority defense programs within our targeted segments of the C4ISR market. We have won designs in persistent ISR related signals intelligence payloads on UAVs and other aerial platforms. As a result of these successes, we now have significant content on all major UAV platforms, including Global Hawk, Predator, Broad Area Maritime Surveillance (BAMS), Reaper and a wide area airborne surveillance platform. Our ballistic missile defense wins include additional designs on the Aegis program, as well as continued foreign military sales for the Patriot missile program, including the just announced U.S. Army Patriot design win. In EW, we won key designs related to the Navy’s SEWIP program, including the next generation SSEE Navy program. Together, these wins represent a substantial opportunity for us in the years ahead.

Continue to Provide Excellent Performance on Our Existing Programs. The foundation for our growth remains our continued involvement with existing programs that are in late-stage development or currently in production, such as Aegis, the F-35 Joint Strike Fighter, Patriot missile, the F-16 aircraft and the Global Hawk, Predator and Reaper UAV programs. As part of a long-term reprioritization, the DoD is shifting its emphasis from major new weapons systems development to upgrades of existing programs and platforms. The upgrades on

these programs focus on four key areas: improved sensors; more advanced on-board embedded computing; enhanced ISR algorithms; and better communications on and off the platform. A key element of our strategy is to continue to provide high performance, cost-effective solutions on these programs and for these customers as a best-of-breed provider.

Pursue Strategic, Capability-Enhancing Acquisitions. We will continue to pursue selective strategic acquisitions of profitable growing businesses to augment our businesses using the following strategies: adding technologies or products that expand ACS' core business by competing more effectively in the ISR, EW, and missile defense markets; adding content and services to the defense and intelligence programs and platforms in which we currently participate or could participate in the future; enhancing key customer relationships and forming relationships with potential new customers; and adding a platform company that we can build around in our intelligence business. Our acquisitions of LNX, KOR, and PDI in fiscal 2011 and 2012 support all three of these objectives. Adding LNX to our business significantly strengthened our product portfolio in radio frequency and our capabilities in signals intelligence and EW. LNX's position as a key supplier to the prime defense contractor under the JCREW I1B1 program significantly increases our content on that platform. Similarly, adding KOR has brought capabilities with DRFM technologies that combine well with the RF domain expertise of LNX and the embedded computing and packaging design expertise developed organically at Mercury. Our recent acquisition of Micronetics expands our technology and subsystems integration capabilities and provides our RF business with scalability. Our acquisition strategy also focuses on broadening our customer base.

Rapidly Scale MFS to Provide Fully Integrated Sub-systems for ISR Applications in Classified Programs. Through MFS, we have sought to become a services-led, best-of-breed ISR sub-systems provider to our prime defense contractors for classified programs. Through the addition of key personnel, high-level security clearances and new defense and intelligence community customers, MFS provides us access to critical classified government intellectual property that we can integrate with our existing ACS embedded computing solutions in order to provide fully integrated, platform ready ISR sub-systems. We believe MFS differentiates us from our competitors and places us in a stronger position to serve as the sub-systems architect for next-generation ISR programs and platforms. As an example, the multi-phase Gorgon Stare program has encompassed concept of operation, system architecture, processor design, algorithm optimization, airborne platform-hosted mechanical/environmental design, and integration and test expertise. The first program phase yielded a successfully deployed system that has provided significant operational capabilities to the warfighter. The second program phase combines state of the art hardware and software infrastructure developed by ACS with advanced image processing techniques implemented by MFS that leverage ultra-high resolution cameras to enable the world's leading airborne wide-area EO/IR surveillance system. We expect to build upon these successes in the future.

Capitalize on Outsourcing and Other Dynamics in the Defense and Intelligence Industries. We are well-positioned to take advantage of several changing dynamics in the defense industry. Prime defense contractors are increasingly being awarded firm fixed price contracts. These contracts shift risk to the prime contractors, and as a result they are beginning to outsource increasing levels of sub-system development and production and other higher value program content. In addition, the U.S. government is shifting toward shorter program timelines, which require increased flexibility and responsiveness from prime contractors. Finally, more programs are moving to open systems architectures encompassing best-of-breed capabilities. We believe that these dynamics will result in prime contractors outsourcing increasing levels of program content to us as a best-of-breed provider of differentiated products, sub-systems engineering services and system integration.

Leverage Our Research and Development Efforts to Anticipate Market Needs and Maintain our Technology Leadership. Our high performance, quick reaction sub-systems and capabilities require increasingly more sophisticated hardware, software and middleware technology. In addition, as the defense and intelligence industries shift to products with open systems architectures, we believe that our software expertise will become increasingly important and differentiates us from many of our competitors as we have the ability to map complex algorithms onto size, weight, and power-constrained on-board embedded sensor processing solutions. We have substantially and will continue to refresh both our sensor processing and multicomputer product lines while

increasing our product development velocity. Faster product development velocity aligns us with the U.S. government's demands on the prime defense contractors for quick reaction capabilities. By shortening our product development times, we have been able to quickly launch the products we need to win new designs from the prime contractor community that will ultimately generate bookings and revenue for us. We intend to continue to utilize company and customer-funded research and development, as well as our acquisition strategy, to develop technologies, products and solutions that have significant potential for near-term and long-term value creation in both the defense and intelligence markets. We devote significant resources in order to anticipate the future requirements in our target defense and intelligence markets, including monitoring and pioneering advances in advanced embedded computing hardware and software, anticipating changes in U.S. government spending and procurement practices and leveraging insight from direct interaction with our customers.

Our Competitive Strengths

We believe the following competitive strengths will allow us to take advantage of the evolving trends in our industry and successfully pursue our business strategy:

Best-of-Breed Sub-System Solutions Provider for the C4ISR Market. Through our commercially-developed, high-performance embedded signal processing solutions, we address the challenges associated with the collection and processing of massive, continuous streams of data and dramatically shorten the time that it takes to give information to U.S. armed forces at the tactical edge. Our solutions are specifically designed for flexibility and interoperability, allowing our products to be easily integrated into larger system-level solutions. Our ability to integrate sub-system-level capabilities allows us to provide solutions that most effectively address the mission-critical challenges within the C4ISR market, including multi-intelligence data fusion and intelligence processing onboard the platform.

Diverse Mix of Stable, High Growth Programs Aligned with DoD Funding Priorities. Our products have been deployed in approximately 300 different programs with over 25 different prime contractors. We serve high priority markets for the DoD and foreign militaries, such as UAVs, ballistic missile defense, airborne reconnaissance, EW and jamming of IEDs, and have secured positions on mission-critical programs including Aegis, Predator and Reaper UAVs, F-35 Joint Strike Fighter, Patriot missile, JCREW I1B1 and SEWIP. In addition, we consistently leverage our technology and capability across 15 to 20 programs on an annual basis, providing significant operating leverage and cost savings.

Value-Added Sub-System Solution Provider for Prime Defense Contractors. Because of the DoD's shift towards a firm fixed price contract procurement model, an increasingly uncertain budgetary and procurement environment, and increased budget pressures from both the U.S. and allied governments, prime defense contractors are accelerating their move towards outsourcing opportunities to help mitigate the increased program and financial risk. Our differentiated advanced signal processing solutions offer meaningful capabilities upgrades for our customers and enable the rapid, cost-effective deployment of systems to the end customer. We believe our open architecture sub-systems offer differentiated signal processing and data analytics capabilities that cannot be easily replicated. Our solutions minimize program risk, maximize application portability, and accelerate customers' time to market.

MFS Enables the Delivery of Platform-Ready Solutions for Classified Programs. MFS was created in fiscal 2008 to enable us to directly pursue systems integration opportunities within the DoD and U.S. intelligence community. We believe the development work through MFS will provide us leverage and implement key classified government intellectual property, including critical intelligence and signal processing algorithms. We believe that MFS also provides us the opportunity to directly integrate this intellectual property onto our existing advanced computing solutions, enabling us to deliver platform-ready integrated ISR sub-systems that leverage our open architecture solutions and address key government technology and procurement concerns. MFS operations in this environment will also influence future product development so that critical future needs can be met in a timely manner.

Long-Standing Industry Relationships. We have established long-standing relationships with prime defense contractors, the U.S. government and other key organizations in the defense and intelligence industries over our 30 years in the defense electronics industry. Our customers include The Boeing Company, Lockheed Martin Corporation, Northrop Grumman Corporation, and Raytheon Company, many of whom have been valued and loyal customers for more than a decade. Over this period, we have become recognized for our ability to develop new technologies and meet stringent program requirements. Our demonstrated track record of delivering high-performance embedded signal processing solutions helped us to acquire new customers, such as Exelis Electronic Systems, for whom we are providing the processing content on the JCREW I1B1 counter-IED program. We believe we are well-positioned to maintain these high-level customer engagements.

Proven Management Team. Over the past several years, our senior management team has refocused the Company on its economic core, developed a long-term compelling strategy for the defense market and restored profitability to the business. Having completed these critical steps to rebuild the Company and with a senior management team with significant experience in growing and scaling businesses, both through operating execution and acquisitions, we believe that we have demonstrated our operational capabilities and we are well-positioned for the next phase to transform, grow and scale our business.

Our Solutions and Products

Services and Systems Integration ("SSI")

As part of our strategy, we are continuing to invest in our SSI capability. Our SSI group is tasked with partnering with prime defense contractors to deliver sub-system level engineering expertise as well as ongoing systems integration services. Our SSI capability addresses our strategy to capitalize on the $2.7 billion sub-system market within the defense embedded electronics market segment.

As the U.S. government mandates more outsourcing and open standards, a major shift is occurring within the prime defense contractors toward procurement of integrated sub-systems that enable quick application level porting through standards-based methodologies. We believe that our core expertise in this area is well aligned to capitalize on this trend. By leveraging our open architecture and high performance modular product set, we provide prime defense contractors with rapid deployment and quick reaction capabilities through our professional services and systems integration offerings. This results in less risk for the prime defense contractors, shortened development cycles, quicker solution deployment and reduced lifecycle costs.

Software Products

We actively design, market and sell complete software and middleware environments to accelerate development and execution of complex signal and image processing applications on a broad range of heterogeneous, multi-computing platforms. Our software suite is based on open standards and includes heterogeneous processor support with extensive high performance math libraries, multi-computing fabric support, net-centric and system management enabling services, extended operating system services, board support packages and development tools.

Our software is developed using some of the most advanced integrated development environments (IDE's), such as Eclipse, and our work is done on multiple platforms including open source platforms such as Linux. Our software development teams are schooled in the most up-to-date software development methodologies.

Our software and middleware provides customer application-level algorithm portability across rapidly evolving hardware processor types with math and input/output, or I/O, interfaces running at industry leading performance rates. In order to develop, test and integrate software ahead of hardware availability, we have invested in the notion of a Virtual Multi-Computer which we have branded Virtual ARS (Application Ready Sub-system™). The Virtual ARS model allows for concurrent engineering internally and with customers to accelerate time to deployment, improve quality and reduce development costs. In most cases, these software products are bundled together with broader solutions including hardware and/or services, while in other cases they are licensed separately.

Our multi-computer software packages are marketed and licensed under the *MultiCore Plus*® registered trademark. These software products are a key differentiator for our systems business and represent only a modest amount of stand-alone revenue. We generally charge a user-based development license fee and bundle software run-time licenses with our hardware. We offer a standards-based software value proposition to our customers and provide this offer through several integrated software packages and service offerings.

Hardware Products

We offer a broad family of products designed to meet the full range of requirements in compute-intensive, signal processing and image processing applications, multi-computer interconnect fabrics, sensor interfaces and command and control functions. To maintain a competitive advantage, we seek to leverage technology investments across multiple product lines. We are also influential in the industry-standard organizations associated with our market segments. For example, we started the OpenVPX™ initiative with the goal of providing customers with multi-vendor interoperable hardware built to well-defined system standards.

Our hardware products are typically compute-intensive and require extremely high inter-processor bandwidth and high I/O capacity. These systems often must also meet significant size, weight and power constraints for use in aircraft, UAVs, ships and other vehicles, and be ruggedized for use in highly demanding use environments. They are used in both commercial industrial applications, such as ground radar air traffic control, and advanced defense applications, including space-time adaptive processing, synthetic aperture radar, airborne early warning, command control communication and information systems, mission planning, image intelligence and signal intelligence systems. Our products transform the massive streams of digital data created in these applications into usable information in real time. The systems can scale from a few processors to thousands of processors.

To address the current challenges facing the war fighter, our government and prime defense contractors, we have developed a new product architecture that supports a more dynamic, iterative, spiral development process by leveraging open architecture standards and leading-edge commercial technologies and products. Configured and productized as integrated sub-systems, customers can rapidly and cost-effectively port and adapt their applications to changing threats.

Our open architecture is carried throughout our entire Ensemble product line from the very small form-factor sub-systems to the high-end, where ultimate processing power and reliability is of paramount importance to the mission. Our commercially-developed hardware and software product capabilities cover the entire ISR spectrum from acquisition and digitization of the signal, to processing of the signal, through the exploitation and dissemination of the information. We work continuously to improve our hardware technology with an eye toward optimization of size, weight and power (“SWaP”) demands.

Research and Product Development

Our research and development efforts are focused on developing new products and systems as well as enhancing existing hardware and software products in signal and image processing. Our research and development goal is to fully exploit and maintain our technological lead in the high-performance, real-time signal processing industry. Expenditures for research and development amounted to $46.0 million in fiscal 2012, $44.5 million in fiscal 2011 and $41.5 million in fiscal 2010. As of June 30, 2012, we had 277 employees, including hardware and software architects and design engineers, primarily engaged in engineering and research and product development activities. These individuals, in conjunction with our sales team, also devote a portion of their time to assisting customers in utilizing our products, developing new uses for these products and anticipating customer requirements for new products.

Manufacturing

Advanced Computing Solutions

The majority of our sales are produced in International Organization for Standardization, or ISO, 9001:2000 quality system certified facilities. The current scope of delivered hardware products includes commercial and industrial class printed circuit board assemblies (modules) and complex chassis systems. Our manufacturing operations consist primarily of materials planning and procurement, final assembly and test and logistics (inventory and traffic management). We subcontract the assembly and testing of most modules to contract manufacturers in the U.S. to build to our specifications. We currently rely primarily on one contract manufacturer. We have a comprehensive quality and process control plan for each of our products, which include an effective supply chain management program and the use of automated inspection and test equipment to assure the quality and reliability of our products. We perform most post sales service obligations (both warranty and other lifecycle support) in-house through a dedicated service and repair operation. We periodically review our contract manufacturing capabilities to ensure we are optimized for the right mix of quality, affordability, performance and on-time delivery.

Although we generally use standard parts and components for our products, certain components, including custom designed ASICs, static random access memory, FPGAs, microprocessors and other third-party chassis peripherals (single board computers, power supplies, blowers, etc.), are currently available only from a single source or from limited sources. With the exception of certain components that have gone “end of life,” we strive to maintain minimal supply commitments from our vendors and generally purchase components on a purchase order basis as opposed to entering into long-term procurement agreements with vendors. We have 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. We believe that, in most cases, alternate vendors can be identified if current vendors are unable to fulfill needs.

Mercury Federal Systems

As of June 30, 2012, MFS did not manufacture hardware. All hardware (e.g. computers and computer peripherals) is generally procured from our other subsidiaries or third-party suppliers.

Competition

Advanced Computing Solutions

The markets for our products are highly competitive and are characterized by rapidly changing technology, frequent product performance improvements, increasing speed of deployment to align with warfighters’ needs, and evolving industry standards and requirements coming from our customers or the DoD. Competition typically occurs at the design stage of a prospective customer’s product, where the customer evaluates alternative technologies and design approaches.

The principal competitive factors in our market are price/performance value proposition, available new products at the time of design win engagement, services and systems integration capability, effective marketing and sales efforts, and reputation in the market. Our competitive strengths include innovative engineering in both hardware and software products, sub-system design expertise, advanced packaging capability to deliver the most optimized size, weight and power solution possible, our ability to rapidly respond to varied customer requirements, and a track record of successfully supporting many high profile programs in both the commercial and defense markets. There are a limited number of competitors across the market segments and application types in which we compete. Some of these competitors are larger and have greater resources than us. Some of these competitors compete against us at purely a board-level, others at a sub-system level. We also compete with in-house design teams at our customers. The DoD as well as the prime defense contractors are pushing for more outsourcing of sub-system designs to mitigate risk and to enable concurrent design of the platform which ultimately leads to faster time to deployment. We are aligning our strategy to capitalize on that trend and leveraging our long standing sub-system expertise to provide this value to our customers.

A design win usually ensures, but does not always guarantee, that a customer will purchase our product until the next-generation system is developed. In addition, a design win also needs to be funded by the government and the program needs to move to production. We believe that our future ability to compete effectively will depend, in part, upon our ability to improve product and process technologies, to 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.

Mercury Federal Systems

The markets for our products and services are highly competitive and primarily focus on providing services to the federal contracting markets. MFS is focused on developing advanced solutions for emerging ISR system processing challenges in the federal space. With the addition of PDI, MFS also provides sophisticated analytic exploitation, multi-sensor fusion, and data processing services for the U.S. intelligence community. Our targets are existing programs that are confronting modernization challenges and planned programs yet to be fielded. Our goal is to produce open, commercial item-based processing solutions that are platform agnostic.

Due to the competitive environment in which MFS operates, price and past performance are becoming as important as technical quality in most awards. Our primary competitors for our federal services are other small to large service-based companies that have long-standing customer relationships and program insights. We also face additional competition from platform and sensor developers that will continue to offer the government custom solutions packaged to support individual platform designs and point solution concepts. These companies, large and small, will want to maintain configuration control of compute processing architectures across their platforms in order to control systems upgrade and out-year modernization efforts. To win business, we will continue to offer program managers an alternative path to achieving interoperability and advanced SWaP efficient processing solutions for ISR applications.

Intellectual Property and Proprietary Rights

As of June 30, 2012, we held 39 patents of varying duration issued in the United States. We regularly file U.S. patent applications and, where appropriate, foreign patent applications. We also file continuations to cover both new and improved designs and products. At present, we have several U.S. and foreign patent applications in process.

We also rely on a combination of trade secret, copyright, and trademark laws, as well as contractual agreements, to safeguard our proprietary rights in technology and products. In seeking to limit access to sensitive information to the greatest practical extent, we routinely enter into confidentiality and assignment of invention agreements with each of our employees and consultants and nondisclosure agreements with our key customers and vendors.

Backlog

As of June 30, 2012, we had a backlog of orders aggregating approximately $104.6 million, of which $91.9 million is expected to be delivered within the next twelve months. As of June 30, 2011, backlog was approximately $86.9 million. The defense backlog at June 30, 2012 was $101.5 million, a $20.0 million increase from June 30, 2011. We include in our backlog customer orders for products and services for which we have accepted signed purchase orders, as long as that order is scheduled to ship or invoice in whole, or in part, within the next 24 months. Orders included in backlog may be canceled or rescheduled by customers, although the customer may incur cancellation penalties depending on the timing of the cancellation. 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. We 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 and adversely affect our results of operations or our ability to predict future revenues. Backlog should not be relied upon as indicative of our revenues for any future period.

Employees

At June 30, 2012, we employed a total of 713 people excluding contractors, including 277 in research and development, 83 in sales and marketing, 223 in manufacturing and customer support and 130 in general and administrative functions. We have seven employees located in Europe, four located in Japan, and 702 located in the United States. We do not have any employees represented by a labor organization, and we believe that our relations with our employees are good.

WEBSITE

We maintain a website at *www.mc.com*. We make available on our website, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, including exhibits and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Our code of business conduct and ethics is also available on our website. We intend to disclose any future amendments to, or waivers from, our code of business conduct and ethics within four business days of the waiver or amendment through a website posting or by filing a current report on Form 8-K with the SEC. Information contained on our website does not constitute part of this report. Our reports filed with, or furnished to, the SEC are also available on the SEC's website at *www.sec.gov*.

OTHER INFORMATION

Challenges Drive Innovation, Echocore, Echotek, Ensemble2, Powerstream, RACE++ and MultiCore Plus are registered trademarks, and Ensemble, Application Ready Subsystem, ARS, POET, Converged Sensor Network, CSN, Embedded Smart Processing and ESP are trademarks of Mercury Computer Systems, Inc. OpenVPX™ is a trademark of the VMEbus International Trade Association. IBM and PowerPC are registered trademarks of International Business Machine Corporation. All other trademarks and registered trademarks are the property of their respective holders, and are hereby acknowledged.

Item 1A. Risk Factors:

We depend heavily on defense electronics programs that incorporate our products, which may be only partially funded and are subject to potential termination and reductions and delays in government spending.

Sales of our embedded computer systems and related services, primarily as an indirect subcontractor or team member with prime defense contractors, and in some cases directly, to the U.S. government and its agencies, as well as foreign governments and agencies, accounted for approximately 94%, 78%, and 79% of our total net revenues in fiscal 2012, 2011, and 2010, respectively. Our computer systems are included in many different domestic and international programs. Over the lifetime of a program, the award of many different individual contracts and subcontracts may impact our products' requirements. The funding of U.S. government programs is subject to Congressional appropriations. Although multiple-year contracts may be planned in connection with major procurements, Congress generally appropriates funds on a fiscal year basis even though a program may continue for many years. Consequently, programs are often only partially funded initially, and additional funds are committed only as Congress makes further appropriations and prime contracts receive such funding. The reduction or delay in funding or termination of a government program in which we are involved would result in a loss of or delay in receiving anticipated future revenues attributable to that program and contracts or orders received. The U.S. government could reduce or terminate a prime contract under which we are a subcontractor or team member irrespective of the quality of our products or services. The termination of a program or the reduction in or failure to commit additional funds to a program in which we are involved could negatively impact our revenues and have a material adverse effect on our financial condition and results of operations. The U.S. defense budget frequently operates under a continuing budget resolution, which increases revenue uncertainty and volatility. For fiscal 2013, the Presidential election and the potential for defense budget sequestration may

reduce or delay revenues and increase uncertainty in our business and financial planning. In addition, delays in funding of a program, or of the defense appropriation generally, could negatively impact our revenues and have a material adverse effect on our financial condition and results of operations for the period in which such revenues were originally anticipated.

Economic conditions could adversely affect our business, results of operations and financial condition.

The world's financial markets have experienced turmoil, characterized by reductions in available credit, volatility in security prices, rating downgrades of investments, and reduced valuations of securities. These events have materially and adversely impacted the availability of financing to a wide variety of businesses, including small businesses, and the resulting uncertainty has led to reductions in capital investments, overall spending levels, future product plans, and sales projections across many industries and markets. These trends could have a material adverse impact on our business. These trends could also impact our financial condition and our ability to achieve targeted results of operations due to:

- reduced and delayed demand for our products;
- increased risk of order cancellations or delays;
- downward pressure on the prices of our products;
- greater difficulty in collecting accounts receivable; and
- risks to our liquidity, including the possibility that we might not have access to our cash and short-term investments or to our line of credit when needed.

Further, the funding of the defense programs that incorporate our products and services is subject to the overall U.S. government budget and appropriation decisions and processes, which are driven by numerous factors beyond our control, including geo-political, macroeconomic, and political conditions. Increased federal budget deficits could result in reduced Congressional appropriations, such as the potential for defense budget sequestration, for the defense programs that use our defense electronics products and services. In addition, Congress could fund U.S. government operations through a continuing budget resolution without approving a formal budget for the government fiscal year, thereby potentially reducing or delaying the demand for our products. We are unable to predict the likely duration and severity of adverse economic conditions in the United States and other countries, but the longer the duration or the greater the severity, the greater the risks we face in operating our business.

We face other risks and uncertainties associated with defense-related contracts, which may have a material adverse effect on our business.

Whether our contracts are directly with the U.S. government, a foreign government, or one of their respective agencies, or indirectly as a subcontractor or team member, our contracts and subcontracts are subject to special risks. For example:

- Changes in government administration and national and international priorities, including developments in the geo-political environment, could have a significant impact on national or international defense spending priorities and the efficient handling of routine contractual matters. These changes could have a negative impact on our business in the future.
- Our contracts with the U.S. and foreign governments and their prime defense contractors and subcontractors are subject to termination either upon default by us or at the convenience of the government or contractor if, among other reasons, the program itself has been terminated. Termination for convenience provisions generally entitle us to recover costs incurred, settlement expenses and profit on work completed prior to termination, but there can be no assurance in this regard.
- Because we contract to supply goods and services to the U.S. and foreign governments and their prime and subcontractors, we compete for contracts in a competitive bidding process and, in the event we are

awarded a contract, we are subject to protests by disappointed bidders of contract awards that can result in the reopening of the bidding process and changes in governmental policies or regulations and other political factors. In addition, we may be subject to multiple rebid requirements over the life of a defense program in order to continue to participate on such program, which can result in the loss of the program or significantly reduce our revenue or margin from the program. The government's requirements for more frequent technology refreshes on defense programs may lead to increased costs and lower long term revenues.

- Consolidation among defense industry contractors has resulted in a few large contractors with increased bargaining power relative to us. The increased bargaining power of these contractors may adversely affect our ability to compete for contracts and, as a result, may adversely affect our business or results of operations in the future.
- Our customers include U.S. government contractors who must comply with and are affected by laws and regulations relating to the formation, administration, and performance of U.S. government contracts. In addition, when our business units, such as MFS, contract with the U.S. government, they must comply with these laws and regulations, including the organizational conflict-of-interest regulations. A violation of these laws and regulations could result in the imposition of fines and penalties to us or our customers or the termination of our or their contracts with the U.S. government. As a result, there could be a delay in our receipt of orders from our customers, a termination of such orders, or a termination of contracts between our business units and the U.S. government.
- We sell products to U.S. and international defense contractors and also directly to the U.S. government as a commercial supplier such that cost data is not supplied. To the extent that there are interpretations or changes in the Federal Acquisition Regulations regarding the qualifications necessary to be a commercial supplier, there could be a material adverse effect on our business and operating results. For example, there have been legislative proposals to narrow the definition of a "commercial item" (as defined in the Federal Acquisition Regulations) that could limit our ability to contract as a commercial supplier. In addition, growth in our defense sales relative to our commercial sales could adversely impact our status as a commercial supplier, which could adversely affect our business and operating results. Changes in federal regulations, or the interpretation of federal regulations, may subject us to audit by the Defense Contract Audit Agency for certain of our products or services.
- We qualify as a "small business" for government contracts purposes under the definition of that term in an applicable NAICS code because we have fewer than 1,000 employees. As we grow and potentially have over 1,000 employees in the future, we would no longer qualify as a small business. Loss of our small business status could negatively impact us, including our customers purchases from us would not qualify as purchases from a small business, customers may flow down additional Federal Acquisition Regulation, or FAR, clauses in their contracts with us that are less favorable than our existing contract terms and conditions, and the flow down of certain FAR clauses may require us to implement a Defense Contract Audit Agency cost-accounting system.
- We are subject to the Defense Federal Acquisition Regulations Supplement, referred to as DFARS, in connection with our defense work for the U.S. government and prime defense contractors. Amendments to the DFARS, such as the 2009 amendment to the DFARS specialty metals clause requiring that the specialty metals in specified items be melted or produced in the U.S. or other qualifying countries, may increase our costs for certain materials or result in supply-chain difficulties or production delays due to the limited availability of compliant materials.
- The U.S. government or a prime defense contractor customer could require us to relinquish data rights to a product in connection with performing work on a defense contract, which could lead to a loss of valuable technology and intellectual property in order to participate in a government program.
- We are subject to various U.S. federal export-control statutes and regulations which affect our business with, among others, international defense customers. In certain cases the export of our products and technical data to foreign persons, and the provision of technical services to foreign persons related to

such products and technical data, may require licenses from the U.S. Department of Commerce or the U.S. Department of State. The time required to obtain these licenses, and the restrictions that may be contained in these licenses, may put us at a competitive disadvantage with respect to competing with international suppliers who are not subject to U.S. federal export control statutes and regulations. In addition, violations of these statutes and regulations can result in civil and, under certain circumstances, criminal liability as well as administrative penalties which could have a material adverse effect on our business and operating results.

- Certain of our employees with appropriate security clearance may require access to classified information in connection with the performance of a U.S. government contract. We must comply with security requirements pursuant to the National Industrial Security Program Operating Manual, or NISPOM, and other U.S. government security protocols when accessing sensitive information. Failure to comply with the NISPOM or other security requirements may subject us to civil or criminal penalties, loss of access to sensitive information, loss of a U.S. government contract, or potentially debarment as a government contractor.

The loss of one or more of our largest customers, programs, or applications could adversely affect our results of operations.

We are dependent on a small number of customers for a large portion of our revenues. A significant decrease in the sales to or loss of any of our major customers would have a material adverse effect on our business and results of operations. In fiscal 2012, Raytheon Company accounted for 22% of our total net revenues, Northrop Grumman Corporation accounted for 17% of our total net revenues and Lockheed Martin Corporation accounted for 15% of our total net revenues. In fiscal 2011, Northrop Grumman Corporation accounted for 21% of our total net revenues, Raytheon Company accounted for 17% of our total net revenues and Lockheed Martin Corporation accounted for 13% of our total net revenues. In fiscal 2010, Raytheon Company accounted for 20% of our total net revenues and Lockheed Martin Corporation accounted for 17% of our total net revenues. The defense market is highly acquisitive, which could lead to further concentration in our largest customers. Customers in the defense market generally purchase our products in connection with government programs that have a limited duration, leading to fluctuating sales to any particular customer in this market from year to year. In addition, our revenues are largely dependent upon the ability of customers to develop and sell products that incorporate our products. No assurance can be given that our customers will not experience financial, technical or other difficulties that could adversely affect their operations and, in turn, our results of operations. Additionally, on a limited number of programs the customer has co-manufacturing rights which could lead to a shift of production on such a program away from us which in turn could lead to lower revenues.

We are dependent on sales for radar applications for a large portion of our revenues. Sales related to radar applications accounted for 55%, 53%, and 49% of our total net revenues for fiscal 2012, 2011, and 2010, respectively. While our radar sales relate to multiple different platforms and defense programs, our revenues are largely dependent upon our customers incorporating our products into radar applications. In fiscal 2012 and fiscal 2010, the Aegis program accounted for 11% and 15% of our total net revenues, respectively. Loss of a significant radar program could adversely affect our results of operations. For the year ended June 30, 2011, no single program comprised 10% or more of the Company’s revenue.

Going forward, we believe the JCREW I1B1 counter-IED and SEWIP programs could be a large portion of our future revenues in the coming years, and the loss or cancellation of these programs could adversely affect our future results. In addition, as we shift our business mix toward more services-led engagements with legacy product revenues becoming a lesser amount of our total revenues, we could experience downward pressure on margins and reduced profitability. Further, new programs may yield lower margins than legacy programs, which could result in an overall reduction in gross margins.

If we are unable to respond adequately to our competition or to changing technology, we may lose existing customers and fail to win future business opportunities.

The markets for our products are highly competitive and are characterized by rapidly changing technology, frequent product performance improvements and evolving industry standards. Competitors may be able to offer more attractive pricing or develop products that could offer performance features that are superior to our products, resulting in reduced demand for our products. Due to the rapidly changing nature of technology, we may not become aware in advance of the emergence of new competitors into our markets. The emergence of new competitors into markets targeted by us could result in the loss of existing customers and may have a negative impact on our ability to win future business opportunities. In addition to adapting to rapidly changing technology, we must also develop a reputation as a best-of-breed technology provider. Competitors may be perceived in the market as being providers of open-source architectures versus Mercury as a closed-architecture company. Perceptions of Mercury as a high-cost provider, or as having stale technology could cause us to lose existing customers or fail to win new business.

With continued microprocessor evolution, low-end systems could become adequate to meet the requirements of an increased number of the lesser-demanding applications within our target markets. Workstation or blade center computer manufacturers and other low-end single-board computer, or new competitors, may attempt to penetrate the high-performance market for defense electronics systems, which could have a material adverse effect on our business. In addition, our customers provide products to markets that are subject to technological cycles. Any change in the demand for our products due to technological cycles in our customers' end markets could result in a decrease in our revenues.

Competition from existing or new companies could cause us to experience downward pressure on prices, fewer customer orders, reduced margins, the inability to take advantage of new business opportunities, and the loss of market share.

We compete in highly competitive industries, and our OEM customers generally extend the competitive pressures they face throughout their respective supply chains. Additionally, our markets are facing increasing industry consolidation, resulting in larger competitors who have more market share to put more downward pressure on prices and offer a more robust portfolio of products and services. We are subject to competition based upon product design, performance, pricing, quality and services. Our product performance, embedded systems' engineering expertise, and product quality have been important factors in our growth. While we try to maintain competitive pricing on those products that are directly comparable to products manufactured by others, in many instances our products will conform to more exacting specifications and carry a higher price than analogous products. Many of our OEM customers and potential customers have the capacity to design and internally manufacture products that are similar to our products. We face competition from research and product development groups and the manufacturing operations of current and potential customers, who continually evaluate the benefits of internal research, product development, and manufacturing versus outsourcing. This competition could result in fewer customer orders and a loss of market share.

Our sales in the defense market could be adversely affected by the emergence of commodity-type products as acceptable substitutes for certain of our products and by uncertainty created by emerging changes in standards that may cause customers to delay purchases or seek alternative solutions.

Our computing products for the defense market are designed for operating under physical constraints such as limited space, weight, and electrical power. Furthermore, these products are often designed to be "rugged," that is, to withstand enhanced environmental stress such as extended temperature range, shock, vibration, and exposure to sand or salt spray. Historically these requirements have often precluded the use of less expensive, readily available commodity-type systems typically found in more benign non-military settings. Factors that may increase the acceptability of commodity-type products in some defense platforms that we serve include improvements in the physical properties and durability of such alternative products, combined with the relaxation

of physical and ruggedness requirements by the military due to either a reevaluation of those requirements or the installation of computing products in a more highly environmentally isolated setting. These developments could negatively impact our revenues and have a material adverse effect on our business and operating results.

If we fail to respond to commercial industry cycles in terms of our cost structure, manufacturing capacity and/or personnel need, our business could be seriously harmed.

The timing, length and severity of the up-and-down cycles in the telecommunications and other commercial industries are difficult to predict. This cyclical nature of the industries in which we operate affects our ability to accurately predict future revenue, and in some cases, future expense levels. In the current environment, our ability to accurately predict our future operating results is particularly low. During down cycles in our industry, the financial results of our customers may be negatively impacted, which could result not only in a decrease in orders but also a weakening of their financial condition that could impair our ability to recognize revenue or to collect on outstanding receivables. Furthermore, in the current credit environment, it may be more difficult for our customers to raise capital, whether debt or equity, to finance their purchases of capital equipment, including the products we sell. If our customers experience persistent difficulties in raising capital for equipment financing, we could experience a decrease in orders for our products. When cyclical fluctuations result in lower than expected revenue levels, operating results may be adversely affected and cost reduction measures may be necessary in order for us to remain competitive and financially sound. During periods of declining revenues, such as in the current environment, we must be in a position to adjust our cost and expense structure to reflect prevailing market conditions and to continue to motivate and retain our key employees. If we fail to respond, then our business could be seriously harmed. In addition, during periods of rapid growth, we must be able to increase manufacturing capacity and personnel to meet customer demand. We can provide no assurance that these objectives can be met in a timely manner in response to industry cycles. Each of these factors could adversely impact our operating results and financial condition.

Implementation of our growth strategy may not be successful, which could affect our ability to increase revenues.

Our growth strategy includes developing new products, adding new customers within our existing markets, and entering new markets, as well as identifying and integrating acquisitions. Our ability to compete in new markets will depend upon a number of factors including, among others:

- our ability to create demand for products in new markets;
- our ability to manage growth effectively;
- our ability to respond to changes in our customers' businesses by updating existing products and introducing, in a timely fashion, new products which meet the needs of our customers;
- our ability to develop a reputation as a best-of-breed technology provider;
- the quality of our new products;
- our ability to respond rapidly to technological change; and
- our ability to successfully integrate any acquisitions that we make.

The failure to do any of the foregoing could have a material adverse effect on our business, financial condition and results of operations. In addition, we 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.

Growing our business, in particular through providing services and products such as sophisticated application ready subsystems for major defense programs like JCREW I1B1, SEWIP and Aegis, could strain our

operational capacity and working capital demands if not properly anticipated and managed. Pursuing such growth could result in our operational and infrastructure resources being spread too thin, which could negatively impact our ability to deliver quality product on schedule and on budget. Providing quality services for systems level products is a key driver of our growth strategy and the failure to properly scale our capabilities to support our customers at a systems level could result lost opportunities and revenues.

Future acquisitions or divestitures may adversely affect our financial condition.

As part of our strategy for growth, we may continue to explore acquisitions, divestitures, or strategic alliances, which may not be completed or may not be ultimately beneficial to us.

Acquisitions or divestitures may pose risks to our operations, including:

- problems and increased costs in connection with the integration or divestiture of the personnel, operations, technologies, or products of the acquired or divested businesses;
- unanticipated costs;
- failure to achieve anticipated increases in revenues and profitability;
- diversion of management's attention from our core business;
- inability to make planned divestitures of businesses on favorable terms in a timely manner or at all;
- adverse effects on business relationships with 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;
- volatility associated with accounting for earn-outs in a given transaction;
- entering markets in which we have no, or limited, prior experience; and
- potential loss of key employees.

In addition, in connection with any acquisitions or investments we could:

- issue stock that would dilute our existing shareholders' ownership percentages;
- incur debt and assume liabilities;
- obtain financing on unfavorable terms, or not be able to obtain financing on any terms at all;
- incur amortization expenses related to acquired intangible assets or incur large and immediate write-offs;
- incur large expenditures related to office closures of the acquired companies, including costs relating to the termination of employees and facility and leasehold improvement charges resulting from our having to vacate the acquired companies' premises; and
- reduce the cash that would otherwise be available to fund operations or for other purposes.

The failure to successfully integrate any acquisitions or to make planned divestitures in an efficient or timely manner may negatively impact our financial condition and operating results, or we may not be able to fully realize anticipated savings.

We may be unable to obtain critical components from suppliers, which could disrupt or delay our ability to deliver products to our customers.

Several components used in our products are currently obtained from sole-source suppliers. We are dependent on key vendors like LSI Logic Corporation, Xilinx, Inc., and IBM Corporation for custom-designed

application-specific integrated circuits (“ASICs”) and field programmable gate arrays (“FPGAs”), Freescale Semiconductor, Inc. and IBM Corporation for PowerPC microprocessors, Intel Corporation for our next generation processors, IBM Corporation for a specific SRAM, Curtiss Wright Corporation and Motorola, Inc. for chassis and chassis components and Benchmark Electronics, Inc. for board assembly, test and integration. The semiconductor industry is experiencing a significant year over year increase in demand amid an uncertain macro economy which is limiting any investment in additional capacity. We believe this dynamic will result in increased lead-time for most classes of semiconductors and passive components and will continue to put pressure on component pricing where supply becomes constrained. Generally, suppliers may terminate their contracts with us without cause upon 30 days’ notice and may cease offering their products upon 180 days’ notice. If any of our sole-source suppliers limits or reduces the sale of these components, we may be unable to fulfill customer orders in a timely manner or at all. In addition, if these or other component suppliers, some of which are small companies, experienced financial difficulties or other problems that prevented them from supplying us with the necessary components, we could experience a loss of revenues due to our inability to fulfill orders. 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 us or to our customers, which would adversely affect our business and customer relationships. We have no guaranteed supply arrangements with our suppliers and there can be no assurance that these suppliers will continue to meet our requirements. If supply arrangements are interrupted, we may not be able to find another supplier on a timely or satisfactory basis. We may incur significant set-up costs and delays in manufacturing should it become necessary to replace any key vendors due to work stoppages, shipping delays, financial difficulties, natural or manmade disasters or other factors.

We may not be able to effectively manage our relationships with contract manufacturers.

We may not be able to effectively manage our relationship with contract manufacturers, and the contract manufacturers may not meet future requirements for timely delivery. We rely on contract manufacturers to build hardware sub-assemblies for our products in accordance with our specifications. During the normal course of business, we may provide demand forecasts to contract manufacturers up to five months prior to scheduled delivery of our products to customers. If we overestimate requirements, the contract manufacturers may assess cancellation penalties or we may be left with excess inventory, which may negatively impact our earnings. If we underestimate requirements, the contract manufacturers may have inadequate inventory, which could interrupt manufacturing of our products and result in delays in shipment to customers and revenue recognition. Contract manufacturers also build products for other companies, and they may not have sufficient quantities of inventory available or sufficient internal resources to fill our orders on a timely basis or at all.

In addition, there have been a number of major acquisitions within the contract manufacturing industry in recent periods. While there has been no significant impact on our contract manufacturers to date, future acquisitions could potentially have an adverse effect on our working relationships with contract manufacturers. Moreover, we currently rely primarily on one contract manufacturer. The failure of this contract manufacturer to fill our orders on a timely basis or in accordance with our customers’ specifications could result in a loss of revenues and damage to our reputation. We may not be able to replace this contract manufacturer in a timely manner or without significantly increasing our costs if such contract manufacturer were to experience financial difficulties or other problems that prevented it from fulfilling our order requirements.

We are exposed to risks associated with international operations and markets.

We market and sell products in international markets, and have established offices and subsidiaries in Europe and Japan. Revenues from international operations accounted for 4% of our total net revenues in fiscal 2012 and 2011, and 10% of our total net revenues in fiscal 2010. We also ship directly from our U.S. operations to international customers. There are inherent risks in transacting business internationally, including:

- 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;
- adverse economic conditions in foreign markets;
- political instability;
- fluctuations in currency exchange rates;
- expatriation controls; and
- potential adverse tax consequences.

There can be no assurance that one or more of these factors will not have a material adverse effect on our future international activities and, consequently, on our business and results of operations.

We may be exposed to unfavorable currency exchange rate fluctuations, which may lead to lower operating margins, or may cause us to raise prices which could result in reduced revenues.

Currency exchange rate fluctuations could have an adverse effect on our net revenues and results of operations. Unfavorable currency fluctuations could require us to increase prices to foreign customers, which could result in lower net revenues from such customers. Alternatively, if we do not adjust the prices for our products in response to unfavorable currency fluctuations, our results of operations could be adversely affected. In addition, most sales made by our foreign subsidiaries are denominated in the currency of the country in which these products are sold, and the currency they receive in payment for such sales could be less valuable at the time of receipt as a result of exchange rate fluctuations. We do not currently hedge our foreign currency exchange rate exposure.

If we are unable to respond to technological developments and changing customer needs on a timely and cost-effective basis, our results of operations may be adversely affected.

Our future success will depend in part on our ability to enhance 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. Defense customers, in particular, demand frequent technological improvements as a means of gaining military advantage. Military planners have historically 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, we must demonstrate the ability to deliver superior technological performance on a timely and cost-effective basis. There can be no assurance that we will secure an adequate number of defense design wins in the future, that the equipment in which our products are intended to function will eventually be deployed in the field, or that our products will be included in such equipment if it eventually is deployed.

Customers in our commercial markets, including the semiconductor 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 cycles. We may not be selected to participate in the future design of any semiconductor equipment, or if selected, we may not generate any revenues for such design work.

The design-in process is typically lengthy and expensive, and there can be no assurance that we will be able to continue to meet the product specifications of OEM customers in a timely and adequate manner. In addition,

any failure to anticipate or respond adequately to changes in technology, customer preferences and future order demands, or any significant delay in product developments, product introductions or order volume, could negatively impact our financial condition and results of operations, including the risk of inventory obsolescence. Because of the complexity of our products, we have experienced delays from time to time in completing products on a timely basis. If we are unable to design, develop or introduce competitive new products on a timely basis, our future operating results may be adversely affected.

Our products are complex, and undetected defects may increase our costs, harm our reputation with customers or lead to costly litigation.

Our products are extremely complex and must operate successfully with complex products of other vendors. Our products may contain undetected errors when first introduced or as we introduce product upgrades. The pressures we face to be the first to market new products or functionality increases the possibility that we will offer products in which we or our customers later discover problems. We have experienced new product and product upgrade errors in the past and expect similar problems in the future. These problems may cause us to incur significant costs to support our service contracts and other costs and divert the attention of personnel from our product development efforts. Undetected errors may adversely affect our product's ease of use and may create customer satisfaction issues. If we are unable to repair these problems in a timely manner, we may experience a loss of or delay in revenue and significant damage to our reputation and business prospects. Many of our customers rely upon our products for mission-critical applications. Because of this reliance, errors, defects or other performance problems in our products could result in significant financial and other damage to our customers. Our customers could attempt to recover those losses by pursuing products liability claims against us which, even if unsuccessful, would likely be time-consuming and costly to defend and could adversely affect our reputation.

We may be unsuccessful in protecting our intellectual property rights which could result in the loss of a competitive advantage.

Our ability to compete effectively against other companies in our industry depends, in part, on our ability to protect our current and future proprietary technology under patent, copyright, trademark, trade secret and unfair competition laws. We cannot assure that our means of protecting our proprietary rights in the United States or abroad will be adequate, or that others will not develop technologies similar or superior to our technology or design around our proprietary rights. In addition, we may incur substantial costs in attempting to protect our proprietary rights.

Also, despite the steps taken by us to protect our proprietary rights, it may be possible for unauthorized third parties to copy or reverse-engineer aspects of our products, develop similar technology independently or otherwise obtain and use information that we regard as proprietary and we may be unable to successfully identify or prosecute unauthorized uses of our technology. Furthermore, with respect to our issued patents and patent applications, we cannot assure you that any patents from any pending patent applications (or from any future patent applications) will be issued, that the scope of any patent protection will exclude competitors or provide competitive advantages to us, that any of our patents will be held valid if subsequently challenged or that others will not claim rights in or ownership of the patents (and patent applications) and other proprietary rights held by us.

If we become subject to intellectual property infringement claims, we could incur significant expenses and could be prevented from selling specific products.

We may become subject to claims that we infringe the intellectual property rights of others in the future. We cannot assure that, if made, these claims will not be successful. Any claim of infringement could cause us to incur substantial costs defending against the claim even if the claim is invalid, and could distract management from other business. Any judgment against us could require substantial payment in damages and could also include an injunction or other court order that could prevent us from offering certain products.

Our need for continued investment in research and development may increase expenses and reduce our profitability.

Our industry is characterized by the need for continued investment in research and development. If we fail to invest sufficiently in research and development, our products could become less attractive to potential customers and our business and financial condition could be materially and adversely affected. As a result of the need to maintain or increase spending levels in this area and the difficulty in reducing costs associated with research and development, our operating results could be materially harmed if our research and development efforts fail to result in new products or if revenues fall below expectations. In addition, as a result of our commitment to invest in research and development, spending levels of research and development expenses as a percentage of revenues may fluctuate in the future.

Our results of operations are subject to fluctuation from period to period and may not be an accurate indication of future performance.

We have experienced fluctuations in operating results in large part due to the sale of computer systems in relatively large dollar amounts to a relatively small number of customers. Customers specify delivery date requirements that coincide with their need for our products. Because these customers may use our products in connection with a variety of defense programs or other projects with different sizes and durations, a customer's orders for one quarter generally do not indicate a trend for future orders by that customer. As such, we have not been able in the past to consistently predict when our customers will place orders and request shipments so that we cannot always accurately plan our manufacturing requirements. As a result, if orders and shipments differ from what we predict, we may incur additional expenses and build excess inventory, which may require additional reserves and allowances. Any significant change in our customers' purchasing patterns could have a material adverse effect on our operating results and reported earnings per share for a particular quarter. Thus, results of operations in any period should not be considered indicative of the results to be expected for any future period.

Our quarterly results may be subject to fluctuations resulting from a number of other factors, including:

- delays in completion of internal product development projects;
- delays in shipping computer systems and software programs;
- delays in acceptance testing by customers;
- a change in the mix of products sold to our served markets;
- production delays due to quality problems with outsourced components;
- inability to scale quick reaction capability products due to low product volume;
- shortages and costs of components;
- the timing of product line transitions;
- declines in quarterly revenues from previous generations of products following announcement of replacement products containing more advanced technology;
- potential impairment or restructuring charges; and
- changes in estimates of completion on fixed price service engagements.

In addition, from time to time, we have entered into contracts, referred to as development contracts, to engineer a specific solution based on modifications to standard products. Gross margins from development contract revenues are typically lower than gross margins from standard product revenues. We intend to continue to enter into development contracts and anticipate that the gross margins associated with development contract revenues will continue to be lower than gross margins from standard product sales.

Another factor contributing to fluctuations in our quarterly results is the fixed nature of expenditures on personnel, facilities and marketing programs. Expense levels for these programs are based, in significant part, on expectations of future revenues. If actual quarterly revenues are below management's expectations, our results of operations will likely be adversely affected.

Further, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us 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, and changes in estimates in subsequent periods could cause our results of operations to fluctuate.

Changes in regulations could materially adversely affect us.

Our business, results of operations, or financial condition could be materially adversely affected if laws, regulations, or standards relating to us or our products are newly implemented or changed. In addition, our compliance with existing regulations may have a material adverse impact on us. Under applicable federal securities laws, we are required to evaluate and determine the effectiveness of our internal control structure and procedures for financial reporting. Should we or our independent registered public accounting firm determine that we have material weaknesses in our internal controls, our results of operations or financial condition may be materially adversely affected or our stock price may decline.

Changes in generally accepted accounting principles may adversely affect us.

From time to time, the Financial Accounting Standards Board, or FASB, promulgates new accounting principles that could have a material adverse impact on our results of operations or financial condition.

We rely on the significant experience and specialized expertise of our senior management and engineering staff and must retain and attract qualified engineers and other highly skilled personnel in order to grow our business successfully.

Our performance is substantially dependent on the continued services and performance of our senior management and our highly qualified team of engineers, many of whom have numerous years of experience, specialized expertise in our business, and security clearances required for certain defense projects. If we are not successful in hiring and retaining highly qualified engineers, we may not be able to extend or maintain our engineering expertise, and our future product development efforts could be adversely affected. Competition for hiring these employees is intense, especially with regard to engineers with specialized skills and security clearances required for our business, and we may be unable to hire and retain enough engineers to implement our growth strategy.

Our future success also depends on our ability to identify, attract, hire, train, retain and motivate highly skilled managerial, operations, sales, marketing and customer service personnel. If we fail to attract, integrate and retain the necessary personnel, our ability to maintain and grow our business could suffer significantly. Further, stock price volatility and improvements in the economy could impact our ability to retain key personnel.

If we experience a disaster or other business continuity problem, we may not be able to recover successfully, which could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.

If we experience a local or regional disaster or other business continuity problem, such as an earthquake, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. As we attempt to grow our operations, the potential for particular types of natural or man-made disasters, political, economic or infrastructure instabilities, or other country- or region-specific business continuity risks increases.

If we are unable to continue to obtain U.S. federal government authorization regarding the export of our products, or if current or future export laws limit or otherwise restrict our business, we could be prohibited from shipping our products to certain countries, which would harm our ability to generate revenue.

We must comply with U.S. laws regulating the export of our products and technology. In addition, we are required to obtain a license from the U.S. federal government to export certain of our products and technical data as well as to provide technical services to foreign persons related to such products and technical data. We cannot be sure of our ability to obtain any licenses required to export our products or to receive authorization from the U.S. federal government for international sales or domestic sales to foreign persons including transfers of technical data or the provision of technical services. Moreover, the export regimes and the governing policies applicable to our business are subject to change. We cannot assure you of the extent that such export authorizations will be available to us, if at all, in the future. If we cannot obtain required government approvals under applicable regulations in a timely manner or at all, we would be delayed or prevented from selling our products in international jurisdictions, which could adversely affect our business and financial results.

In addition, we must comply with the Foreign Corrupt Practices Act, or the FCPA. The FCPA generally prohibits U.S. companies and their intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment, and requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the company. Under the FCPA, U.S. companies may be held liable for actions taken by strategic or local partners or representatives. If we or our intermediaries fail to comply with the requirements of the FCPA, governmental authorities in the United States could seek to impose civil and criminal penalties, which could have a material adverse effect on our business, results of operations, financial conditions and cash flows.

If we suffer any data breaches involving the designs, schematics or source code for our products or other sensitive information, our business and financial results could be adversely affected.

We securely store our designs, schematics and source code for our products as they are created. A breach, whether physical, electronic or otherwise, of the systems on which this sensitive data is stored could lead to damage or piracy of our products. If we are subject to data security breaches, we may have a loss in sales or increased costs arising from the restoration or implementation of additional security measures, either of which could adversely affect our business and financial results. In addition, a security breach that involved classified information could subject us to civil or criminal penalties, loss of a government contract, loss of access to classified information, or debarment as a government contractor.

Our income tax provision and other tax liabilities may be insufficient if taxing authorities are successful in asserting tax positions that are contrary to our position. Increases in tax rates could impact our financial performance.

From time to time, we are audited by various federal, state and local authorities regarding income tax matters. Significant judgment is required to determine our provision for income taxes and our liabilities for federal, state, local and other taxes. Although we believe our approach to determining the appropriate tax treatment is supportable and in accordance with relevant authoritative guidance it is possible that the final tax authority will take a tax position that is materially different than that which is reflected in our income tax provision. Such differences could have an adverse effect on our income tax provision or benefit, in the reporting period in which such determination is made and, consequently, on our results of operations, financial position and/or cash flows for such period. Further, future increases in tax rates may adversely affect our financial results.

Provisions in our organizational documents and Massachusetts law and other actions we have taken could make it more difficult for a third party to acquire us.

Provisions of our charter and by-laws could have the effect of discouraging a third party from making a proposal to acquire our company and could prevent certain changes in control, even if some shareholders might consider the proposal to be in their best interest. These provisions include a classified board of directors, advance notice to our board of directors of shareholder proposals and director nominations, and limitations on the ability of shareholders to remove directors and to call shareholder meetings. In addition, we may issue shares of any class or series of preferred stock in the future without shareholder approval upon such terms as our board of directors may determine. The rights of holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any such class or series of preferred stock that may be issued.

We also are subject to the Massachusetts General Laws which, subject to certain exceptions, prohibit a Massachusetts corporation from engaging in a broad range of business combinations with any "interested shareholder" for a period of three years following the date that such shareholder becomes an interested shareholder. These provisions could discourage a third party from pursuing an acquisition of our company at a price considered attractive by many shareholders.

We have adopted a Shareholder Rights Plan that could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, our company or a large block of our common stock. A third party that acquires 15% or more of our common stock (an "acquiring person") could suffer substantial dilution of its ownership interest under the terms of the Shareholder Rights Plan through the issuance of common stock or common stock equivalents to all shareholders other than the acquiring person.

Our profits may decrease and/or we may incur significant unanticipated costs if we do not accurately estimate the costs of fixed-price engagements.

A significant number of our system integration projects are based on fixed-price contracts, rather than contracts in which payment to us is determined on a time and materials or other basis. Our failure to estimate accurately the resources and schedule required for a project, or our failure to complete our contractual obligations in a manner consistent with the project plan upon which our fixed-price contract was based, could adversely affect our overall profitability and could have a material adverse effect on our business, financial condition and results of operations. We are consistently entering into contracts for large projects that magnify this risk. We have been required to commit unanticipated additional resources to complete projects in the past, which has occasionally resulted in losses on those contracts. We will likely experience similar situations in the future. In addition, we may fix the price for some projects at an early stage of the project engagement, which could result in a fixed price that is too low. Therefore, any changes from our original estimates could adversely affect our business, financial condition and results of operations.

The trading price of our common stock may continue to be volatile, which may adversely affect our business, and investors in our common stock may experience substantial losses.

Our stock price, like that of other technology companies, has been volatile. The stock market in general and technology companies in particular may continue to experience volatility. This volatility may or may not be related to our operating performance. Our 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 market price of our common stock. Our low stock trading volume and microcap status could hamper existing and new shareholders from gaining a meaningful position in our stock. In addition, the limited availability of credit in the financial markets and the continued threat of terrorism in the United States and abroad and the resulting military action and heightened security measures undertaken in response to threats may cause continued volatility in securities markets. When the market price of a stock has been volatile, holders of that stock will sometimes issue securities class action litigation against the company that issued the stock. If any shareholders were to issue a lawsuit, we could incur substantial costs defending the lawsuit. Also, the lawsuit could divert the time and attention of management.

We have never paid dividends on our capital stock and we do not anticipate paying any dividends in the foreseeable future. Consequently, any gains from an investment in our common stock will likely depend on whether the price of our common stock increases.

We have not declared or paid cash dividends on any of our classes of capital stock to date and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future. Furthermore, we may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends. Consequently, in the foreseeable future, you will likely only experience a gain from your investment in our common stock if the price of our common stock increases. There is no guarantee that our common stock will appreciate in value or even maintain the price at which you purchased your shares, and you may not realize a return on your investment in our common stock.

If our internal controls over financial reporting are not considered effective, our business and stock price could be adversely affected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate the effectiveness of our internal controls over financial reporting as of the end of each fiscal year, and to include a management report assessing the effectiveness of our internal controls over financial reporting in our annual report on Form 10-K for that fiscal year. Section 404 also requires our independent registered public accounting firm to attest to, and report on, management's assessment of our internal controls over financial reporting.

Our management, including our chief executive officer and principal financial officer, does not expect that our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud involving a company have been, or will be, detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become ineffective because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We cannot assure you that we or our independent registered public accounting firm will not identify a material weakness in our internal controls in the future. A material weakness in our internal controls over financial reporting would require management and our independent registered public accounting firm to consider our internal controls as ineffective. If our internal controls over financial reporting are not considered effective, we may experience a loss of public confidence, which could have an adverse effect on our business and on the market price of our common stock.

If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock relies in part on the research and reports that equity research analysts publish about us and our business. We do not control these analysts. The price of our common stock could decline if one or more equity analysts downgrade our common stock or if analysts issue other unfavorable commentary or cease publishing reports about us or our business.

We may need additional capital and may not be able to raise funds on acceptable terms, if at all. In addition, any funding through the sale of additional common stock or other equity securities could result in additional dilution to our stockholders and any funding through indebtedness could restrict our operations.

We may require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary principally depending on the timing of new product and service launches, investments and/or acquisitions, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities or securities convertible into our ordinary shares could result in additional dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of embedded computing systems and software providers;
- conditions of the United States and other capital markets in which we may seek to raise funds; and
- our future results of operations, financial condition and cash flows.

We cannot assure that financing will be available in amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell debt or additional equity securities or to reduce our growth to a level that can be supported by our cash flow. Without additional capital, we may not be able to:

- further develop or enhance our customer base;
- acquire necessary technologies, products or businesses;
- expand operations in the United States and elsewhere;
- hire, train and retain employees;
- market our software solutions, services and products; or
- respond to competitive pressures or unanticipated capital requirements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth our significant properties as of June 30, 2012:

Location	Segment(s) served	Size in Sq. Feet	Commitment
Chelmsford, MA	All (Corporate HQ)	185,327	Leased, expiring 2017 2 buildings
Cypress, CA	ACS Business Unit	42,770	Leased, expiring 2014
Huntsville, AL	ACS Business Unit	25,137	Leased, expiring 2014
Aurora, CO	MFS Business Unit	16,775	Leased, expiring 2017
Salem, NH	ACS Business Unit	16,290	Leased, expiring 2013
Reston, VA	ACS Business Unit	5,375	Leased, expiring 2017
Crystal City, VA	MFS Business Unit	3,931	Leased, expiring 2013
Silchester, Reading, United Kingdom	ACS Business Unit	3,453	Leased, expiring 2015
Rome, NY	ACS Business Unit	3,000	Leased, expiring 2013
Tokyo, Japan	ACS Business Unit	2,401	Leased, expiring 2012

In addition, we lease a number of smaller offices around the world primarily for sales. For financial information regarding obligations under our leases, see Note L to the consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

The U.S. Department of Justice ("DOJ") is conducting an investigation into the conduct of certain former employees of PDI in the 2008-2009 time frame and has asserted that such conduct may have constituted a violation of the Procurement Integrity Act and that civil penalties would apply to any such violations. PDI and its parent company, KOR, have been cooperating in the investigation. While the parties have engaged in discussions and correspondence regarding this matter, no resolution has been reached and no litigation has commenced. We are entitled to indemnity with respect to this matter pursuant to the terms of the Merger Agreement, and based on this indemnity and the associated escrow arrangements, the matter is not expected to have a material impact on our cash flows, results of operations, or financial condition.

In addition to the foregoing, we are subject to litigation, claims, investigations and audits arising from time to time in the ordinary course of our business. Although legal proceedings are inherently unpredictable, we believe that we have valid defenses with respect to those matters currently pending against us and intend to defend our self vigorously. The outcome of these matters, individually and in the aggregate, is not expected to have a material impact on our cash flows, results of operations, or financial position.

ITEM 4. (REMOVED AND RESERVED)

ITEM 4.1. EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are appointed to office by the Board of Directors at the first board meeting following the Annual Meeting of Shareholders or at other board meetings as appropriate, and hold office until the first board meeting following the next Annual Meeting of Shareholders and until a successor is chosen, subject to prior death, resignation or removal. Information regarding our executive officers as of the date of filing of this Annual Report on Form 10-K is presented below.

Mark Aslett, age 44, joined Mercury in 2007 and has served as the President and Chief Executive Officer since that date, and served as a member of the Board since 2007. Prior to joining Mercury, he was Chief Operating Officer and Chief Executive Officer of Enterasys Networks from 2003 to 2006, and held various positions with Marconi plc and its affiliated companies, including Executive Vice President of Marketing, Vice President of Portfolio Management, and President of Marconi Communications—North America, from 1998 to 2002. Mr. Aslett has also held positions at GEC Plessey Telecommunications, as well as other telecommunications-related technology firms.

Kevin M. Bisson, age 51, joined Mercury in January 2012 as Senior Vice President, Chief Financial Officer and Treasurer. Prior to joining Mercury, Mr. Bisson had been Chief Financial Officer, Treasurer, Secretary, and Senior Vice President, Finance and Administration, at SeaChange International, Inc., a publicly-traded global multi-screen video software company. Mr. Bisson worked at SeaChange from March 2006 until January 2012. Prior to joining SeaChange, Mr. Bisson served from May 2003 until March 2006 as the Senior Vice President and Chief Financial Officer of American Superconductor Corporation, a publicly-traded energy technologies company. Mr. Bisson served from 2000 to 2003 as Vice President, Controller, and Treasurer for Axcelis Technologies, Inc., a publicly-traded semiconductor equipment manufacturing company. Prior to joining Axcelis Technologies, Mr. Bisson served for ten years in a number of financial capacities with United Technologies Corporation. Mr. Bisson is a CPA licensed in Massachusetts.

Gerald M. Haines II, age 49, joined Mercury in July 2010 as Senior Vice President, Corporate Development, Chief Legal Officer, and Secretary. Prior to joining Mercury, from January 2008 to June 2010, Mr. Haines was Executive Vice President, Chief Legal Officer and Secretary at Verenium Corporation, a publicly traded company engaged in the development and commercialization of cellulosic biofuels and high performance specialty enzymes. From September 2006 to December 2007, he was an advisor to early-stage companies on legal and business matters. From May 2001 to August 2006, Mr. Haines served as Executive Vice

President of Strategic Affairs, Chief Legal Officer and Secretary of Enterasys Networks, Inc., a public network communications company that was taken private in March 2006 following a successful business restructuring and turnaround. Prior to Enterasys Networks, Mr. Haines served as Senior Vice President and General Counsel of Cabletron Systems, Inc., the predecessor of Enterasys Networks. Before Cabletron, he was Vice President and General Counsel of the largest manufacturer of oriented polypropylene packaging and labeling films in North America, and prior to that was in private practice as a corporate attorney in a large Boston law firm. Mr. Haines is admitted to practice in Massachusetts, Maine, and the Federal District of Massachusetts.

Charles A. Speicher, age 53, joined Mercury in September 2010 as Vice President, Controller, and Chief Accounting Officer. Prior to joining Mercury, Mr. Speicher held various positions at Virtusa Corporation, a publicly-traded global IT services company, including Vice President of Global Accounting Operations and Corporate Controller from 2001 to 2009. Mr. Speicher was Corporate Controller at Cerulean Technologies Inc., a private software product company, from 1996 to 2000 prior to its sale to Aether Systems Inc. where he served as Division Controller of Aether Mobile Government from 2000 to 2001. Prior to Cerulean Technology, Mr. Speicher held positions with Wyman-Gordon Company, Wang Laboratories and Arthur Andersen & Company, LLP. Mr. Speicher is a CPA licensed in Massachusetts.

Didier M.C. Thibaud, age 51, joined Mercury in 1995, and has served as President, Advanced Computing Solutions since July 2007. Prior to that, he was Senior Vice President, Defense & Commercial Businesses from 2005 to June 2007 and Vice President and General Manager, Imaging and Visualization Solutions Group, from 2000 to 2005 and served in various capacities in sales and marketing from 1995 to 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

	High	Low
2012 Fourth quarter	$13.92	$11.61
Third quarter	$14.98	$13.01
Second quarter	$15.69	$11.35
First quarter	$19.27	$11.49
2011 Fourth quarter	$21.76	$17.42
Third quarter	$21.16	$17.84
Second quarter	$20.00	$12.37
First quarter	$13.31	$10.72

As of July 26, 2012, we had approximately 5,055 shareholders including record and nominee holders.

Dividend Policy

We have never declared or paid cash dividends on shares of our common stock. We currently intend to retain any earnings for future growth. Accordingly, we do not anticipate that any cash dividends will be declared or paid on our common stock in the foreseeable future.

Net Share Settlement Plans

During fiscal 2012, we had no active net share settlement plans.

Share Repurchase Plans

During fiscal 2012, we had no active share repurchase programs.

ITEM 6. SELECTED FINANCIAL DATA

The following table summarizes certain historical consolidated financial data, restated for discontinued operations, which should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report (in thousands, except per share data):

	For the Years Ended June 30,				
	2012	2011	2010	2009	2008
Statement of Operations Data:					
Net revenues	$244,929	$228,710	$199,830	$188,939	$190,208
Income (loss) from operations	$ 30,112	$ 24,985	$ 17,313	$ 7,747	$ (5,391)
Income (loss) from continuing operations	$ 22,619	$ 18,507	$ 28,069	$ 7,909	$ (4,437)
Adjusted EBITDA(1)	$ 48,874	$ 40,883	$ 29,856	$ 22,858	$ 22,525
Net earnings (loss) per share from continuing operations:					
Basic	$ 0.77	$ 0.73	$ 1.25	$ 0.36	$ (0.21)
Diluted	$ 0.75	$ 0.71	$ 1.22	$ 0.35	$ (0.21)

	As of June 30,				
	2012	2011	2010	2009	2008
Balance Sheet Data:					
Working capital	$ 170,761	$ 203,978	$ 111,249	$ 80,716	$ 6,085
Total assets	$ 385,606	$ 355,562	$ 224,338	$ 219,372	$ 338,550
Long-term obligations	$ 15,560	$ 17,920	$ 10,621	$ 8,946	$ 12,280
Total shareholders' equity	$ 333,104	$ 301,436	$ 179,112	$ 145,037	$ 146,512

(1) In our periodic communications, we discuss a key measure that is not calculated according to U.S. generally accepted accounting principles ("GAAP"), adjusted EBITDA. Adjusted EBITDA is defined as earnings from continuing operations before interest income and expense, income taxes, depreciation, amortization of acquired intangible assets, restructuring, impairment of long-lived assets, acquisition costs and other related expenses, fair value adjustments from purchase accounting and stock-based compensation costs. We use adjusted EBITDA as an important indicator of the operating performance of our business. We use adjusted EBITDA in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our board of directors, determining a component of bonus compensation for executive officers and other key employees based on operating performance and evaluating short-term and long-term operating trends in our operations. We believe the adjusted EBITDA financial measure assists in providing a more complete understanding of our underlying operational measures to manage our business, to evaluate our performance compared to prior periods and the marketplace, and to establish operational goals. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making.

Adjusted EBITDA is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenses similar to the adjusted EBITDA financial adjustments described above, and investors should not infer from our presentation of this non-GAAP financial measure that these costs are unusual, infrequent or non-recurring. See the Non-GAAP Financial Measures section of this annual report for a reconciliation of our adjusted EBITDA to income from continuing operations.

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

FORWARD-LOOKING STATEMENTS

From time to time, information provided, statements made by our employees or information included in our filings with the Securities and Exchange Commission may contain statements that are not historical facts but that are "forward-looking statements," which involve risks and uncertainties. The words "may," "will," "would," "should," "could," "plan," "expect," "believe," "anticipate," "continue," "estimate," "project," "intend," "likely," "forecast," "probable," and similar expressions are intended to identify forward-looking statements regarding events, conditions and financials trends that may affect our future plans of operations, business strategy, results of operations and financial position. These forward-looking statements, which include those related to our strategic plans, business outlook, and future business and financial performance, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, continued funding of defense programs and the timing of such funding, including the potential for a continuing resolution for the defense budget, the potential for defense budget sequestration, and the budget uncertainty related to the Presidential election, general economic and business conditions, including unforeseen economic weakness in our markets, effects of continued geo-political unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in

completing various engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, changes in the U.S. Government's interpretation of federal procurement rules and regulations, market acceptance of our products, shortages in components, production delays due to performance quality issues with outsourced components, inability to fully realize the expected benefits from acquisitions or divestitures or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, changes to export regulations, increases in tax rates, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, unanticipated costs under fixed-price service and system integration engagements, and various other factors beyond our control. These risks and uncertainties also include such additional risk factors as set forth under Part I-Item 1A (Risk Factors) in this Annual Report on Form 10-K. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

OVERVIEW

We design, manufacture and market commercially-developed, high-performance embedded, real-time digital signal and image processing sub-systems and software for specialized defense and commercial markets. Our solutions play a critical role in a wide range of applications, processing and transforming sensor data to information for storage, analysis and interpretation. Our goal is to grow and build on our position as a critical component of the defense and intelligence industrial base and be the leading provider of open and affordable sensor processing subsystems for intelligence, surveillance and reconnaissance ("ISR"), electronic warfare ("EW"), and missile defense applications. In military reconnaissance and surveillance platforms, our sub-systems receive, process, and store real-time radar, video, sonar and signals intelligence data. We provide radio frequency ("RF") and microwave products for enhanced signal acquisition and communications in military and commercial applications. Additionally, Mercury Federal Systems, our wholly owned subsidiary, focuses on direct and indirect contracts supporting the defense, intelligence, and homeland security agencies. We have growing capabilities in the area of "Big Data" processing, analytics and analysis in support of both the U.S. Department of Defense ("DoD") and to the intelligence community as they enhance their ability to acquire, process and exploit large amounts of data for both real-time analytics and "forensic" analysis.

Our products and solutions address mission-critical requirements within the defense industry for C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance) and electronic warfare, systems and services, and target several markets including maritime defense, airborne reconnaissance, ballistic missile defense, ground mobile and force protection systems and tactical communications and network systems. Our products or solutions have been deployed in more than 300 different programs with over 25 different prime defense contractors. We deliver commercially developed technology and solutions that are based on open system architectures and widely adopted industry standards, and support all of this with services and support capabilities.

Our revenue, income from continuing operations and adjusted EBITDA for fiscal 2012 were $244.9 million, $22.6 million and $48.9 million, respectively. See the Non-GAAP Financial Measures section this annual report for a reconciliation of our adjusted EBITDA to income from continuing operations.

Our operations are presently organized in the following two business segments:

Advanced Computing Solutions, or ACS. This business segment is focused on specialized, high-performance embedded, real-time digital signal and image processing solutions that encompass signal acquisition, including microwave front-end, digitization, digital signal processing, exploitation processing, high capacity digital storage and communications, targeted to key market segments, including defense, communications and other commercial applications. ACS's open system architecture solutions span the full range of embedded technologies from board level products to fully integrated sub-systems. Our products utilize leading-edge processor and other technologies

architected to address highly data-intensive applications that include signal, sensor and image processing within environmentally challenging and size, weight and power constrained military and commercial applications. In addition, ACS has a portfolio of RF and microwave sub-assemblies to address needs in EW, signal intelligence ("SIGINT"), electronic intelligence ("ELINT"), and high bandwidth communications subsystems.

These products are highly optimized for size, weight and power, as well as for the performance and ruggedization requirements of our customers. Customized design and sub-systems integration services extend our capabilities to tailor solutions to meet the specialized requirements of our customers. We continue to innovate our technologies around challenging requirements and have technologies available today and planned for the future to address them as they evolve and become increasingly demanding.

With the addition of KOR Electronics ("KOR") in December 2011, we added a focus on the exploitation of RF signals. Leveraging our analog-to-digital and digital-to-analog technologies and expertise, KOR delivers innovative high end solutions and services to the defense communities:

- DRFM (Digital Radio Frequency Memory) products which offer state of the art performance at low cost, for EW applications; and
- radar and EW environment test and simulator products that are DRFM based and use modular and scalable building blocks including commercial-off-the-shelf hardware.

In fiscal 2012, ACS accounted for 88% of our total net revenues.

Mercury Federal Systems, or MFS. This business segment is focused on services and support work with the DoD and federal intelligence and homeland security agencies, including designing, engineering, and deploying new ISR capabilities to address present and emerging threats to U.S. forces. With the addition of Paragon Dynamics, Inc. ("PDI"), our MFS segment also provides sophisticated analysis and exploitation, multi-sensor data fusion and enrichment, and data processing services for the U.S. intelligence community. MFS is part of our long-term strategy to expand our software and services presence and pursue growth within the intelligence community. MFS offers a wide range of engineering architecture and design services that enable clients to deploy leading edge computing capabilities for ISR applications on an accelerated time cycle. This business segment enables us to combine classified intellectual property with the commercially developed application-ready sub-systems being developed by ACS, providing customers with platform-ready, affordable ISR sub-systems. In fiscal 2012, MFS accounted for 12% of our total net revenues, which include six months of PDI revenues of $7.9 million.

Since we are an OEM supplier to our commercial markets and conduct business with our defense customers via commercial items, requests by customers are a primary driver of revenue fluctuations from quarter to quarter. Customers specify delivery date requirements that coincide with their need for our products. Because these customers may use our products in connection with a variety of defense programs or other projects of different sizes and durations, a customer's orders for one quarter generally do not indicate a trend for future orders by that customer. Additionally, order patterns do not necessarily correlate amongst customers and, therefore, we generally cannot identify sequential quarterly trends, even within our business units.

BUSINESS DEVELOPMENTS:

On June 8, 2012, we and Wildcat Merger Sub Inc., our newly formed, wholly-owned subsidiary (the "Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Micronetics, Inc. ("Micronetics"). On August 8, 2012, the transaction closed with the Merger Sub merging with and into Micronetics with Micronetics continuing as the surviving company and our wholly-owned subsidiary.

Headquartered in Hudson, NH, Micronetics is a leading designer and manufacturer of microwave and radio frequency (RF) subsystems and components for defense and commercial customers.

Pursuant to the terms of the Merger Agreement, at the closing of the merger on August 8, 2012, each share of common stock of Micronetics issued and outstanding immediately prior to the closing was converted into the right to receive $14.80 in cash, without interest (the "Merger Consideration"). All outstanding options to acquire shares of Micronetics common stock that were vested as of the closing were cancelled and the holders of such options are entitled to receive an amount of cash equal to the product of the total number of shares previously subject to such vested options and the excess of the Merger Consideration over the exercise price per share. All outstanding Micronetics stock options that were unvested at the closing were assumed by us. We funded the acquisition with cash on hand.

FISCAL 2012

On December 30, 2011, we acquired both KOR and its wholly-owned subsidiary, PDI. Based in Cypress, California, KOR designs and develops DRFM units for a variety of modern EW applications, as well as radar environment simulation and test systems for defense applications. Based in Aurora, Colorado, PDI provides sophisticated analytic exploitation services and customized multi-intelligence data fusion solutions for the U.S. intelligence community. For segment reporting, KOR is included in the ACS operating segment and PDI is included in the MFS operating segment.

The amounts of revenue, income from continuing operations and adjusted EBITDA of KOR and PDI included in our consolidated statements of operations for fiscal 2012 was $19.8 million, $2.7 million, and $3.8 million, respectively.

In fiscal 2012, we concluded the financial targets which underlie the $5.0 million earn-out related to the LNX acquisition would not be achieved. During the fourth quarter of fiscal 2012, we did not receive a purchase order for long lead-time materials. This timing issue, in itself, triggered a reversal of the earn-out (see Note C to the consolidated financial statements). This reversal of the earn-out was recorded as an offset to operating expenses.

In fiscal 2012, we announced a restructuring plan ("2012 Plan") affecting both the ACS and MFS business segments. The 2012 Plan primarily consisted of involuntary separation costs related to the reduction in force which eliminated 41 positions largely in engineering and manufacturing functions; and facility costs related to outsourcing of certain manufacturing activities at our Huntsville, Alabama site. The 2012 Plan for which expense of $2.8 million was recorded in fiscal 2012 was implemented to cope with the near term uncertainties in the defense industry and improve our overall business scalability. Future restructuring expenses of approximately $0.7 million associated with the 2012 Plan are expected in fiscal 2013 as we start transitioning the manufacturing activities formerly conducted at the Huntsville, Alabama facility to our contract manufacturing partner. We expect to realize approximately $5.3 million in annual savings from these activities.

FISCAL 2011

On January 12, 2011, we acquired the outstanding equity interests in LNX Corporation. The cash purchase price for the acquisition was approximately $31.0 million, subject to post-closing adjustments. We funded the purchase price with cash on hand and assumed no debt. In addition to the $31.0 million cash purchase price, we also committed to pay up to $5.0 million upon the achievement of financial targets in calendar years 2011 and 2012. During the fourth quarter of fiscal 2012, we concluded the financial targets which underlie the $5.0 million payment of contingent consideration relating to the acquisition of LNX would not be met.

On February 16, 2011, we completed a follow-on public stock offering of 5,577,500 shares of common stock, which were sold at a price to the public of $17.75. The follow-on public stock offering resulted in $93.6 million of net proceeds to us. The underwriting discount of $5.0 million and other expenses of $0.4 million related to the follow-on public stock offering were recorded as an offset to additional paid-in-capital (see Note M to the consolidated financial statements).

FISCAL 2010

On June 28, 2010, we repaid the remaining $11.3 million principal balance on our line of credit with UBS. As of June 30, 2010, there were no borrowings against this line of credit.

On July 1, 2009, we had $50.1 million par value of auction rate securities ("ARS"). During fiscal 2010, UBS called $32.1 million of our ARS at par, reducing our balance on June 30, 2010 to $18.0 million. On June 30, 2010, we exercised our right to sell the remaining $18.0 million ARS balance to UBS at par value. The transaction settled on July 1, 2010 when we received $18.0 million in cash.

RESULTS OF OPERATIONS:

FISCAL 2012 VS. FISCAL 2011

The following tables set forth, for the periods indicated, financial data from the consolidated statement of operations:

(In thousands)	Fiscal 2012	As a % of Total Net Revenue	Fiscal 2011	As a % of Total Net Revenue
Net revenues	$244,929	100.0%	$228,710	100.0%
Cost of revenues	108,773	44.4	98,811	43.2
Gross margin	136,156	55.6	129,899	56.8
Operating expenses:				
Selling, general and administrative	57,159	23.3	57,868	25.3
Research and development	45,984	18.8	44,500	19.4
Amortization of acquired intangible assets	3,799	1.6	1,984	0.9
Restructuring and other charges	2,821	1.1	—	—
Impairment of long-lived assets	—	—	150	0.1
Acquisition costs and other related expenses	1,219	0.5	412	0.2
Change in the fair value of the liability related to the LNX earn-out	(4,938)	(2.0)	—	—
Total operating expenses	106,044	43.3	104,914	45.9
Income from operations	30,112	12.3	24,985	10.9
Other income, net	1,659	0.7	1,582	0.7
Income from continuing operations before income taxes	31,771	13.0	26,567	11.6
Income taxes	9,152	3.8	8,060	3.5
Income from continuing operations	22,619	9.2	18,507	8.1
Loss from discontinued operations, net of income taxes	—	—	(65)	—
Net income	$ 22,619	9.2%	$ 18,442	8.1%

REVENUES

(In thousands)	Fiscal 2012	As a % of Total Net Revenue	Fiscal 2011	As a % of Total Net Revenue	$ Change	% Change
ACS	$215,899	88%	$217,423	95%	$ (1,524)	(1%)
MFS	28,670	12%	11,415	5%	17,255	151%
Eliminations	360	—	(128)	—	488	381%
Total revenues	$244,929	100%	$228,710	100%	$16,219	7%

Total revenues increased $16.2 million, or 7%, to $244.9 million during fiscal 2012 compared to $228.7 million during fiscal 2011.

Net ACS revenues decreased $1.5 million, or 1%, during fiscal 2012 compared to fiscal 2011. The decrease in net ACS revenues was primarily due to lower commercial revenues of $33.3 million, partially offset by higher defense revenues of $31.8 million, including revenues contributed by KOR. Defense revenue accounted for 93% of net ACS revenues during fiscal 2012 compared to 78% in fiscal 2011.

Net MFS revenues increased $17.3 million, or 151%, during fiscal 2012 compared to fiscal 2011. This increase was driven by revenues from a wide area persistent surveillance program and revenue contributed by PDI.

International revenues increased slightly by $0.3 million to $9.6 million during fiscal 2012 compared to $9.3 million during fiscal 2011. The increase was primarily driven by higher defense revenues in the European region, partially offset by lower commercial revenue from the Asia Pacific region. International revenues represented 4% of total revenues during fiscal 2012 and 2011.

Eliminations revenue is attributable to development programs where the revenue is recognized in both segments under contract accounting, and reflects the reconciliation to our consolidated results.

Gross Margin

Gross margin was 55.6% for fiscal 2012, a decrease of 120 basis points from the 56.8% gross margin achieved in fiscal 2011. The decrease in gross margin was driven by product mix and the inclusion of KOR and PDI revenues. KOR and PDI are service based business models which typically carry lower margins than product based models.

Selling, General and Administrative

Selling, general and administrative expenses decreased 1.2%, or $0.7 million, to $57.2 million during fiscal 2012 compared to $57.9 million during fiscal 2011. The overall decrease was primarily due to lower variable compensation expense partially offset by headcount related expenses as a result of the KOR and LNX acquisitions. Selling, general and administrative expenses decreased as a percentage of revenues to 23.3% during fiscal 2012 from 25.3% during fiscal 2011 due to higher revenue and increased operating leverage.

Research and Development

Research and development expenses increased 3%, or $1.5 million, to $46.0 million during fiscal 2012 compared to $44.5 million for fiscal 2011. The increase was primarily due to a $2.0 million increase in headcount related expenses as a result of the KOR and LNX acquisitions, a $0.9 million increase in allocated IT and depreciation expenses and a $0.5 million increase in prototype and development expenses. These increases were partially offset by $2.8 million in higher customer funded credits. Research and development continues to be a focus of our business with 18.8% and 19.4% of our revenues dedicated to research and development activities during fiscal 2012 and fiscal 2011, respectively. However, we continue to focus on improving the leverage of our research and development investments and increased customer funded development resulting in this percentage trending downward in future years.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets increased $1.8 million to $3.8 million during fiscal 2012 compared to $2.0 million for fiscal 2011, primarily due to amortization of intangible assets from the KOR and PDI acquisition completed in December 2011 and the LNX acquisition completed in January 2011.

Restructuring Expense

There was $2.8 million of restructuring expense recorded in fiscal 2012 as compared to no expense in fiscal 2011. The restructuring plan implemented in 2012 primarily consisted of involuntary separation costs related to the reduction in force which eliminated 41 positions largely in engineering and manufacturing functions; and facility costs related to outsourcing of certain manufacturing activities at our Huntsville, Alabama site. We will incur additional expenses of approximately $0.7 million associated with this plan in fiscal 2013. We expect to realize approximately $5.3 million in annual savings from these activities.

Impairment of Long-lived Assets

No impairment charges were recorded during fiscal 2012 compared to $0.2 million in fiscal 2011. The fiscal 2011 charge represents the impairment of the fair value of the shares we received as compensation in the sale of our former Biotech business. There were no impairment charges for goodwill in either fiscal 2012 or 2011.

Acquisition Costs and Other Related Expenses

We incurred $1.2 million of acquisition costs and other related expenses during fiscal 2012, in connection with the acquisitions of Micronetics, KOR and PDI, as compared to $0.4 million during fiscal 2011, in connection with the LNX acquisition.

Interest Income

Interest income for fiscal years 2012 and 2011 were minimal due to the near zero percent yield on our U.S. treasury bills and money market accounts.

Interest Expense

We incurred a minimal amount of interest expense for fiscal 2012 and 2011, which primarily consisted of finance charges related to capital lease obligations.

Other Income

Other income increased $0.1 million to $1.7 million during fiscal 2012 compared to fiscal 2011. Other income primarily consists of $1.2 million in amortization of the gain on the sale leaseback of our corporate headquarters located in Chelmsford, Massachusetts and foreign currency exchange gains and losses.

Income Taxes

We recorded a provision for income taxes of $9.2 million in fiscal 2012 compared to $8.1 million in fiscal 2011. The effective tax rate for fiscal 2012 and fiscal 2011 was 28.8% and 30.3%, respectively. The difference in the rates is mainly driven by the change in the fair value of the liability related to the LNX earn-out of $4.9 million offset by $1.2 million of acquisition costs, both of which are not subject to tax. This decrease in the fiscal 2012 rate was partially offset by a higher tax provision as a result of having a full-year benefit for the federal research and development tax credit in fiscal 2011 compared to only a six-month benefit in fiscal 2012. Our effective tax rate for fiscal 2012 differed from the federal statutory rate primarily due to the change in the fair value of the liability related to the LNX earn-out, the impact of research and development tax credits, the impact of the Section 199 Manufacturing Deduction and acquisition costs,.

Segment Operating Results

Adjusted EBITDA for the ACS segment increased $1.5 million to $43.8 million during fiscal 2012, as compared to $42.3 million during fiscal 2011. The increase in adjusted EBITDA was mostly driven by higher revenues. ACS generated $228.1 million in revenues including intersegment revenues in fiscal 2012 compared to $223.7 million in fiscal 2011. This improvement was partially offset by an increase in operating expenses as a result of the KOR and LNX acquisitions. Overall, operating expenses declined as a percent of revenue.

Adjusted EBITDA for the MFS segment increased by $5.8 million during fiscal 2012 to $4.9 million, as compared to a loss of $0.9 million in fiscal 2011. The increase in adjusted EBITDA was primarily due to higher revenues from a wide area persistent surveillance contract and revenues contributed by PDI.

See Note O to our consolidated financial statements for more information regarding our operating segments.

FISCAL 2011 VS. FISCAL 2010

The following tables set forth, for the periods indicated, financial data from the consolidated statement of operations:

(In thousands)	Fiscal 2011	As a % of Total Net Revenue	Fiscal 2010	As a % of Total Net Revenue
Net revenues	$228,710	100.0%	$199,830	100.0%
Cost of revenues	98,811	43.2	87,298	43.7
Gross margin	129,899	56.8	112,532	56.3
Operating expenses:				
Selling, general and administrative	57,868	25.3	51,519	25.7
Research and development	44,500	19.4	41,548	20.8
Amortization of acquired intangible assets	1,984	0.9	1,710	0.9
Impairment of long-lived assets	150	0.1	211	0.1
Restructuring and other charges	—	—	231	0.1
Acquisition costs and other related expenses	412	0.2	—	—
Total operating expenses	104,914	45.9	95,219	47.6
Income from operations	24,985	10.9	17,313	8.7
Other income, net	1,582	0.7	1,379	0.7
Income from continuing operations before income taxes	26,567	11.6	18,692	9.4
Income taxes (benefit)	8,060	3.5	(9,377)	(4.7)
Income from continuing operations	18,507	8.1	28,069	14.1
(Loss) income from discontinued operations, net of income taxes	(65)	—	289	0.1
Net income	$ 18,442	8.1%	$ 28,358	14.2%

REVENUES

(In thousands)	Fiscal 2011	As a % of Total Net Revenue	Fiscal 2010	As a % of Total Net Revenue	$ Change	% Change
ACS	$217,423	95%	$188,967	95%	$28,456	15%
MFS	11,415	5%	10,735	5%	680	6%
Eliminations	(128)	—	128	—	(256)	(200%)
Total revenues	$228,710	100%	$199,830	100%	$28,880	14%

Total revenues increased $28.9 million, or 14%, to $228.7 million during fiscal 2011 compared to fiscal 2010.

Net ACS revenues increased $28.5 million, or 15%, to $217.4 million during fiscal 2011 compared to fiscal 2010. Revenue from sales to defense customers increased $21.1 million, from $146.6 million in fiscal 2010 to $167.7 million in fiscal 2011. This growth was mostly driven by an increase in the radar market, slightly offset

by a decline in service revenues from $24.4 million to $12.9 million. Revenue from sales to commercial customers increased $7.2 million, from $42.4 million in fiscal 2010 to $49.6 million in fiscal 2011. This growth was mostly driven by an increase in the semiconductor market driven by end of life buys, slightly offset by a decrease in sales in the commercial communications market.

Net MFS revenues increased $0.7 million, or 6% to $11.4 million, during fiscal 2011 as compared to fiscal 2010. This increase in revenue was primarily driven by an increase of $0.9 million in revenue relating to a persistent ISR development program. This increase was slightly offset by the year over year completion of other development programs.

International revenues decreased by $10.4 million to $9.3 million during fiscal 2011 as compared to $19.7 million in fiscal 2010. The decrease in international revenues during fiscal 2011 was primarily driven by both the sales to a commercial customer in the European region during the 2010 period whose sales were serviced by the U.K. operations during the 2010 period versus our U.S. operations during the 2011 period, and reduced sales to a commercial customer in the Asia Pacific region during 2011.

Eliminations revenue is attributable to development programs where the revenue is recognized in both segments under contract accounting, and reflects the reconciliation to our consolidated results.

GROSS MARGIN

Gross margin was 56.8% for fiscal 2011, an increase of 50 basis points from the 56.3% gross margin achieved in fiscal 2010. The increase in gross margin was primarily due to a favorable shift in product mix from lower margin professional service revenues to higher margin product sales.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased 12.4%, or $6.4 million, to $57.9 million during fiscal 2011 compared to $51.5 million during fiscal 2010. The increase was primarily due to a $5.8 million increase in employee compensation expense driven by an increase in headcount, primarily related to the LNX acquisition, and variable compensation increases. Selling, general and administrative expenses decreased as a percentage of revenues to 25.3% during fiscal 2011 from 25.7% during fiscal 2010. We realized improved operating leverage by maintaining our selling, general and administrative expenses growth below our revenue growth rate as our business scaled.

RESEARCH AND DEVELOPMENT

Research and development expenses increased 7%, or $3.0 million, to $44.5 million during fiscal 2011 compared to $41.5 million for fiscal 2010. The increase was primarily due to a $3.0 million increase in employee compensation expense driven by increased variable compensation. Research and development expenses represent 19.4% and 20.8% of our revenues during fiscal 2011 and fiscal 2010, respectively.

AMORTIZATION OF ACQUIRED INTANGIBLE ASSETS

Amortization of acquired intangible assets increased 18% or $0.3 million to $2.0 million during fiscal 2011 compared to $1.7 million for fiscal 2010, primarily due to amortization of intangible assets from the LNX acquisition completed during the third quarter of fiscal 2011.

IMPAIRMENT OF LONG-LIVED ASSETS

We recorded $0.2 million in impairment charges during fiscal 2011 compared to $0.2 million in impairment charges recorded in fiscal 2010. The fiscal 2011 charge and $0.1 million of the fiscal 2010 charge represent the impairment of the fair value of the shares we received as compensation in the sale of our former Biotech business. The additional fiscal 2010 charge of $0.1 million was the result of impairment of the remaining value of a terminated license agreement.

Restructuring Expense

There was no restructuring expense recorded in fiscal 2011 as compared to $0.2 million in fiscal 2010. Restructuring activities during fiscal 2010 were primarily due to the elimination of four positions under our restructuring plan within the ACS business unit which was enacted in July 2009, following the completion of the divestitures of our non-core businesses as part of the refocusing of our business operations.

Acquisition Costs and Other Related Expenses

We incurred $0.4 million of acquisition costs and other related expenses during fiscal 2011, which consisted of transaction costs incurred in connection with the acquisition of LNX Corporation, which was completed on January 12, 2011.

Interest Income

Interest income for fiscal 2011 decreased by $0.5 million to nil compared to fiscal 2010. Our marketable securities held during fiscal 2010 yielded higher interest rates than the money market funds and short-term government securities in which our cash was primarily invested during fiscal 2011. We held no marketable securities during fiscal 2011.

Interest Expense

Interest expense for fiscal 2011 decreased by $0.3 million to $0.1 million compared to the same period in fiscal 2010. The decrease was the result of the repayment of our borrowings against our ARS at the end of fiscal 2010. We did not have any debt during fiscal 2011, other than capital lease obligations.

Other Income, Net

Other income, net for fiscal 2011 increased by $0.4 million to $1.6 million compared to $1.2 million in fiscal 2010. Other income, net primarily consisted of $1.2 million in amortization of the gain on the sale leaseback of our corporate headquarters located in Chelmsford, Massachusetts and foreign currency exchange gains and losses. The $0.4 million increase is primarily associated with a $0.4 million foreign currency exchange gain during fiscal 2011 as compared to a $0.2 million foreign currency exchange loss for fiscal 2010. The foreign currency exchange gain was largely driven by strengthening of the British pound and the Japanese yen against the U.S. dollar.

Income Taxes (Benefit)

We recorded a provision for income taxes of $8.1 million in fiscal 2011 reflecting a 30.3% effective tax rate, as compared to a (50.2)% effective tax rate for fiscal 2010. Our provision for income taxes for fiscal year 2011 differed from the federal statutory tax rate of 35% primarily due to the impact of research and development tax credits, the impact of a domestic manufacturing deduction, and favorable discrete items. Our provision for income taxes for fiscal year 2010 differed from the federal statutory rate primarily due to the release of a portion of our valuation allowance on U.S. deferred tax assets, and several favorable discrete items which included a benefit from our 2009 tax return filing concerning our ability to utilize certain net operating losses, a decrease in our valuation allowance for uncertain tax positions and a decrease due to the favorable settlement of audit issues regarding certain of our 2006 through 2008 U.S. tax return filings.

Discontinued Operations

In accordance with FASB ASC 360, VSG, VI and Biotech have been reflected as discontinued operations for fiscal 2011 and 2010. Accordingly, the revenue, costs, expenses of VSG, VI and Biotech have been reported separately in the consolidated statements of operations for all periods presented.

We incurred a loss from discontinued operations of $0.1 million during fiscal 2011 compared to income from discontinued operations of $0.2 million in fiscal 2010.

SEGMENT OPERATING RESULTS

Adjusted EBITDA for ACS increased $11.8 million to $42.3 million during fiscal 2011, as compared to $30.5 million during fiscal 2010. The increase in adjusted EBITDA was primarily due to increased revenues of $28.5 million, which drove an improvement in gross margin dollars. This improvement was partially offset by increases in operating expenses necessary to grow the business. However, operating expenses declined as a percent of revenue as we continued to improve our operating leverage.

Adjusted EBITDA for MFS decreased by $0.3 million during fiscal 2011 to a loss of $0.9 million, as compared to a loss of $0.6 million in fiscal 2010. The increased loss was primarily driven by increased operating expenses related to additional headcount, partially offset by an increase in revenues from a persistent ISR development program.

See Note O to our consolidated financial statements for more information regarding our operating segments.

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 2012, our primary source of liquidity came from existing cash and cash generated from operations. Our near-term fixed commitments for cash expenditures consist primarily of payment for the Micronetics acquisition, payments under operating leases, and inventory purchase commitments with our contract manufacturers. We do not currently have any material commitments for capital expenditures.

Shelf Registration Statement

On August 2, 2011, we filed a shelf registration statement on Form S-3 with the SEC. The shelf registration statement, which has been declared effective by the SEC, registered up to $500 million of debt securities, preferred stock, common stock, warrants and units. We intend to use the proceeds from a financing using the shelf registration statement for general corporate purposes, which may include the following:

- the acquisition of other companies or businesses;
- the repayment and refinancing of debt;
- capital expenditures;
- working capital; and
- other purposes as described in the prospectus supplement.

Follow-On Public Stock Offering

On February 16, 2011, we completed a follow-on public stock offering of 5,577,500 shares of common stock, which were sold at a price to the public of $17.75. The follow-on public stock offering resulted in $93.6 million of net proceeds to us. The underwriting discount of $5.0 million and other expenses of $0.4 million related to the follow-on public stock offering were recorded as an offset to additional paid-in-capital.

The February 2011 follow-on public stock offering generated gross proceeds (i.e. proceeds before underwriting fees) of $99 million out of the $100 million available under our then existing shelf registration statement.

Senior Secured Credit Facility

Original Loan Agreement

On February 12, 2010, we entered into a loan and security agreement (the "Loan Agreement") with Silicon Valley Bank (the "Lender"). The Loan Agreement provided for a $15.0 million revolving line of credit (the "Revolver") and a $20.0 million acquisition line (the "Term Loan"). The Revolver was available for borrowing during a two-year period, with interest payable monthly and the principal due at the February 11, 2012 maturity of the Revolver. The Term Loan was available for up to three separate borrowings, with total borrowings not to exceed $20.0 million, until February 11, 2012. The Term Loan had monthly interest and principal payments through the February 11, 2014 maturity of the Term Loan.

The interest rates include various rate options that are available to us. The rates are calculated using a combination of conventional base rate measures plus a margin over those rates. The base rates consist of LIBOR rates and prime rates. The actual rates will depend on the level of these underlying rates plus a margin based on our leverage at the time of borrowing.

Borrowings are secured by a first-priority security interest in all of our domestic assets, including intellectual property, but limited to 65% of the voting stock of foreign subsidiaries. Our MFS subsidiary is a guarantor and has granted a security interest in its assets in favor of the Lender. Following the acquisition of LNX Corporation and KOR Electronics, LNX also became guarantor. The Lender may require Mercury Computer Systems Limited, our United Kingdom subsidiary, or Nihon Mercury Computer Systems, K.K., our Japanese subsidiary, to provide guarantees in the future if the cash or assets of such subsidiary exceed specified levels.

The Loan Agreement provided for conventional affirmative and negative covenants, including a minimum quick ratio of 1.5 to 1.0. If we had less than $10.0 million of cash equivalents in accounts with the Lender in excess of our borrowings, we must also satisfy a $15.0 million minimum trailing-four-quarter cash-flow covenant. The minimum cash flow covenant is calculated as our trailing-four quarter adjusted EBITDA as defined in the Loan Agreement. In addition, the Loan Agreement contains certain customary representations and warranties and limits our and our subsidiaries' ability to incur liens, dispose of assets, carry out certain mergers and acquisitions, make investments and capital expenditures and defines events of default and limitations on us and our subsidiaries to incur additional debt.

Amended Loan Agreement

On March 30, 2011, we entered into an amendment to the Loan Agreement (as amended, the "Amended Loan Agreement") with the Lender. We amended the Loan Agreement in order to extend the term during which we may borrow, to make the entire $35 million available for revolving credit, and to obtain more favorable financial covenants and relax mergers and acquisition restrictions. The amendment extended the term of the Revolver for an additional two years, to February 11, 2014, terminated the $20.0 million Term Loan under the original Loan Agreement, and increased the original $15.0 million Revolver to $35.0 million. The amendment also included modifications to the financial covenants as summarized below.

The Amended Loan Agreement provides for conventional affirmative and negative covenants, including a minimum quick ratio of 1.0 to 1.0 and a $15.0 million minimum trailing four quarter cash flow covenant through and including June 30, 2012 (with $17.5 million of minimum cash flow required thereafter).

There are no other changes to the Loan Agreement other than the modification described above.

Following the acquisition of KOR Electronics, both KOR and PDI became guarantors.

We have had no borrowings under the credit facility since inception and were in compliance with all covenants in the Amended Loan Agreement as of June 30, 2012.

Based on our current plans and business conditions, we believe that existing cash, cash equivalents, available line of credit with Silicon Valley Bank, cash generated from operations, and financing capabilities will be sufficient to satisfy our anticipated cash requirements for at least the next twelve months.

CASH FLOWS

(In thousands) As of and for the fiscal year ended	June 30, 2012	June 30, 2011	June 30, 2010
Net cash provided by operating activities	$ 31,869	$ 31,474	$ 15,708
Net cash (used in) provided by investing activities	$ (80,802)	$ (22,683)	$ 23,615
Net cash provided by (used in) financing activities	$ 1,975	$ 97,800	$ (30,594)
Net (decrease) increase in cash and cash equivalents	$ (46,911)	$ 106,634	$ 9,291
Cash and cash equivalents at end of year	$ 115,964	$ 162,875	$ 56,241

Our cash and cash equivalents decreased by $46.9 million during fiscal 2012 primarily as a result of the $71.0 million payment, net of cash acquired, for the KOR acquisition, $9.4 million in capital expenditures, and a $0.5 million payment for other financing and investing activities, partially offset by $31.9 million generated by operating activities and $2.2 million generated from stock related activities.

Operating Activities

During fiscal 2012, we generated $31.9 million in cash from operations, an increase of $0.4 million when compared to $31.5 million generated in fiscal 2011. The increase was primarily due to the $1.2 million net change in net working capital, partially offset by $0.8 million lower comparative net income excluding the change in the fair value of the liability related to the LNX earn-out. Our ability to generate cash from operations in future periods will depend in large part on profitability, the rate of collection of accounts receivable, our inventory turns and our ability to manage other areas of working capital.

During fiscal 2011, we generated $31.5 million in cash from operations compared to $15.7 million generated from operations during fiscal 2010. The $15.8 million increase in the amount of cash generated from operations was driven by a $15.5 million improvement in accounts receivable primarily driven by collection of a large receivable shipped at the end of fiscal 2010, an $11.6 million increase in provision for deferred income taxes, a $4.0 million increase in cash generated from prepaid income taxes and income taxes payable, a $3.4 million increase in inventory activities, a $1.6 million increase in stock-based compensation, a $1.5 million increase in depreciation and amortization expense, and a $0.9 million reduction in other non-cash items. These improvements were partially offset by lower comparative net income of $9.9 million, a $4.8 million increase in cash used for accounts payable and accrued expenses, a $4.8 million increase in cash used for deferred revenue, customer advances, and other non-current liabilities, and a $3.2 million increase in cash used for prepaid expenses and other current and non-current assets.

Investing Activities

During fiscal 2012, we used cash of $80.8 million in investing activities compared to $22.7 million used during fiscal 2011. The $58.1 million increase in cash used by investing activities was primarily driven by a $71.0 million payment, net of cash acquired, for the KOR and PDI acquisition, compared to a $29.5 million payment, net of cash acquired, for the LNX acquisition in fiscal 2011, a $0.6 million increase in capital expenditures, and a $0.3 million increase in restricted cash. Additionally, we generated cash in fiscal 2011 by exercising the put option to sell auction rate securities for $18.0 million in cash. These increases were partially offset by a $2.4 million payment for intangible assets made during fiscal 2011.

During fiscal 2011, we used cash of $22.7 million in investing activities compared to $23.6 million generated from investing activities during fiscal 2010. The $46.3 million increase in cash used by investing activities was primarily driven by a $29.5 million payment, net of cash acquired, for the LNX acquisition, a $14.0

million decrease in net sales of marketable securities, a $2.1 million increase in cash used for purchases of intangible assets and a $1.5 million increase in capital expenditures, offset by a $0.8 million decrease in cash payments related to the sale of discontinued operations.

Financing Activities

During fiscal 2012, we generated $2.0 million in cash from financing activities compared to $97.8 million generated from financing activities during fiscal 2011. The $95.8 million decrease in cash generated from financing activities was primarily due to the decrease in net proceeds received from a follow-on public stock offering in 2011 of $93.6 million and a decrease of $2.4 million in cash generated from stock related activities. These decreases were slightly offset by $0.2 million of lower cash payments made for capital lease obligations, deferred financing and offering costs.

During fiscal 2011, we generated $97.8 million in cash from financing activities compared to $30.6 million used by financing activities during fiscal 2010. The $128.4 million increase in cash generated from financing activities was primarily due to $93.6 million of net proceeds received from a follow-on public stock offering, the absence of $33.3 million in payments under our line of credit with UBS, an increase of $1.7 million of cash generated from stock related activities, and a $0.1 million decrease in payments of deferred financing and offering costs. These increases were slightly offset by $0.3 million of cash used in payments of capital lease obligations and other.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following is a schedule of our commitments and contractual obligations outstanding at June 30, 2012:

(In thousands)	Total	Less Than 1 Year	2-3 Years	4-5 Years	More Than 5 Years
Operating leases	$15,036	$ 3,905	$6,238	$4,893	$ —
Purchase obligations	14,002	14,002	—	—	—
Capital lease obligations	79	79	—	—	—
	$29,117	$ 17,986	$6,238	$4,893	$ —

We have a liability at June 30, 2012 of $2.6 million for uncertain tax positions that have been taken or are expected to be taken in various income tax returns. We do not know the ultimate resolution of these uncertain tax positions and as such, do not know the ultimate timing of payments related to this liability. Accordingly, these amounts are not included in the above table.

Purchase obligations represent open non-cancelable purchase commitments for certain inventory components and services used in normal operations. The purchase commitments covered by these agreements are for less than one year and aggregated $14.0 million at June 30, 2012.

Our standard product sales and license agreements entered into in the ordinary course of business typically contain an indemnification provision pursuant to which we indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with certain intellectual property infringement claims by any third party with respect to our products. Such provisions generally survive termination or expiration of the agreements. The potential amount of future payments we could be required to make under these indemnification provisions is, in some instances, unlimited.

OFF-BALANCE SHEET ARRANGEMENTS

Other than our lease commitments incurred in the normal course of business and certain indemnification provisions, we do not have any off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets, or any obligation arising out of a material variable interest in

an unconsolidated entity. We do not have any majority-owned subsidiaries that are not consolidated in the financial statements. Additionally, we do not have an interest in, or relationships with, any special purpose entities.

RELATED PARTY TRANSACTIONS

In July 2008, we and our former CEO, James Bertelli, entered into an agreement for consulting services through June 30, 2010. The consideration for these services totaled $0.2 million and was paid out over the service period. As of June 30, 2010, we had made payments of $0.2 million for consulting services under this agreement. Additionally, in July 2008, we entered into a five year non-compete agreement with Mr. Bertelli. This agreement, which is carried as an intangible asset on our balance sheet, was valued at $0.5 million and is being amortized over the life of the agreement. As of December 31, 2010, we had made payments of $0.5 million under this non-compete agreement.

During fiscal 2012 and 2011, we did not engage in any related party transactions.

NON-GAAP FINANCIAL MEASURES

In our periodic communications, we discuss two important measures that are not calculated according to U.S. generally accepted accounting principles (“GAAP”), adjusted EBITDA and free cash flow.

Adjusted EBITDA is defined as earnings from continuing operations before interest income and expense, income taxes, depreciation, amortization of acquired intangible assets, restructuring, impairment of long-lived assets, acquisition costs and other related expenses, fair value adjustments from purchase accounting and stock-based compensation costs. We use adjusted EBITDA as an important indicator of the operating performance of our business. We use adjusted EBITDA in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our board of directors, determining a component of bonus compensation for executive officers and other key employees based on operating performance and evaluating short-term and long-term operating trends in our operations. We believe the adjusted EBITDA financial measure assists in providing a more complete understanding of our underlying operational measures to manage our business, to evaluate our performance compared to prior periods and the marketplace, and to establish operational goals. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making.

Adjusted EBITDA is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenses similar to the adjusted EBITDA financial adjustments described above, and investors should not infer from our presentation of this non-GAAP financial measure that these costs are unusual, infrequent or non-recurring.

The following table reconciles our net income, the most directly comparable GAAP financial measure, to our adjusted EBITDA:

(In thousands)	Year Ended June 30, 2012	2011	2010
Net income	$22,619	$18,442	$28,358
(Loss) income from discontinued operations, net of income taxes	—	(65)	289
Income from continuing operations	22,619	18,507	28,069
Interest expense (income), net	27	45	(151)
Income tax expense (benefit)	9,152	8,060	(9,377)
Depreciation	7,859	6,364	5,147
Amortization of acquired intangible assets	3,799	1,984	1,710
Restructuring and other charges	2,821	—	231
Impairment of long-lived assets	—	150	211
Acquisition costs and other related expenses	1,219	412	—
Fair value adjustments related to purchase accounting items	(5,238)	(219)	—
Stock-based compensation cost	6,616	5,580	4,016
Adjusted EBITDA	$48,874	$40,883	$29,856

Free cash flow, a non-GAAP measure for reporting cash flow, is defined as cash provided by operating activities less capital expenditures for property and equipment, which includes capitalized software development costs. We believe free cash flow provides investors with an important perspective on cash available for investments and acquisitions after making capital investments required to support ongoing business operations and long-term value creation. We believe that trends in our free cash flow are valuable indicators of our operating performance and liquidity.

Free cash flow is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenditures similar to the free cash flow adjustment described above, and investors should not infer from our presentation of this non-GAAP financial measure that these expenditures reflect all of our obligations which require cash.

The following table reconciles cash provided by operating activities, the most directly comparable GAAP financial measure, to free cash flow:

(In thousands)	Year Ended June 30, 2012	2011	2010
Cash provided by operating activities	$31,869	$31,474	$15,708
Purchases of property and equipment	(9,427)	(8,825)	(7,334)
Free cash flow	$22,442	$22,649	$ 8,374

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

We have identified the policies discussed below as critical to understanding our business and our results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. We believe the following critical accounting policies to be those most important to the portrayal of our financial position and results of operations and those that require the most subjective judgment.

REVENUE RECOGNITION

We generate our revenue mainly from two different types of contractual arrangements: fixed-price contracts and time-and-material contracts. Revenue recognition methods on fixed-price contracts vary depending on the nature of the work and contract terms. Revenue from system sales 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 multiple-deliverable revenue arrangements that may include a combination of hardware components, related integration or other services, we allocate revenue to each deliverable based on its relative selling price. We generally determine relative selling price using best estimate of the selling price ("BESP"). Each deliverable within our multiple-deliverable revenue arrangement is accounted for as a separate unit of accounting if the delivered item or items have value to the customer on a standalone basis. We consider a deliverable to have standalone value if the item is sold separately by us or another vendor or if the item could be resold by the customer. Of our multiple-deliverable revenue arrangements, approximately 50% typically ship complete within the same quarter.

We also have long term production type contracts that are fixed-price for which we apply the percentage-of-completion method for revenue recognition. Application of the percentage-of-completion method requires significant judgment relative to estimating total contract costs, including assumptions relative to the length of time to complete the contract, the nature and complexity of the work to be performed, anticipated increases in wages and prices for subcontractor services and materials, and the availability of subcontractor services and materials. Our estimates are based upon the professional knowledge and experience of our engineers, program managers and other personnel, who review each long-term contract monthly to assess the contract's schedule, performance, technical matters and estimated cost at completion. A cancellation, schedule delay, or modification of a fixed-price contract which is accounted for using the percentage-of-completion method may adversely affect our gross margins for the period in which the contract is modified or cancelled. Changes in estimates are applied retrospectively and when adjustments in estimated contract costs are identified, such revisions may result in current period adjustments to earnings applicable to performance in prior periods.

For time and materials contracts, revenue reflects the number of direct labor hours expended in the performance of a contract multiplied by the contract billing rate, as well as reimbursement of other billable direct costs. The risk inherent in time and materials contracts is that actual costs may differ materially from negotiated billing rates in the contract, which would directly affect operating income.

For all types of contracts, we recognize anticipated contract losses as soon as they become known and estimable. We do not provide our customers with rights of product return, other than those related to warranty provisions that permit repair or replacement of defective goods. We accrue for anticipated warranty costs upon product shipment. Our payment terms range from 30 to 180 days from invoice date based on the nature of the contracts, customers' geographic locations and customer type.

INVENTORY VALUATION

We value our inventory at the lower of cost (first-in, first-out) or its current estimated market value. We write down inventory for excess and obsolescence based upon assumptions about future demand, product mix and possible alternative uses. Actual demand, product mix and alternative usage may be lower than those that we project and this difference could have a material adverse effect on our gross margin if inventory write-downs beyond those initially recorded become necessary. Alternatively, if actual demand, product mix and alternative usage are more favorable than those we estimated at the time of such a write-down, our gross margin could be favorably impacted in future periods.

GOODWILL, ACQUIRED INTANGIBLE ASSETS AND LONG-LIVED ASSETS

We evaluate whether goodwill is impaired annually and when events occur or circumstances change. We test goodwill for impairment at the reporting unit level, which presently is the same as our operating segments. In

2011, an amendment to the goodwill impairment guidance was issued that provides entities an option to perform a qualitative assessment (commonly known as "step zero") to determine whether further impairment testing is necessary before performing the two-step test that was previously required. The qualitative assessment requires significant judgments by management about macro-economic conditions including the entity's operating environment, its industry and other market considerations, entity-specific events related to financial performance or loss of key personnel, and other events that could impact the reporting unit. We elected to adopt the provisions of this amendment for our annual test of impairment as of June 30, 2012 and concluded, based on our qualitative assessment, that no further testing was required. In the future, if we conclude that further testing is required, the impairment test involves a two-step process. Step one compares the fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount exceeds the fair value of the reporting unit, step two is required to determine if there is an impairment of the goodwill. Step two compares the implied fair value of the reporting unit's goodwill to the carrying amount of the goodwill. The Company estimates the fair value of its reporting units using the income approach based upon a discounted cash flow model. In addition, the Company uses the market approach, which compares the reporting unit to publicly-traded companies and transactions involving similar businesses, to support the conclusions of the income approach. The income approach requires the use of many assumptions and estimates including future revenues, expenses, capital expenditures, and working capital, as well as discount factors and income tax rates.

We also review finite-lived intangible assets and long-lived assets when indications of potential impairment exist, such as a significant reduction in undiscounted cash flows associated with the assets. Should the fair value of our long-lived assets decline because of reduced operating performance, market declines, or other indicators of impairment, a charge to operations for impairment may be necessary.

INCOME TAXES

The determination of income tax expense requires us to make certain estimates and judgments concerning the calculation of deferred tax assets and liabilities, as well as the deductions and credits that are available to reduce taxable income. We recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in our 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 enacted tax rates for the year in which the differences are expected to reverse. We record 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. If it becomes more likely than not that a tax asset will be used for which a reserve has been provided, we reverse the related valuation allowance. If our actual future taxable income by tax jurisdiction differs from estimates, additional allowances or reversals of reserves may be necessary.

We use a two-step approach to recognize and measure uncertain tax positions. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. We reevaluate our uncertain tax positions on a quarterly basis and any changes to these positions as a result of tax audits, tax laws or other facts and circumstances could result in additional charges to operations.

BUSINESS COMBINATIONS

Business combinations are accounted for under the acquisition method of accounting. Allocating the purchase price requires us to estimate the fair value of various assets acquired and liabilities assumed. Management is responsible for determining the appropriate valuation model and estimated fair values, and in doing so, considers a number of factors, including information provided by an outside valuation advisor. We

primarily establish fair value using the income approach based upon a discounted cash flow model. The income approach requires the use of many assumptions and estimates including future revenues and expenses, as well as discount factors and income tax rates.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2011, we elected to adopt FASB ASU 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment ("ASU 2011-08"):* an amendment of the FASB Accounting Standards Codification. The ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, it does not need to perform the two-step impairment test. The ASU is effective for us on July 1, 2012; however, we have elected to early adopt as permitted by the guidance. Upon adoption, we applied ASU 2011-08 to our annual goodwill impairment test using a qualitative assessment before applying a two-step goodwill impairment test. Such adoption did not have a material impact on our financial position or results of operations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, in conjunction with the International Accounting Standards Board ("IASB")'s issuance of amendments to Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). While the Boards retained the existing offsetting models under U.S. GAAP and International Financial Reporting Standards ("IFRS"), the new standards require disclosures to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. This guidance is not expected to have a material impact to our consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* The ASU defers the new requirement to present components of reclassifications of other comprehensive income on the face of the income statement. Companies are still required to adopt the other requirements contained in the new standard on comprehensive income, *ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05").* The new standard and this deferral are effective for public entities as of the beginning of a fiscal year that begins after December 15, 2011 and interim and annual periods thereafter. Early adoption is permitted but full retrospective application is required. Effective July 1, 2010, we adopted ASU 2011-05 and have presented the components of net income and comprehensive income in one consecutive financial statement on our annual and quarterly reports filed on Form 10-K and Form 10-Q respectively.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

Our exposure to interest rate risk is related primarily to our investment portfolio and our line of credit. Our investment portfolio includes money market funds from high quality U.S. government issuers. A change in prevailing interest rates may cause the fair value of our investments to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing rate rises, the fair value of the principal amount of our investment will probably decline. To minimize this risk, investments are generally available for sale and we generally limit the amount of credit exposure to any one issuer. Our line of credit was unused at June 30, 2012.

FOREIGN CURRENCY RISK

We operate primarily in the United States; however, we conduct business outside the United States through our foreign subsidiaries in Europe and Japan, where business is largely transacted in non-U.S. dollar currencies. Accordingly, we are subject to exposure from adverse movements in the exchange rates of local currencies. Local currencies are used as the functional currency for our subsidiaries in Europe and Japan. Consequently, changes in the exchange rates of the currencies may impact the translation of the foreign subsidiaries' statements of operations into U.S. dollars, which may in turn affect our consolidated statement of operations.

We have not entered into any financial derivative instruments that expose us to material market risk, including any instruments designed to hedge the impact of foreign currency exposures. We may, however, hedge such exposure to foreign currency exchange rate fluctuations in the future.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Mercury Computer Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Mercury Computer Systems, Inc. and subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2012. In connection with our audits of the consolidated financial statements, we have also audited financial statement Schedule II. We also have audited Mercury Computer Systems, Inc.'s internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Mercury Computer Systems, Inc.'s management is responsible for these consolidated financial statements and financial statement Schedule II, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercury Computer Systems, Inc. and subsidiaries as of June 30, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole,

presents fairly, in all material respects, the information set forth therein. Also in our opinion, Mercury Computer Systems, Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Mercury Computer Systems, Inc. and subsidiaries acquired KOR Electronics and its wholly-owned subsidiary, Paragon Dynamics, Inc. during fiscal year 2012, and management excluded from its assessment of the effectiveness of Mercury Computer Systems, Inc.'s internal control over financial reporting as of June 30, 2012 KOR Electronics and its wholly-owned subsidiary, Paragon Dynamics, Inc.'s internal control over financial reporting associated with total assets of 22 percent (of which 17 percent represented goodwill and intangible assets included within the scope of the assessment) and total revenues of 8 percent included in the consolidated financial statements of Mercury Computer Systems, Inc. and subsidiaries as of and for the year ended June 30, 2012. Our audit of internal control over financial reporting of Mercury Computer Systems, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of KOR Electronics and its wholly-owned subsidiary, Paragon Dynamics, Inc.

/s/ KPMG LLP

Boston, Massachusetts
August 22, 2012

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MERCURY COMPUTER SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2012	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$115,964	$162,875
Accounts receivable, net of allowance for doubtful accounts of $5 and $17 at June 30, 2012 and 2011, respectively	38,532	44,786
Unbilled receivables and cost in excess of billings	10,918	1,059
Inventory	25,845	18,540
Deferred income taxes	7,653	7,678
Prepaid income taxes	2,585	1,075
Prepaid expenses and other current assets	6,206	4,171
Total current assets	207,703	240,184
Restricted cash	3,281	3,000
Property and equipment, net	15,929	14,520
Goodwill	132,621	79,558
Acquired intangible assets, net	25,083	16,702
Other non-current assets	989	1,598
Total assets	$385,606	$355,562
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 9,002	$ 7,972
Accrued expenses	9,895	5,808
Accrued compensation	13,190	16,288
Deferred revenues and customer advances	4,855	6,138
Total current liabilities	36,942	36,206
Deferred gain on sale-leaseback	4,399	5,556
Deferred income taxes	7,197	3,877
Income taxes payable	2,597	1,777
Other non-current liabilities	1,367	6,710
Total liabilities	52,502	54,126
Commitments and contingencies (Note L)		
Shareholders' equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $.01 par value; 85,000,000 shares authorized; 29,729,065 and 29,143,738 shares issued and outstanding at June 30, 2012 and 2011 respectively	297	291
Additional paid-in capital	222,769	213,777
Retained earnings	108,732	86,113
Accumulated other comprehensive income	1,306	1,255
Total shareholders' equity	333,104	301,436
Total liabilities and shareholders' equity	$385,606	$355,562

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

MERCURY COMPUTER SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share data)

	For the Years Ended June 30,		
	2012	2011	2010
Net revenues	$244,929	$228,710	$199,830
Cost of revenues	108,773	98,811	87,298
Gross margin	136,156	129,899	112,532
Operating expenses:			
Selling, general and administrative	57,159	57,868	51,519
Research and development	45,984	44,500	41,548
Amortization of acquired intangible assets	3,799	1,984	1,710
Restructuring and other charges	2,821	—	231
Impairment of long-lived assets	—	150	211
Acquisition costs and other related expenses	1,219	412	—
Change in the fair value of the liability related to the LNX earn-out	(4,938)	—	—
Total operating expenses	106,044	104,914	95,219
Income from operations	30,112	24,985	17,313
Interest income	13	34	532
Interest expense	(40)	(79)	(381)
Other income, net	1,686	1,627	1,228
Income from continuing operations before income taxes (benefit)	31,771	26,567	18,692
Income taxes (benefit)	9,152	8,060	(9,377)
Income from continuing operations	22,619	18,507	28,069
(Loss) income from discontinued operations, net of income taxes	—	(65)	289
Net income	$ 22,619	$ 18,442	$ 28,358
Basic net earnings (loss) per share:			
Income from continuing operations	$ 0.77	$ 0.73	$ 1.25
(Loss) income from discontinued operations, net of income taxes	—	—	0.01
Net income	$ 0.77	$ 0.73	$ 1.26
Diluted net earnings (loss) per share:			
Income from continuing operations	$ 0.75	$ 0.71	$ 1.22
(Loss) income from discontinued operations, net of income taxes	—	(0.01)	0.01
Net income	$ 0.75	$ 0.70	$ 1.23
Weighted-average shares outstanding:			
Basic	29,477	25,322	22,559
Diluted	30,085	26,209	23,008
Comprehensive income:			
Net income	$ 22,619	$ 18,442	$ 28,358
Foreign currency translation adjustments	53	311	368
Net unrealized (loss) gain on investments	(2)	2	(83)
Total comprehensive income	$ 22,670	$ 18,755	$ 28,643

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

MERCURY COMPUTER SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended June 30, 2012, 2011 and 2010

(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance June 30, 2009	22,376	$ 224	$104,843	$ 39,313	$ 657	$ 145,037
Issuance of common stock under employee stock incentive plans	455	5	997			1,002
Issuance of common stock under employee stock purchase plan	94	1	846			847
Repurchase of common stock	(42)	(1)	(432)			(433)
Stock-based compensation			4,016			4,016
Net income				28,358		28,358
Net unrealized loss on securities					(83)	(83)
Foreign currency translation adjustments					368	368
Balance June 30, 2010	22,883	$ 229	$110,270	$ 67,671	$ 942	$ 179,112
Issuance of common stock under employee stock incentive plans	594	6	2,590			2,596
Issuance of common stock under employee stock purchase plan	89	1	1,093			1,094
Follow-on public stock offering	5,578	55	93,550			93,605
Stock-based compensation			5,580			5,580
Tax benefit from employee stock plan awards			694			694
Net income				18,442		18,442
Net unrealized gain on investments					2	2
Foreign currency translation adjustments					311	311
Balance June 30, 2011	29,144	$ 291	$213,777	$ 86,113	$ 1,255	$ 301,436
Issuance of common stock under employee stock incentive plans	481	5	461			466
Issuance of common stock under employee stock purchase plan	104	1	1,164			1,165
Stock-based compensation			6,616			6,616
Tax benefit from employee stock plan awards			751			751
Net income				22,619		22,619
Net unrealized loss on investments					(2)	(2)
Foreign currency translation adjustments					53	53
Balance June 30, 2012	29,729	$ 297	$222,769	$108,732	$ 1,306	$ 333,104

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,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	$ 22,619	$ 18,442	$ 28,358
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	11,658	8,348	6,857
Stock-based compensation expense	6,616	5,580	4,016
(Benefit) provision for deferred income taxes	(3,056)	1,888	(9,698)
Impairment of long-lived assets	—	150	211
Excess tax benefit from stock-based compensation	(559)	(893)	(1,494)
Change in the fair value of the liability related to the LNX earn-out	(4,938)	—	—
Other non-cash items	(555)	(898)	(1,308)
Changes in operating assets and liabilities, net of effects of businesses acquired and disposed of:			
Accounts receivable, unbilled receivable, and cost in excess of billings	6,755	257	(15,256)
Inventory	(7,267)	2,514	(859)
Prepaid income taxes	3,514	1,567	(2,162)
Prepaid expenses and other current assets	(816)	(2,120)	505
Other non-current assets	646	(677)	(113)
Accounts payable and accrued expenses	(1,092)	931	5,708
Deferred revenues and customer advances	(1,850)	(3,696)	234
Income taxes payable	820	21	(262)
Other non-current liabilities	(626)	60	971
Net cash provided by operating activities	31,869	31,474	15,708
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(71,044)	(29,508)	—
Sales and maturities of marketable securities	—	18,025	32,025
Purchases of property and equipment	(9,427)	(8,825)	(7,334)
Payments for acquired intangible assets	(50)	(2,375)	(250)
Payments for sale of discontinued operations, net	—	—	(826)
Increase in restricted cash	(281)	—	—
Net cash (used in) provided by investing activities	(80,802)	(22,683)	23,615
Cash flows from financing activities:			
Proceeds from follow-on public stock offering, net	—	93,605	—
Proceeds from employee stock plans	1,631	3,690	1,849
Excess tax benefit from stock-based compensation	559	893	1,494
Payments under line of credit	—	—	(33,364)
Payments of deferred financing costs	—	(31)	(170)
Payments of deferred offering costs	(30)	(59)	—
Repurchases of common stock	—	—	(433)
(Payments) proceeds of capital lease obligations	(185)	(298)	30
Net cash provided by (used in) financing activities	1,975	97,800	(30,594)
Effect of exchange rate changes on cash and cash equivalents	47	43	562
Net (decrease) increase in cash and cash equivalents	(46,911)	106,634	9,291
Cash and cash equivalents at beginning of year	162,875	56,241	46,950
Cash and cash equivalents at end of year	$115,964	$162,875	$ 56,241
Cash paid during the period for:			
Interest	$ 40	$ 45	$ 150
Income taxes	$ 8,686	$ 4,397	$ 2,587
Supplemental disclosures—non-cash activities:			
Issuance of restricted stock awards to employees	$ 8,367	$ 9,204	$ 6,219
Acquisition of intangible assets	$ —	$ 495	$ —
Capital lease	$ 41	$ 251	$ 168

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

MERCURY COMPUTER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

A. Description of Business

Mercury Computer Systems, Inc. (the "Company" or "Mercury") designs, manufactures and markets commercially-developed, high-performance embedded, real-time digital signal and image processing sub-systems and software for specialized defense and commercial markets. The Company's solutions play a critical role in a wide range of applications, processing and transforming sensor data to information for storage, analysis and interpretation. The Company's goal is to grow and build on its position as a critical component of the defense and intelligence industrial base and be the leading provider of open and affordable sensor processing subsystems for intelligence, surveillance and reconnaissance ("ISR"), electronic warfare ("EW"), and missile defense applications. In military reconnaissance and surveillance platforms, the Company's sub-systems receive, process, and store real-time radar, video, sonar and signals intelligence data. The Company provides radio frequency ("RF") and microwave products for enhanced signal acquisitions and communications in military and commercial applications. Additionally, Mercury Federal Systems, the Company's wholly owned subsidiary, focuses on direct and indirect contracts supporting the defense, intelligence, and homeland security agencies.

The Company's products and solutions address mission-critical requirements within the defense industry for C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance) and electronic warfare systems and services, and target several markets including maritime defense, airborne reconnaissance, ballistic missile defense, ground mobile and force protection systems and tactical communications and network systems. The Company delivers commercially developed technology and solutions that are based on open system architectures and widely adopted industry standards, and supports all of this with services and support capabilities.

B. Summary of Significant Accounting Policies

Principles of Consolidation

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

Business Combinations

The Company utilizes the acquisition method of accounting under Financial Accounting Standard Boards ("FASB") Accounting Standard Codification ("ASC") 805, *Business Combinations*, ("FASB ASC 805"), for all transactions and events which it obtains control over one or more other businesses, to recognize the fair value of all assets and liabilities acquired, even if less than one hundred percent ownership is acquired, and in establishing the acquisition date fair value as measurement date for all assets and liabilities assumed. The Company also utilizes FASB ASC 805 for the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in business combinations.

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

The Company relies upon FASB ASC 605, *Revenue Recognition* to account for its revenue transactions. Revenue from system sales 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.

Certain contracts with customers require the Company to perform tests of its products prior to shipment to ensure their performance complies with the Company's published product specifications and, on occasion, with additional customer-requested specifications. In these cases, the Company conducts such tests and, if they are completed successfully, includes a written confirmation with each order shipped. As a result, at the time of each product shipment, the Company believes that no further customer testing requirements exist and that there is no uncertainty of acceptance by its customer.

The Company enters into multiple-deliverable arrangements that may include a combination of hardware components, related integration or other services. These arrangements generally do not include any performance-, cancellation-, termination- or refund-type provisions. Total revenue recognized under multiple-deliverable revenue arrangements in fiscal 2012, 2011 and 2010 was 39%, 50% and 53% of total revenues, respectively.

The Company uses FASB Accounting Standards Update ("ASU") No. 2009-13 ("FASB ASU 2009-13"), *Multiple-Deliverable Revenue Arrangements*. FASB ASU 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor-specific objective evidence ("VSOE") if available; (2) third-party evidence ("TPE") if VSOE is not available; and (3) best estimated selling price ("BESP"), if neither VSOE nor TPE is available. Additionally, FASB ASU 2009-13 expands the disclosure requirements related to a vendor's multiple-deliverable revenue arrangements. This guidance was required for the Company beginning July 1, 2010; however, the Company elected to early adopt, as permitted by the guidance. As such, the Company prospectively applied the provisions of FASB ASU 2009-13 to all revenue arrangements entered into or materially modified after July 1, 2009.

Per the provisions of FASB ASU 2009-13, the Company allocates arrangement consideration to each deliverable in an arrangement based on its relative selling price. The Company generally expects that it will not be able to establish VSOE or TPE due to limited single element transactions and the nature of the markets in which the Company competes, and, as such, the Company typically determines its relative selling price using BESP.

The Company uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact if the product or service were sold by the Company on a standalone basis.

The Company's determination of BESP involves the consideration of several factors based on the specific facts and circumstances of each arrangement. Specifically, the Company considers the cost to produce the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts, the Company's ongoing pricing strategy and policies (as evident from the price list established and updated by management on a regular basis), the value of any enhancements that have been built into the deliverable and the characteristics of the varying markets in which the deliverable is sold.

The Company analyzes the selling prices used in its allocation of arrangement consideration at a minimum on an annual basis. Selling prices will be analyzed on a more frequent basis if a significant change in the Company's business necessitates a more timely analysis or if the Company experiences significant variances in its selling prices.

Each deliverable within the Company's multiple-deliverable revenue arrangements is accounted for as a separate unit of accounting under the guidance of FASB ASU 2009-13 if both of the following criteria are met: the delivered item or items have value to the customer on a standalone basis; and for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. The Company considers a deliverable to have standalone value if the item is sold separately by the Company or another vendor or if the item could be resold by the customer. Further, the Company's revenue arrangements generally do not include a general right of return relative to delivered products.

Deliverables not meeting the criteria for being a separate unit of accounting are combined with a deliverable that does meet that criterion. The appropriate allocation of arrangement consideration and recognition of revenue is then determined for the combined unit of accounting.

For transactions involving the licensing of standalone software products and of software that is not incidental to the product, the Company recognizes revenue when there is persuasive evidence of an arrangement, delivery of the software has occurred, the price is fixed or determinable, and collection of the related receivable is reasonably assured. The Company's software products are generally not deemed essential to the functionality of any hardware system and do not require installation by the Company or significant modification or customization of the software. If fair value of maintenance agreements related to standalone software products is obtained, the fair value of the maintenance agreement is recognized as revenue ratably over the term of each maintenance agreement.

In electing to early adopt FASB ASU 2009-13, the Company also early adopted FASB ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements* ("FASB ASU 2009-14"). FASB ASU 2009-14 amends the FASB ASC 985-605, *Software Revenue Recognition*, to change the accounting model for revenue arrangements that include both tangible products and software elements, such that tangible products containing both software and non-software components that function together to deliver the tangible product's essential functionality are no longer within the scope of software revenue guidance. These arrangements are instead subject to the guidance in FASB ASC 605-25. The Company monitors all multiple-element arrangements to determine if they are in scope of FASB ASU 2009-14, and when applicable will apply all relevant criteria per guidance. The adoption of FASB ASU 2009-14 has not had a material impact on the Company's financial position or results of operations.

For multiple-element arrangements entered into prior to July 1, 2009, in accordance with FASB ASC 605-25, the Company defers the greater of the fair value of any undelivered elements of the contract or the portion of the sales price that is not payable until the undelivered elements are delivered.

The Company also engages in long-term contracts for development, production and services activities which it accounts for consistent with FASB ASC 605-35, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, and other relevant revenue recognition accounting literature. The Company considers the nature of these contracts and the types of products and services provided when determining the proper accounting for a particular contract. Generally for fixed-price contracts, other than service-type contracts, revenue is recognized primarily under the percentage of completion method or, for certain short-term contracts, by the completed contract method. Revenue from service-type fixed-price contracts is recognized ratably over the contract period or by other appropriate input or output methods to measure service provided, and contract costs are expensed as incurred. The Company establishes billing terms at the time project deliverables and milestones are agreed. Revenues recognized in excess of the amounts invoiced to clients are classified as unbilled receivables. The risk to the Company on a fixed-price contract is that if estimates to complete the contract change from one period to the next, profit levels will vary from period to period. For time and materials contracts, revenue reflects the number of direct labor hours expended in the performance of a contract multiplied by the contract billing rate, as well as reimbursement of other billable direct costs. The risk inherent in time and materials contracts is that actual costs may differ materially from negotiated billing rates in the contract, which

would directly affect operating income. For all types of contracts, the Company recognizes anticipated contract losses as soon as they become known and estimable. Out-of-pocket expenses that are reimbursable by the customer are included in revenue and cost of revenue.

The use of contract accounting requires significant judgment relative to estimating total contract revenues and costs, including assumptions relative to the length of time to complete the contract, the nature and complexity of the work to be performed, anticipated increases in wages and prices for subcontractor services and materials, and the availability of subcontractor services and materials. The Company's estimates are based upon the professional knowledge and experience of its engineers, program managers and other personnel, who review each long-term contract monthly to assess the contract's schedule, performance, technical matters and estimated cost at completion. Changes in estimates are applied retrospectively and when adjustments in estimated contract costs are identified, such revisions may result in current period adjustments to earnings applicable to performance in prior periods.

The Company does not provide its customers with rights of product return, other than those related to warranty provisions that permit repair or replacement of defective goods. The Company accrues for anticipated warranty costs upon product shipment. Revenues from product royalties are recognized upon invoice by the Company. Additionally, all revenues are reported net of government assessed taxes (e.g. sales taxes or value-added taxes).

CASH AND CASH EQUIVALENTS

Cash equivalents, consisting of highly liquid money market funds and U.S. government and U.S. government agency issues with remaining maturities of 90 days or less at the date of purchase, are carried at fair market value which approximates cost. The Company also has restricted cash which is classified as a non-current asset due to the length of the restriction.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. The Company places its cash and cash equivalents with financial institutions that management believes are of high credit quality. At June 30, 2012 and 2011, the Company had $115,958 and $162,869, respectively, of cash and cash equivalents on deposit or invested with its financial and lending institutions.

The Company provides credit to customers in the normal course of business. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary but generally does not require collateral. At June 30, 2012, five customers accounted for 59% of the Company's receivables, unbilled receivables and cost in excess of billings. At June 30, 2011, five customers accounted for 74% of the Company's receivables, unbilled receivables and cost in excess of billings.

INVENTORY

Inventory is stated at the lower of cost (first-in, first-out) or market value, and consists of materials, labor and overhead. On a quarterly basis, the Company uses consistent methodologies to evaluate inventory for net realizable value. Once an item is written down, the value becomes the new inventory cost basis. The Company reduces the value of inventory 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.

GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Goodwill is the amount by which the cost of the acquired net assets in a business acquisition exceeded the fair values of the net identifiable assets on the date of purchase. Goodwill is not amortized in accordance with the requirements of FASB ASC 350, *Intangibles-Goodwill and Other* ("FASB ASC 350"). Goodwill is assessed for impairment at least annually, on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. If the book value of a reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess.

For the year ended June 30, 2012, the Company elected to adopt FASB ASU 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment ("ASU 2011-08")*. Under ASU 2011-08, the Company has the option to assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine whether further impairment testing is necessary. Based on the results of the qualitative review of goodwill performed as of June 30, 2012, the Company did not identify any indicators of impairment. As such, the two-phase process was not necessary.

Acquired intangible assets result from the Company's various business acquisitions (see Note E) and certain licensed technologies, and consist of identifiable intangible assets, including completed technology, licensing agreements, customer relationships, backlog, and non-compete agreements. Acquired intangible assets are reported at cost, net of accumulated amortization and are either amortized on a straight-line basis over their estimated useful lives of up to seven years or over the period the economic benefits of the intangible asset are consumed.

LONG-LIVED ASSETS

Long-lived assets primarily include property and equipment and acquired intangible assets. The Company periodically evaluates its long-lived assets for events and circumstances that indicate a potential impairment in accordance with FASB ASC 360, *Property, Plant, and Equipment* ("FASB ASC 360"). The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the estimated undiscounted cash flows of the asset as compared to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value.

PROPERTY AND EQUIPMENT

Property and equipment are the long-lived, physical assets of the Company acquired for use in the Company's normal business operations and are not intended for resale by the Company. These assets are recorded at cost. Renewals and betterments that increase the useful lives of the assets are capitalized. Repair and maintenance expenditures that increase the efficiency of the assets are expensed as incurred. 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 estimated useful lives of the assets using the straight-line method (see Note I).

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.

Expenditures for major software purchases and software developed for internal use are capitalized and depreciated using the straight-line method over the estimated useful lives of the related assets, which are generally three years. For software developed for internal use, all external direct costs for material and services and certain payroll and related fringe benefit costs are capitalized in accordance with FASB ASC 350. During fiscal 2012 and 2011, the Company capitalized $1,092 and $1,000 of software development costs. Software development costs qualifying for capitalization were not material for the year ended June 30, 2010.

Deferred Revenues and Customer Advances

Deferred revenues consist of deferred product revenue, billings in excess of revenues, and deferred service revenue. Deferred product revenue represents amounts that have been invoiced to customers, but are not yet recognizable as revenue because one or more of the conditions for revenue recognition have not been met. Billings in excess of revenues represents milestone billing arrangements on percentage of completion projects where the billings of the contract exceed recognized revenues. Deferred service revenue primarily represents amounts invoiced to customers for annual maintenance contracts or extended warranty concessions, which are recognized ratably over the term of the arrangements. Customer advances represent deposits received from customers on an order.

Income Taxes

The Company accounts for income taxes under FASB ASC 740, Income Taxes ("FASB ASC 740"). 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 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.

FASB ASC 740 requires a two-step approach to recognizing and measuring uncertain tax positions. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Product Warranty Accrual

The Company's product sales generally include a 12 month standard hardware warranty. At time of product shipment, the Company accrues for the estimated cost to repair or replace potentially defective products. Estimated warranty costs are based upon prior actual warranty costs for substantially similar transactions and any specifically identified warranty requirements.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs are primarily made up of labor charges and prototype material and development expenses.

Stock-based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which generally represents the vesting period, and includes an estimate of the awards that will be forfeited. The Company uses the Black-Scholes valuation model for estimating the fair value on the date of grant of stock options. The fair value of stock option awards is affected by the Company's stock price as well as valuation assumptions, including the volatility of the Company's stock price, expected term of the option, risk-free interest rate and expected dividends. The fair value of restricted stock awards are based on the market price on the date of grant.

NET EARNINGS PER SHARE

Basic net earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net earnings per share computation includes the effect of shares which would be issuable upon the exercise of outstanding stock options and the vesting of restricted stock, reduced by the number of shares which are assumed to be purchased by the Company under the treasury stock method.

Basic and diluted weighted average shares outstanding were as follows:

	Years Ended June 30,		
	2012	2011	2010
Basic weighted-average shares outstanding	29,477	25,322	22,559
Effect of dilutive equity instruments	608	887	449
Diluted weighted-average shares outstanding	30,085	26,209	23,008

Weighted average equity instruments to purchase 1,244, 753 and 1,705 shares of common stock were not included in the calculation of diluted net earnings per share for the fiscal years ended June 30, 2012, 2011 and 2010, respectively, because the equity instruments were anti-dilutive.

On February 16, 2011, the Company completed a follow-on public stock offering of 5,578 shares of the Company's common stock, at a price to the public of $17.75, generating net proceeds, after underwriting fees and expenses, of $93,605. As a result, an additional 5,578 and 2,129 weighted average shares outstanding were included in the calculation of basic and diluted net earnings per shares for fiscal 2012 and 2011.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income, which includes foreign currency translation adjustments and unrealized gains on investments.

The components of accumulated other comprehensive income were as follows:

	June 30,	
	2012	2011
Accumulated foreign currency translation adjustments	$1,306	$1,253
Accumulated net unrealized gains on investments	—	2
Total accumulated other comprehensive income	$1,306	$1,255

FOREIGN CURRENCY

Local currencies are used as the functional currency for the Company's subsidiaries in Europe 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 shareholders' equity. Gains (losses) resulting from foreign currency transactions are included in other income (expense) and were immaterial for all periods presented.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2011, the Company elected to adopted FASB ASU 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment ("ASU 2011-08"):* an amendment of the FASB Accounting Standards Codification. The ASU permits an entity to make a qualitative assessment of whether it is more likely

than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it does not need to perform the two-step impairment test. The ASU is effective for the Company on July 1, 2012; however, the Company has elected to early adopt as permitted by the guidance. Upon adoption, the Company applied ASU 2011-08 to its annual goodwill impairment test using a qualitative assessment before applying a two-step goodwill impairment test. Such adoption did not have a material impact on the Company's financial position or results of operations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, in conjunction with the International Accounting Standards Board ("IASB")'s issuance of amendments to Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). While the Boards retained the existing offsetting models under U.S. GAAP and International Financial Reporting Standards ("IFRS"), the new standards require disclosures to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. This guidance is not expected to have a material impact to our consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* The ASU defers the new requirement to present components of reclassifications of other comprehensive income on the face of the income statement. Companies are still required to adopt the other requirements contained in the new standard on comprehensive income, *ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05").* The new standard and this deferral are effective for public entities as of the beginning of a fiscal year that begins after December 15, 2011 and interim and annual periods thereafter. Early adoption is permitted but full retrospective application is required. Effective July 1, 2010, the Company adopted ASU 2011-05 and has presented the components of net income and comprehensive income in one consecutive financial statement on the Company's annual and quarterly reports filed on Form 10-K and Form 10-Q respectively.

C. Acquisitions

KOR AND PDI ACQUISITION

On December 22, 2011, the Company and King Merger Inc., a newly formed, wholly-owned subsidiary of the Company (the "Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with KOR Electronics ("KOR"), and Shareholder Representative Services LLC, as the securityholders' representative. On December 30, 2011, the transaction closed with the Merger Sub being merged with and into KOR with KOR continuing as the surviving company and wholly-owned subsidiary of the Company (the "Merger"). By operation of the Merger, the Company acquired both KOR and its wholly-owned subsidiary, Paragon Dynamics, Inc. ("PDI"). Based in Cypress, California, KOR designs and develops digital radio frequency memory ("DRFM") units for a variety of modern EW applications, as well as radar environment simulation and test systems for defense applications. Based in Aurora, Colorado, PDI provides sophisticated analytic exploitation services and customized multi-intelligence data fusion solutions for the U.S. intelligence community. For segment reporting, KOR is included in the Advanced Computing Solutions ("ACS") business segment and PDI is included in the MFS business segment.

The Company acquired KOR and PDI for a purchase price of $70,000 paid in cash. The Company funded the purchase price with cash on hand. The Company acquired KOR and PDI free of bank debt. The purchase price was subject to post-closing adjustment based on a determination of KOR's closing net working capital.

In accordance with the Merger Agreement, $10,650 of the purchase price was placed into escrow to support the post-closing working capital adjustment and the sellers' indemnification obligations. The escrow is available for indemnification claims through December 30, 2013.

Following the acquisition, the Company's KOR and PDI subsidiaries became guarantors under the Company's Loan Agreement and granted a security interest in its assets in favor of the Lender (see Note K).

The following table presents the net purchase price and its preliminary allocation for the acquisition of KOR:

	Amounts
Consideration transferred	
Cash paid at closing	$71,019
Working capital adjustment	1,044
Less cash, cash equivalents and restricted cash acquired	(1,019)
Net purchase price	$71,044
Estimated fair value of tangible assets acquired and liabilities assumed	
Cash, cash equivalents and restricted cash	$ 1,019
Accounts receivable and cost in excess of billings	10,367
Other current and non-current assets	4,063
Current liabilities	(3,978)
Deferred income taxes	(4,601)
Estimated fair value of net tangible assets acquired	6,870
Estimated fair value of identifiable intangible assets	12,130
Estimated fair value of goodwill	53,063
Estimated fair value of assets acquired	$72,063
Less cash, cash equivalents and restricted cash acquired	(1,019)
Net purchase price	$71,044

The amounts above represent the preliminary fair value estimates as of June 30, 2012 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable. As of June 30, 2012, there have been no material adjustments to the initial fair value estimates.

The goodwill of $53,063 arising from the KOR acquisition largely reflects the potential synergies and expansion of the Company's service offerings across product segments and markets complementary to the Company's existing products and markets. The KOR acquisition provides the Company with additional know-how and expertise related to radio frequency simulation and jamming technology and expansion into technical services for the U.S. intelligence community.

The revenue and operating income of KOR and PDI included in the Company's consolidated statements of operations for the year ended June 30, 2012 was $19,779 and $2,586, respectively.

Pro Forma Financial Information

The following tables summarize the supplemental statements of operations information on an unaudited pro forma basis as if the KOR acquisition had occurred on July 1, 2010:

	June 30,	
	2012	2011
Pro forma net revenues	$265,478	$265,365
Pro forma net income	$ 23,149	$ 21,982
Basic pro forma net earnings per share	$ 0.79	$ 0.87
Diluted pro forma net earnings per share	$ 0.77	$ 0.84

The pro forma results presented above are for illustrative purposes only for the applicable periods and do not purport to be indicative of the actual results which would have occurred had the transaction been completed as of the beginning of the period, nor are they indicative of results of operations which may occur in the future.

On February 16, 2011, the Company completed a follow-on public stock offering of 5,578 shares of the Company's common stock. As a result, an additional 5,578 and 2,129 weighted average shares outstanding were included in the calculation of basic and diluted net earnings per shares for the years ended June 30, 2012 and 2011 presented above, respectively.

LNX ACQUISITION

On January 12, 2011, the Company entered into a stock purchase agreement (the "Stock Purchase Agreement") with LNX, the holders of the equity interests of LNX, and Lamberto Raffaelli, as the sellers' representative (collectively, the "Sellers"). Pursuant to the Stock Purchase Agreement, the Company completed its purchase of all of the outstanding equity interests in LNX, and LNX became a wholly-owned subsidiary of the Company. Based in Salem, NH, LNX designs and builds next generation radio frequency receivers for signal intelligence, communication intelligence as well as electronic attack applications. LNX is included in the ACS business segment.

The Company acquired LNX for a purchase price of $31,000 paid in cash, plus an earn-out of up to $5,000 payable in cash, based upon achievement of financial targets during calendar years 2011 and 2012. The purchase price was subject to post-closing adjustment based on a determination of LNX's closing net working capital. The Company funded the purchase price with cash on hand. The Company acquired LNX free of bank debt. Immediately prior to the consummation of the acquisition, LNX divested its non-defense global procurement business. The Company determined the fair value of the earn-out contingent consideration as part of the LNX acquisition based on the probability of LNX attaining the specified financial targets and assigned a fair value of $4,828 to the liability. In accordance with the Stock Purchase Agreement, $6,200 of the purchase price was placed into escrow to support the post-closing working capital adjustment and the sellers' indemnification obligations, of which $1,523 was released to the Sellers and $27 was released to the Company in March 2011, upon the final calculation of net working capital. The remaining escrow is available for indemnification claims through August 31, 2012.

As of June 30, 2012, the Company determined that it is probable that the earn-out related to the LNX acquisition would not be achieved. During the fourth quarter of fiscal 2012, the Company did not receive a purchase order for long lead-time materials. Therefore, the Company no longer expected to meet the specified revenue targets for the LNX earn-out due to the long-lead time necessary to generate these revenues and has determined it does not expect to pay the earn-out. As a result, the Company adjusted the fair value of the earn-out contingent consideration and recorded $4,938 as a change in fair value of the liability in June 2012. The adjustment is separately classified in the consolidated statements of operations as an offset to operating expenses.

D. Goodwill

The following table sets forth the changes in the carrying amount of goodwill for the years ended June 30, 2012 and 2011:

	ACS	MFS	Total
Balance at June 30, 2010,	$ 57,653	$ —	$ 57,653
Goodwill arising from the LNX acquisition	21,905	—	21,905
Balance at June 30, 2011	79,558	—	79,558
Goodwill arising from the KOR acquisition	33,913	19,150	53,063
Balance at June 30, 2012	$113,471	$19,150	$132,621

In fiscal 2012, there were no triggering events, as defined by FASB ASC 350, which required an interim goodwill impairment test. The Company performs its annual goodwill impairment test in the fourth quarter of each fiscal year.

The Company determines its reporting units in accordance with FASB ASC 350, by assessing whether discrete financial information is available and if management regularly reviews the operating results of that component. Following this assessment, the Company determined that its reporting units are the same as its operating segments, ACS and MFS. As of June 30, 2012, both ACS and MFS had goodwill balances, as such; the annual impairment analysis was performed for each reporting unit in the fourth quarter of fiscal year 2012.

The Company tests goodwill for impairment by evaluating the fair value of the reporting unit as compared to the book value. If the book value of the reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess.

For fiscal 2011, this evaluation was performed in the Company’s fourth quarter. The evaluation was performed consistent with prior years and relied on a discounted cash flow analysis, which was corroborated by two market-based analyses: one evaluated guideline companies and another that reviewed comparable transactions. For each analysis performed, the fair value of the reporting unit was deemed to be in excess of the book value. As such, no impairment charge was recorded.

For the year ended June 30, 2012, the Company elected to adopt ASU 2011-08. Under ASU 2011-08, the Company has the option to assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine whether further impairment testing is necessary. Based on the results of the qualitative review of goodwill performed as of June 30, 2012, the Company did not identify any indicators of impairment. As such, no impairment charge was recorded for fiscal 2012.

In fiscal 2012, 2011 and 2010, goodwill was determined to be appropriately valued and no impairment charge was recorded.

E. Acquired Intangible Assets

Acquired intangible assets consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
JUNE 30, 2012				
Customer relationships	$26,770	$ (9,217)	$17,553	6.9 years
Licensing agreements and patents	4,095	(2,365)	1,730	5.4 years
Completed technologies	5,570	(1,007)	4,563	5.3 years
Trademarks	990	(95)	895	6.0 years
Backlog	800	(588)	212	2.0 years
Non-compete agreements	500	(370)	130	5.0 years
	$38,725	$ (13,642)	$25,083	
JUNE 30, 2011				
Customer relationships	$18,300	$ (7,530)	$10,770	6.7 years
Licensing agreements and patents	4,045	(1,622)	2,423	5.5 years
Completed technologies	2,900	(227)	2,673	6.0 years
Backlog	800	(188)	612	2.0 years
Non-compete agreements	500	(276)	224	5.0 years
	$26,545	$ (9,843)	$16,702	

Estimated future amortization expense for acquired intangible assets remaining at June 30, 2012 is as follows:

	Year Ending June 30,
2013	$ 4,826
2014	4,811
2015	4,669
2016	4,185
2017	2,703
Thereafter	3,889
Total future amortization expense	$ 25,083

The following table summarizes the preliminary estimated fair value of acquired intangible assets arising as a result of the KOR acquisition. These assets are included in the Company's gross and net carrying amounts as of June 30, 2012.

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
Customer relationships	$ 8,470	$ (592)	$ 7,878	7.2 years
Completed technologies	2,670	(297)	2,373	4.5 years
Trademark	990	(95)	895	6.0 years
Total	$12,130	$ (984)	$11,146	6.5 years

F. Fair Value of Financial Instruments

The Company measures at fair value certain financial assets and liabilities, including cash equivalents, restricted cash, ARS and contingent consideration. FASB ASC 820, *Fair Value Measurement and Disclosures*, specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1—Quoted prices for identical instruments in active markets;

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis at June 30, 2012:

		Fair Value Measurements		
	June 30, 2012	Level 1	Level 2	Level 3
Assets:				
U.S. Treasury bills and money market funds	$ 97,049	$ 97,049	$ —	$ —
Restricted cash	3,281	3,281	—	—
Total	$100,330	$100,330	$ —	$ —

The carrying values of cash and cash equivalents, including U.S. Treasury bills and money market funds, accounts receivable and payable, and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

The Company determines the fair value of the contingent consideration related to the LNX acquisition based on the probability of LNX attaining specific financial targets using an appropriate discount rate to present value the liability. As of June 30, 2012, the Company determined that it is probable that the earn-out related to the LNX acquisition would not be achieved (see Note C). As a result, the Company adjusted the fair value of the LNX earn-out contingent consideration and recorded $4,938 as a change in fair value in June 2012. The adjustment is separately classified on the statement of operations and is reflected as an offset to operating expenses. The following table provides a rollforward of the fair value of the contingent consideration, whose fair values were determined by Level 3 inputs:

	Fair Value
Balance at June 30, 2010	$ —
Contingent consideration from the LNX acquisition	4,828
Recognition of accretion expense in operating expenses	26
Balance at June 30, 2011	$ 4,854
Recognition of accretion expense in operating expenses	84
Change in the fair value of the liability related to the LNX earn-out	(4,938)
Balance at June 30, 2012	$ —

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis at June 30, 2011:

		Fair Value Measurements		
	June 30, 2011	Level 1	Level 2	Level 3
Assets:				
U.S. Treasury bills and money market funds	$153,038	$153,038	$ —	$ —
Restricted cash	3,000	3,000	—	—
Total	$156,038	$156,038	$ —	$ —
Liabilities:				
Contingent consideration	$ 4,854	$ —	$ —	$4,854

G. Inventory

Inventory was comprised of the following:

	June 30,	
	2012	2011
Raw materials	$11,246	$ 7,314
Work in process	8,979	7,554
Finished goods	5,620	3,672
Total	$25,845	$18,540

There are no amounts in inventory relating to contracts having production cycles longer than one year. During fiscal 2012, the Company has purchased inventories which were nearing the end of their production life and hence executed last time buy purchases with its vendors to be able to support certain products and the related customers into the foreseeable future.

H. Restricted Cash

The Company had restricted cash balance of $3,281 and $3,000 as of June 30, 2012 and 2011, respectively. The balance consisted of the following: (1) the Company has deposited $3,000 with its bank as collateral for the landlord pursuant to the sale-lease back transaction entered in April 2007 for the Company's headquarters in Chelmsford, Massachusetts (see Note I). The balance is classified as restricted cash on the accompanying consolidated balance sheet at June 30, 2012 and 2011, and is reflected in non-current assets: (2) the terms of one of the Company's contracts with a foreign customer requires a certificate of deposit to be held at a commercial bank until performance on the contract has been completed. This certificate of deposit represents restricted cash of approximately $281. The balance is classified as restricted cash on the accompanying consolidated balance sheet at June 30, 2012 and is reflected in non-current assets.

I. Property and Equipment

Property and equipment consisted of the following:

	Estimated Useful Lives (Years)	June 30, 2012	June 30, 2011
Computer equipment and software	2-4	$ 51,372	$ 47,675
Furniture and fixtures	5	7,110	6,967
Building and leasehold improvements	lesser of estimated useful life or lease term	2,313	1,837
Machinery and equipment	5	7,838	5,213
Vehicles	5	88	119
		68,721	61,811
Less: accumulated depreciation and amortization		(52,792)	(47,291)
		$ 15,929	$ 14,520

In fiscal 2012 and 2011, the Company retired $2,058 and $10,143, respectively, of fully depreciated computer equipment and software assets that were no longer in use by the Company. The retirement was part of an on-going effort by the Company to review and identify all assets that are still in use by the Company, and to retire those that are not.

Depreciation and amortization expense related to property and equipment for the fiscal years ended June 30, 2012, 2011 and 2010 was $7,859, $6,364 and $5,147, respectively.

On April 20, 2007, the Company entered into a sales agreement and a lease agreement in connection with a sale-leaseback of the Company's headquarters in Chelmsford, Massachusetts. Pursuant to the agreements, the Company sold all land, land improvements, buildings and building improvements related to the facilities and leased back those assets. The term of the lease is ten years and includes two five year options to renew. Under the provisions of sale-leaseback accounting, the transaction was considered a normal leaseback; thus the realized gain of $11,569 was deferred and will be amortized to other income on a straight-line basis over the initial lease term.

The unamortized deferred gain consisted of the following of which the current portion is included in accrued expenses and the non-current portion is separately classified in the accompanying consolidated balance sheets:

	June 30, 2012	June 30, 2011
Current portion	$1,157	$1,157
Non-current portion	4,399	5,556
Total unamortized deferred gain	$5,556	$6,713

J. Product Warranty Accrual

All of the Company's product sales generally include a 12 month standard hardware warranty. At the time of product shipment, the Company accrues the estimated cost to repair or replace potentially defective products. Estimated warranty costs are based upon prior actual warranty costs for substantially similar transactions and other specifically identified warranty matters. Product warranty accrual is included as part of accrued expenses in the accompanying consolidated balance sheets. The following table presents the changes in the Company's product warranty accrual.

	Fiscal 2012	Fiscal 2011	Fiscal 2010
Beginning balance at July 1,	$ 894	$ 1,186	$ 1,750
Accruals for warranties issued during the period	2,445	970	997
Settlements made during the period	(1,979)	(1,262)	(1,561)
Ending balance at June 30,	$ 1,360	$ 894	$ 1,186

K. Debt

SENIOR SECURED CREDIT FACILITY

Original Loan Agreement

On February 12, 2010, the Company entered into a loan and security agreement (the "Loan Agreement") with Silicon Valley Bank (the "Lender"). The Loan Agreement provided for a $15,000 revolving line of credit (the "Revolver") and a $20,000 acquisition line (the "Term Loan"). The Revolver was available for borrowing during a two-year period, with interest payable monthly and the principal due at the February 11, 2012 maturity of the Revolver. The Term Loan was available for up to three separate borrowings, with total borrowings not to exceed $20,000, until February 11, 2012. The Term Loan had monthly interest and principal payments through the February 11, 2014 maturity of the Term Loan.

The interest rates include various rate options that are available to the Company. The rates are calculated using a combination of conventional base rate measures plus a margin over those rates. The base rates consist of LIBOR rates and prime rates. The actual rates will depend on the level of these underlying rates plus a margin based on the Company's leverage at the time of borrowing.

Borrowings are secured by a first-priority security interest in all of the Company's domestic assets, including intellectual property, but limited to 65% of the voting stock of foreign subsidiaries. The Company's MFS subsidiary is a guarantor and has granted a security interest in its assets in favor of the Lender. Following the acquisition of LNX Corporation, LNX also became a guarantor. The Lender may require Mercury Computer Systems Limited, the Company's United Kingdom subsidiary, or Nihon Mercury Computer Systems, K.K., the Company's Japanese subsidiary, to provide guarantees in the future if the cash or assets of such subsidiary exceed specified levels.

The Loan Agreement provided for conventional affirmative and negative covenants, including a minimum quick ratio of 1.5 to 1.0. If the Company had less than $10,000 of cash equivalents in accounts with the Lender in excess of the Company's borrowings, the Company must also satisfy a $15,000 minimum trailing-four-quarter cash-flow covenant. The minimum cash flow covenant is calculated as the Company's trailing-four quarter adjusted EBITDA as defined in the Loan Agreement. In addition, the Loan Agreement contains certain customary representations and warranties and limits the Company's and its subsidiaries' ability to incur liens, dispose of assets, carry out certain mergers and acquisitions, make investments and capital expenditures and defines events of default and limitations on the Company and its subsidiaries to incur additional debt.

Amended Loan Agreement

On March 30, 2011, the Company entered into an amendment to the Loan Agreement (as amended, the "Amended Loan Agreement") with the Lender. The amendment extended the term of the Revolver for an additional two years, to February 11, 2014, terminated the $20,000 Term Loan under the original Loan Agreement, increased the original $15,000 Revolver to $35,000. The amendment also included modifications to the financial covenants as summarized below.

The Amended Loan Agreement provides for conventional affirmative and negative covenants, including a minimum quick ratio of 1.0 to 1.0 and a $15,000 minimum trailing four quarter cash flow covenant through and including June 30, 2012 (with $17,500 of minimum cash flow required thereafter).

There are no other changes to the Loan Agreement other than the modification described above.

Following the acquisition of KOR Electronics, both KOR and PDI became guarantors.

The Company has had no borrowings under the credit facility since inception and was in compliance with all covenants in the Amended Loan Agreement as of June 30, 2012.

L. Commitments and Contingencies

LEGAL CLAIMS

The U.S. Department of Justice ("DOJ") is conducting an investigation into the conduct of certain former employees of PDI in the 2008-2009 time frame and has asserted that such conduct may have constituted a violation of the Procurement Integrity Act and that civil penalties would apply to any such violations. PDI and its former parent company, KOR, have been cooperating in the investigation. While the parties have engaged in discussions and correspondence regarding this matter, no resolution has been reached and no litigation has commenced. The Company is entitled to indemnity with respect to this matter pursuant to the terms of the Merger Agreement, and based on this indemnity and the associated escrow arrangement, the matter is not expected to have a material impact on the Company's cash flows, results of operations, or financial condition.

In addition to the foregoing, the Company is subject to litigation, claims, investigations and audits arising from time to time in the ordinary course of its business. Although legal proceedings are inherently unpredictable, the Company believes that it has valid defenses with respect to those matters currently pending against it and intends to defend itself vigorously. The outcome of these matters, individually and in the aggregate, is not expected to have a material impact on the Company's cash flows, results of operations, or financial position.

INDEMNIFICATION OBLIGATIONS

The Company's standard product sales and license agreements entered into in the ordinary course of business typically contain an indemnification provision pursuant to which the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with any patent, copyright or other intellectual property infringement claim by any third party with respect to the Company's products. Such provisions generally survive termination or expiration of the agreements. The potential amount of future payments the Company could be required to make under these indemnification provisions is, in some instances, unlimited.

PURCHASE COMMITMENTS

As of June 30, 2012, the Company has entered into non-cancelable purchase commitments for certain inventory components and services used in its normal operations. The purchase commitments covered by these agreements are for less than one year and aggregate to $14,002.

LEASE COMMITMENTS

The Company leases certain facilities, machinery and equipment under various cancelable and non-cancelable operating leases that expire at various dates through fiscal 2017. The leases contain various renewal options. Rental charges are subject to escalation for increases in certain operating costs of the lessor. For tenant improvement allowances and rent holidays, the Company records a deferred rent liability on the consolidated balance sheets and amortizes the deferred rent over the terms of the leases as reductions to rent expense on the consolidated statements of operations. Rental expense during the fiscal years ended June 30, 2012, 2011 and 2010 was $3,803, $3,369 and $3,613, respectively. Minimum lease payments under the Company's non-cancelable operating leases are as follows:

	Year Ending June 30,
2013	3,905
2014	3,461
2015	2,777
2016	2,662
2017	2,231
Total minimum lease payments	$ 15,036

M. Shareholders' Equity

FOLLOW-ON PUBLIC STOCK OFFERING

On February 16, 2011, the Company completed a follow-on public stock offering of 5,578 shares of common stock, which were sold at a price to the public of $17.75. The follow-on public stock offering resulted in $93,605 of net proceeds to the Company. The underwriting discount of $4,950 and other expenses of $446 related to the follow-on public stock offering were recorded as an offset to additional paid-in-capital.

PREFERRED STOCK

The Company is authorized to issue 1,000 shares of preferred stock with a par value of $0.01 per share.

SHAREHOLDER RIGHTS PLAN

The Company has adopted a Shareholder Rights Plan, the purpose of which is, among other things, to enhance the Board's ability to protect the shareholder interests and to ensure that shareholders receive fair treatment in the event any coercive takeover attempt of the Company is made in the future. The following summary description of the Shareholder Rights Plan does not purport to be complete and is qualified in its entirety by reference to the Company's Shareholder Rights Plan, which has been previously filed with the Securities and Exchange Commission as an exhibit to a Registration Statement on Form 8-A.

In connection with the adoption of the Shareholder Rights Plan, the Board of Directors of the Company declared a dividend distribution of one preferred stock purchase right (a "Right") for each outstanding share of common stock to shareholders of record as of the close of business on December 23, 2005. The Rights currently are not exercisable and are attached to and trade with the outstanding shares of common stock. Under the Shareholder Rights Plan, the Rights become exercisable if a person becomes an "acquiring person" by acquiring 15% or more of the outstanding shares of common stock or if a person commences a tender offer that would result in that person owning 15% or more of the common stock. If a person becomes an "acquiring person," each holder of a Right (other than the acquiring person) would be entitled to purchase, at the then-current exercise price, such number of shares of the Company's preferred stock which are equivalent to shares of common stock having a value of twice the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after any such event, each holder of a Right would then be entitled to purchase, at the then-current exercise price, shares of the acquiring company's common stock having a value of twice the exercise price of the Right.

STOCK NET SETTLEMENT PROGRAM

The Company may net settle shares in connection with the surrender of shares to cover the minimum taxes on vesting of restricted stock. During fiscal 2010, 42 shares were net settled in such transactions for a total cost of $433. Effective May 1, 2010, the Company discontinued the net share settlement practice for settling restricted stock awards.

N. Stock-Based Compensation

STOCK OPTION PLANS

The number of shares authorized for issuance under the Company's 2005 Stock Incentive Plan , as amended and restated (the "2005 Plan"), is 6,092 shares, including a 1,000 share increase approved by the Company's shareholders on October 21, 2011. The 2005 Plan will be increased by any future cancellations, forfeitures or terminations (other than by exercise) under the Company's 1997 Stock Option Plan (the "1997 Plan"). The 2005 Plan provides for the grant of non-qualified and incentive stock options, restricted stock, stock appreciation rights and deferred stock awards to employees and non-employees. All stock options are granted with an exercise price of not less than 100% of the fair value of the Company's common stock at the date of grant and the options generally have a term of seven years. There were 2,675 shares available for future grant under the 2005 Plan at June 30, 2012.

The number of shares authorized for issuance under the 1997 Plan was 8,650 shares, of which 100 shares could be issued pursuant to restricted stock grants. The 1997 Plan provided for the grant of non-qualified and incentive stock options and restricted stock to employees and non-employees. All stock options were granted with an exercise price of not less than 100% of the fair value of the Company's common stock at the date of grant. The options typically vest over periods of zero to four years and have a maximum term of 10 years. Following shareholder approval of the 2005 Plan on November 14, 2005, the Company's Board of Directors determined that no further grants of stock options or other awards would be made under the 1997 Plan, and the 1997 Plan subsequently expired in June 2007. The foregoing does not affect any outstanding awards under the 1997 Plan, which remain in full force and effect in accordance with their terms.

EMPLOYEE STOCK PURCHASE PLAN

The number of shares authorized for issuance under the Company's 1997 Employee Stock Purchase Plan, as amended and restated ("ESPP"), is 1,400 shares, including a 300 share increase approved by the Company's shareholders on October 21, 2011. Under the ESPP, 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 ESPP permits employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's compensation as defined in the ESPP. The number of shares issued under the ESPP during fiscal years 2012, 2011 and 2010 was 104, 89 and 94, respectively. Shares available for future purchase under the ESPP totaled 360 at June 30, 2012.

STOCK OPTION AND AWARD ACTIVITY

The following table summarizes activity of the Company's stock option plans since June 30, 2010:

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value as of 6/30/2012
Outstanding at June 30, 2010	**2,612**	**$ 13.70**	**4.69**	
Granted	77	13.70		
Exercised	(315)	8.25		
Cancelled	(81)	16.41		
Outstanding at June 30, 2011	**2,293**	**$ 14.35**	**3.88**	
Granted	—	—		
Exercised	(72)	6.48		
Cancelled	(36)	23.70		
Outstanding at June 30, 2012	**2,185**	**$ 14.46**	**2.89**	**$ 3,489**
Vested and expected to vest at June 30, 2012	**2,184**	**$ 14.46**	**2.88**	**$ 3,486**
Exercisable at June 30, 2012	**2,102**	**$ 14.66**	**2.85**	**$ 3,173**

The intrinsic value of the options exercised during fiscal year 2012, 2011 and 2010 was $534, $2,979 and $532, respectively. Non-vested stock options are subject to the risk of forfeiture until the fulfillment of specified conditions. As of June 30, 2012, there was $110 of total unrecognized compensation cost related to non-vested options granted under the Company's stock plans that is expected to be recognized over a weighted-average period of 0.3 years from June 30, 2012. As of June 30, 2011, there was $1,218 of total unrecognized compensation cost related to non-vested options granted under the Company's stock plans that was expected to be recognized over a weighted-average period of 0.9 years from June 30, 2011.

The following table summarizes the status of the Company's non-vested restricted stock awards since June 30, 2010:

	Non-vested Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at June 30, 2010	**828**	**$ 9.44**
Granted	738	12.47
Vested	(279)	9.42
Forfeited	(100)	10.57
Outstanding at June 30, 2011	**1,187**	**$ 11.23**
Granted	585	14.30
Vested	(409)	10.62
Forfeited	(88)	13.14
Outstanding at June 30, 2012	**1,275**	**$ 12.71**

An aggregate of 79 shares of restricted stock that were granted to employees of LNX Corporation joining the Company in connection with the acquisition of LNX in January 2011 are included in the granted figure in the table above.

An aggregate of 144 shares of restricted stock that were granted to employees of KOR and PDI joining the Company in connection with the acquisition of KOR in December 2011 are included in the granted figure in the table above.

The total fair value of restricted stock awards vested during fiscal year 2012, 2011 and 2010 was $5,848, $4,175 and $3,485, respectively.

Non-vested restricted stock awards are subject to the risk of forfeiture until the fulfillment of specified conditions. As of June 30, 2012, there was $10,515 of total unrecognized compensation cost related to non-vested restricted stock awards granted under the Company's stock plans that is expected to be recognized over a weighted-average period of 2.4 years from June 30, 2012. As of June 30, 2011, there was $10,400 of total unrecognized compensation cost related to non-vested restricted stock awards granted under the Company's stock plans that is expected to be recognized over a weighted-average period of 2.6 years from June 30, 2011.

STOCK-BASED COMPENSATION EXPENSE AND ASSUMPTIONS

The Company recognized the full expense of its share-based payment plans in the consolidated statements of operations for the fiscal years 2012, 2011 and 2010 in accordance with FASB ASC 718 and did not capitalize any such costs on the consolidated balance sheets, as such costs that qualified for capitalization were not material. Under the fair value recognition provisions of FASB ASC 718, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the service period. The following table presents share-based compensation expenses from continuing operations included in the Company's consolidated statement of operations:

	Year Ended June 30,		
	2012	2011	2010
Cost of revenues	$ 349	$ 263	$ 251
Selling, general and administrative	5,309	4,609	3,145
Research and development	958	708	620
Share-based compensation expense before tax	6,616	5,580	4,016
Income taxes	(2,357)	(1,966)	(1,499)
Share-based compensation expense, net of income taxes	$ 4,259	$ 3,614	$ 2,517

There were no options granted during fiscal year 2012. The following table sets forth the weighted-average key assumptions and fair value results for stock options granted during fiscal years 2011 and 2010:

	Years Ended June 30,		
	2012	2011	2010
Weighted-average fair value of options granted	$—	$ 7.25	$ 7.17
Option life(1)	—	5.0 years	5.0 years
Risk-free interest rate(2)	—	1.27%	2.38%
Stock volatility(3)	—	63%	87%
Dividend rate	—	0%	0%

(1) The option life was determined based upon historical option activity.
(2) The risk-free interest rate for each grant is equal to the U.S. Treasury yield curve in effect at the time of grant for instruments with a similar expected life.
(3) The stock volatility for each grant is measured using the weighted average of historical daily price changes of the Company's common stock over the most recent period equal to the expected option life of the grant, the historical short-term trend of the option and other factors, such as expected changes in volatility arising from planned changes in the Company's business operations.

O. Operating Segment, Significant Customers 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 assess performance. The Company is presently organized in two operating segments. These reportable 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:

- Advanced Computing Solutions: this operating segment is focused on specialized, high-performance embedded, real-time digital signal and image processing solutions that encompass signal acquisition, including microwave front-end, digitalization, digital signal processing, exploitation processing, high capacity digital storage and communications, targeted to key market segments, including defense, communications and other commercial applications. With the addition of KOR, the ACS segment also designs and develops DRFM units for a variety of modern EW applications, as well as radar environment simulation and test systems for defense applications.
- Mercury Federal Systems: this operating segment is focused on services and support work with the Department of Defense and federal intelligence and homeland security agencies, including designing, engineering, and deploying new ISR capabilities to address present and emerging threats to U.S. forces. With the addition of PDI, the MFS segment also provides sophisticated analysis and exploitation, multi-sensor data fusion and enrichment, and data processing services for the U.S. intelligence community.

The accounting policies of the reportable segments are the same as those described in "Note B: Summary of Significant Accounting Policies." Beginning with the three months ended March 31, 2012, the profitability measure employed by the Company and its chief operating decision maker ("CODM") as the basis for allocating resources to segments and assessing segment performance is adjusted EBITDA, The Company believes the adjusted EBITDA financial measure assists in providing an enhanced understanding of its underlying operational measures to manage its business, to evaluate its performance compared to prior periods and the marketplace, and to establish operational goals. The Company believes that adjusted EBITDA provides a more comprehensive basis for decision making and assessing segment performance than income (loss) from operations prior to stock compensation expense which was used in prior reporting periods.

Adjusted EBITDA is defined as earnings from continuing operations before interest income and expense, income taxes, depreciation, amortization of acquired intangible assets, restructuring, impairment of long-lived assets, acquisition costs and other related expenses, fair value adjustments from purchase accounting and stock-based compensation costs. Prior year's amounts have been presented to reflect the current profitability measures for comparative purposes. Additionally, asset information by reportable segment is not reported because the Company and its CODM utilize consolidated asset information when making business decisions. The following is a summary of the performance of the Company's operations by reportable segment:

	ACS	MFS	Eliminations	Total
YEAR ENDED JUNE 30, 2012				
Net revenues to unaffiliated customers	$215,899	$28,670	$ 360	$244,929
Intersegment revenues	12,208	3	(12,211)	—
Net revenues	$228,107	$28,673	$ (11,851)	$244,929
Adjusted EBITDA	$ 43,802	$ 4,913	$ 159	$ 48,874
YEAR ENDED JUNE 30, 2011				
Net revenues to unaffiliated customers	$217,423	$11,415	$ (128)	$228,710
Intersegment revenues	6,260	52	(6,312)	—
Net revenues	$223,683	$11,467	$ (6,440)	$228,710
Adjusted EBITDA	$ 42,304	$ (914)	$ (507)	$ 40,883
YEAR ENDED JUNE 30, 2010				
Net revenues to unaffiliated customers	$188,967	$10,735	$ 128	$199,830
Intersegment revenues	4,779	336	(5,115)	—
Net revenues	$193,746	$11,071	$ (4,987)	$199,830
Adjusted EBITDA	$ 30,454	$ (641)	$ 43	$ 29,856

The following table reconciles the Company's net income, the most directly comparable GAAP financial measure, to its adjusted EBITDA:

	Year Ended June 30,		
(In thousands)	2012	2011	2010
Net income	$22,619	$18,442	$28,358
(Loss) income from discontinued operations, net of income taxes	—	(65)	289
Income from continuing operations	22,619	18,507	28,069
Interest expense (income), net	27	45	(151)
Income tax expense (benefit)	9,152	8,060	(9,377)
Depreciation	7,859	6,364	5,147
Amortization of acquired intangible assets	3,799	1,984	1,710
Restructuring	2,821	—	231
Impairment of long-lived assets	—	150	211
Acquisition costs and other related expenses	1,219	412	—
Fair value adjustments from purchase accounting	(5,238)	(219)	—
Stock-based compensation cost	6,616	5,580	4,016
Adjusted EBITDA	$48,874	$40,883	$29,856

The geographic distribution of the Company's revenues and long-lived assets from continuing operations is summarized as follows:

	US	Europe	Asia Pacific	Eliminations	Total
YEAR ENDED JUNE 30, 2012					
Net revenues to unaffiliated customers	$235,292	$ 4,983	$4,654	$ —	$244,929
Inter-geographic revenues	5,511	747	175	(6,433)	—
Net revenues	$240,803	$ 5,730	$4,829	$ (6,433)	$244,929
Identifiable long-lived assets	$ 15,895	$ 32	$ 2	$ —	$ 15,929
YEAR ENDED JUNE 30, 2011					
Net revenues to unaffiliated customers	$219,435	$ 3,665	$5,610	$ —	$228,710
Inter-geographic revenues	5,637	2,277	243	(8,157)	—
Net revenues	$225,072	$ 5,942	$5,853	$ (8,157)	$228,710
Identifiable long-lived assets	$ 15,390	$ 24	$ 704	$ —	$ 16,118
YEAR ENDED JUNE 30, 2010					
Net revenues to unaffiliated customers	$180,103	$ 9,960	$9,767	$ —	$199,830
Inter-geographic revenues	13,916	789	198	(14,903)	—
Net revenues	$194,019	$10,749	$9,965	$ (14,903)	$199,830
Identifiable long-lived assets	$ 13,384	$ 21	$ 716	$ —	$ 14,121

Foreign revenue is based on the country in which the Company's legal subsidiary is domiciled. Identifiable long-lived assets exclude goodwill and intangible assets.

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

	Year Ended June 30,		
	2012	2011	2010
Raytheon Company (ACS)	22%	17%	20%
Northrop Grumman Corporation (ACS)	17	21%	*
Lockheed Martin Corporation (ACS)	15	13	17
	54%	51%	37%

Although the Company typically has several customers from which it derives 10% or more of its revenue, the sales to each of these customers are spread across multiple programs and platforms. For the fiscal years ended June 30, 2012 and 2010, the AEGIS Program individually comprised 11% and 15% of the Company's revenues, respectively. For the fiscal year ended June 30, 2011, no single program comprised 10% or more of the Company's revenues.

P. Income Taxes

The components of income before income taxes and income tax expense (benefit) were as follows:

	Year Ended June 30,		
	2012	2011	2010
Income from continuing operations before income taxes:			
United States	$31,277	$26,072	$18,714
Foreign	494	495	(22)
	$31,771	$26,567	$18,692
Income tax expense (benefit) from continuing operations:			
Federal:			
Current	$10,591	$ 4,974	$ (356)
Deferred	(2,582)	1,992	(8,286)
	$ 8,009	$ 6,966	$ (8,642)
State:			
Current	$ 1,401	$ 855	$ 98
Deferred	(335)	48	(711)
	$ 1,066	$ 903	$ (613)
Foreign:			
Current	$ 77	$ 161	$ (122)
Deferred	—	30	—
	$ 77	$ 191	$ (122)
	$ 9,152	$ 8,060	$ (9,377)

The following is the reconciliation between the statutory federal income tax rate and the Company's effective income tax rate from continuing operations:

	Year Ended June 30,		
	2012	2011	2010
Income taxes at federal statutory rates	35.0%	35.0%	35.0%
State income tax, net of federal tax benefit	2.6	2.2	0.5
Research and development credits	(4.2)	(6.9)	(5.9)
Domestic manufacturing deduction	(3.0)	(2.6)	—
Deemed repatriation of foreign earnings	—	—	(1.4)
Equity compensation	1.0	1.6	1.8
IRS audit adjustments	—	—	(1.5)
Goodwill impairment	—	—	0.4
Change in the fair value of the liability related to the LNX earn-out	(5.4)	—	—
Acquisition costs	1.3	0.6	—
Valuation allowance	2.2	1.7	(79.8)
Other	(0.7)	(1.3)	0.7
	28.8%	30.3%	(50.2)%

The components of the Company's net deferred tax assets (liabilities) were as follows:

	June 30, 2012	June 30, 2011
Deferred tax assets:		
Inventory valuation and receivable allowances	$ 4,788	$ 4,189
Accrued compensation	1,367	1,424
Equity compensation	6,036	5,565
Federal and state research and development tax credit carryforwards	8,569	8,716
Net operating loss	—	900
Gain on sale-leaseback	2,116	2,556
Other accruals	919	328
Repatriation of foreign earnings	—	76
Other temporary differences	1,333	594
	25,128	24,348
Valuation allowance	(8,682)	(7,973)
Total deferred tax assets	16,446	16,375
Deferred tax liabilities:		
Deferred revenue	(3,488)	(4,776)
Property and equipment depreciation	(3,995)	(2,452)
Acquired intangible assets	(8,507)	(5,346)
Total deferred tax liabilities	(15,990)	(12,574)
Net deferred tax (liabilities) assets	$ 456	$ 3,801

At June 30, 2012, the Company evaluated the need for a valuation allowance on deferred tax assets. In assessing whether the deferred tax assets are realizable, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company continues to conclude that it was "more likely than not", that most domestic deferred tax assets would be realizable based on the financial performance in fiscal year 2012, projected future taxable income and the reversal of existing deferred tax liabilities.

The Company continues to record a full valuation allowance on Massachusetts research and development ("R&D") and investment tax credits as of June 30, 2012 as management continues to believe that it is not more likely than not that these deferred tax assets would be realized.

The Company had state research and development credit carryforwards of $12,813, which will expire 2018 through 2027. The Company also had state investment tax credits carryforwards of $124 that will expire in 2015. As of June 30, 2012, the Company also had approximately $399 in foreign operating loss carryforwards.

Upon consideration of changing business conditions and cash position in its foreign subsidiaries, management has determined that it would no longer need to indefinitely reinvest the earnings of certain foreign subsidiaries. Therefore, the Company has accrued deferred taxes in association with the $1,200 in undistributed earnings and profits.

The Company files income tax returns in all jurisdictions in which it operates. The Company has established reserves to provide for additional income taxes that may be due in future years as these previously filed tax returns are audited. These reserves have been established based upon management's assessment as to the potential exposures. All tax reserves are analyzed quarterly and adjustments are made as events occur and warrant modification.

The changes in the Company's reserves for unrecognized income tax benefits are summarized as follows:

	Year Ended June 30,	
	2012	2011
Unrecognized tax benefits, beginning of period	$ 1,831	$ 1,856
Increases for previously recognized positions	716	27
Settlements of previously recognized positions	—	(59)
Decreases for previously recognized positions	(84)	(229)
Increases for currently recognized positions	179	236
Unrecognized tax benefits, end of period	$ 2,642	$ 1,831

The $2,642 of unrecognized tax benefits as of June 30, 2012, if released, would reduce income tax expense.

The Company's major tax jurisdiction is the U.S. and the open tax years are 2009 through 2011.

The Company expects that there will not be any material changes in its reserves for unrecognized tax benefits within the next 12 months. Currently there are no significant tax audits underway.

Q. Restructuring Plan

In fiscal 2012, the Company announced a restructuring plan ("2012 Plan") affecting both the ACS and MFS business segments. The 2012 Plan primarily consisted of involuntary separation costs related to the reduction in force which eliminated 41 positions largely in engineering and manufacturing functions; and facility costs related to outsourcing of certain manufacturing activities at the Company's Huntsville, Alabama site. The 2012 Plan for which expense of $2,821 was recorded in fiscal 2012 was implemented to cope with the near term uncertainties in the defense industry and improve the Company's overall business scalability. Future restructuring expenses of approximately $737 associated with the 2012 Plan are expected in fiscal 2013 as the Company starts transitioning the manufacturing activities formerly conducted at the Huntsville, Alabama facility. This restructuring expense will affect the ACS business segment.

All of the restructuring charges are classified as operating expenses in the consolidated statements of operations and any remaining obligations are expected to be paid within the next twelve months. The remaining restructuring liability is classified as accrued expenses in the consolidated balance sheets.

The following table presents the detail of expenses by business segment for the Company's restructuring plans:

	Severance	Facilities	Other	Total
ACS	2,406	—	306	2,712
MFS	109	—	—	109
Total provision	2,515	—	306	2,821
Cash paid	(2)	—	(121)	(123)
Restructuring liability at June 30, 2012	$ 2,513	$ —	$ 185	$2,698

R. Employee Benefit Plans

The Company maintains a qualified 401(k) plan (the "401(k) Plan") for its U.S. employees. The 401(k) Plan covers U.S. employees who have attained the age of 21. During fiscal 2012, 2011 and 2010, the Company matched 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. Expense recognized by the Company for matching contributions related to the 401(k) plan was $2,196, $1,762 and $1,569 during the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

S. Related Party Transactions

In July 2008, the Company and our former CEO, James Bertelli, entered into an agreement for consulting services through June 30, 2010. The consideration for these services totaled $190 and was paid out over the service period. As of June 30, 2010, the Company had made all payments for consulting services under this agreement. Additionally, in July 2008, the Company entered into a five year non-compete agreement with Mr. Bertelli. This agreement, which is carried as an intangible asset on the Company's balance sheet, was valued at $500 and is being amortized over the life of the agreement. As of December 31, 2010, the Company had made all payments under this non-compete agreement.

T. Subsequent Events

On June 8, 2012, the Company and Wildcat Merger Sub Inc., a newly formed, wholly-owned subsidiary of the Company (the "Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Micronetics, Inc. ("Micronetics"). On August 8, 2012, the transaction closed with the Merger Sub merging with and into Micronetics with Micronetics continuing as the surviving company and wholly-owned subsidiary of the Company.

Headquartered in Hudson, NH, Micronetics is a leading designer and manufacturer of microwave and radio frequency (RF) subsystems and components for defense and commercial customers.

Pursuant to the terms of the Merger Agreement, at the closing of the merger on August 8, 2012, each share of common stock of Micronetics issued and outstanding immediately prior to the closing was converted into the right to receive $14.80 in cash, without interest (the "Merger Consideration"). All outstanding options to acquire shares of Micronetics common stock that were vested as of the closing were cancelled and the holders of such options are entitled to receive an amount of cash equal to the product of the total number of shares previously subject to such vested options and the excess of the Merger Consideration over the exercise price per share. All outstanding Micronetics stock options that were unvested at the closing were assumed by Mercury. Mercury funded the acquisition with cash on hand.

The transaction will be accounted for using the acquisition method of accounting which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The acquisition related disclosures required by FASB ASC 805 cannot be made as the initial accounting for the business transaction is incomplete. Key financial data such as the determination of the fair value of the assets acquired and liabilities assumed is not yet available.

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.

2012 (In thousands, except per share data)	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Net revenues	$ 49,122	$ 67,959	$ 66,989	$ 60,859
Gross margin	$ 29,916	$ 40,913	$ 35,063	$ 30,264
Income from operations	$ 3,565	$ 13,485	$ 7,106	$ 5,956
Income from operations before income taxes	$ 3,967	$ 13,873	$ 7,625	$ 6,306
Income tax expense	$ 1,314	$ 4,828	$ 2,380	$ 630
Income from continuing operations	$ 2,653	$ 9,045	$ 5,245	$ 5,676
Net income	$ 2,653	$ 9,045	$ 5,245	$ 5,676
Net earnings per common share:				
Basic net earnings per share:				
Income from continuing operations	$ 0.09	$ 0.31	$ 0.18	$ 0.19
Net income	$ 0.09	$ 0.31	$ 0.18	$ 0.19
Diluted net earnings per share:				
Income from continuing operations	$ 0.09	$ 0.30	$ 0.17	$ 0.19
Net income	$ 0.09	$ 0.30	$ 0.17	$ 0.19

2011 (In thousands, except per share data)	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Net revenues	$ 52,108	$ 55,513	$ 59,855	$ 61,234
Gross margin	$ 30,660	$ 31,640	$ 32,882	$ 34,717
Income from operations	$ 5,245	$ 6,518	$ 6,999	$ 6,223
Income from operations before income taxes	$ 5,759	$ 6,879	$ 7,385	$ 6,544
Income tax expense (benefit)	$ 2,077	$ 1,696	$ 2,007	$ 2,280
Income from continuing operations	$ 3,682	$ 5,183	$ 5,378	$ 4,264
Net income	$ 3,630	$ 5,183	$ 5,378	$ 4,251
Net earnings per common share:				
Basic net earnings per share:				
Income from continuing operations	$ 0.16	$ 0.22	$ 0.20	$ 0.15
Net income	$ 0.16	$ 0.22	$ 0.20	$ 0.15
Diluted net earnings per share:				
Income from continuing operations*	$ 0.16	$ 0.22	$ 0.20	$ 0.14
Net income*	$ 0.15	$ 0.22	$ 0.20	$ 0.14

* Due to the effects of rounding, the sum of the four quarters does not equal the annual total.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

We conducted an evaluation as of June 30, 2012 under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), and concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended, the "Exchange Act") were effective as of June 30, 2012 to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(c) MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Executive Officer and Chief Financial Officer, management conducted an assessment of the effectiveness of our internal control over financial reporting as of June 30, 2012 based on the framework in *Internal Control-Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that our internal control over financial reporting was effective as of June 30, 2012. The effectiveness of our internal control over financial reporting as of June 30, 2012 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report.

The audited consolidated financial statements of the Company include the results of acquired KOR Electronics and its wholly-owned subsidiary, Paragon Dynamics, Inc. ("acquired business"). Upon consideration of the date of the acquisition and the time constraints under which our management's assessment would have to be made, management determined that it would not be possible to conduct a sufficiently comprehensive assessment of the acquired business' controls over financial reporting as allowable under section 404 of the Sarbanes-Oxley Act of 2002. Accordingly, these operations have been excluded from the scope of management's assessment of internal controls. The Company's consolidated financial statements reflect revenues and total assets from the acquired business of approximately 8 percent and 22 percent (of which 17 percent represented goodwill and intangible assets included within the scope of the Company's assessment), respectively, as of June 30, 2012.

(d) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of fiscal 2012 identified in connection with our Chief Executive Officer's and Chief Financial Officer's evaluation that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to our Proxy Statement for our 2012 Annual Meeting of Shareholders (the "Shareholders Meeting"), except that information required by this item concerning our executive officers appears in Part I, Item 4.1 of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for the Shareholders 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 our Proxy Statement for the Shareholders Meeting.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to our Proxy Statement for the Shareholders Meeting.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to our Proxy Statement for the Shareholders Meeting.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(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 Registered Public Accounting Firm
Consolidated Balance Sheets as of June 30, 2012 and 2011
Consolidated Statements of Operations and Comprehensive Income for the fiscal years ended June 30, 2012, 2011 and 2010
Consolidated Statements of Shareholders' Equity for the fiscal years ended June 30, 2012, 2011 and 2010
Consolidated Statements of Cash Flows for the years ended June 30, 2012, 2011 and 2010
Notes to Consolidated Financial Statements

2. Financial Statement Schedule:

II. Valuation and Qualifying Accounts

MERCURY COMPUTER SYSTEMS, INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
FOR FISCAL YEARS ENDED JUNE 30, 2012, 2011 AND 2010
(In thousands)

Allowance for Doubtful Accounts

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS	REVERSALS	WRITE-OFFS	BALANCE AT END OF PERIOD
2012	$ 17	$ 61	$ —	$ 73	$ 5
2011	$ 163	$ 9	$ —	$ 155	$ 17
2010	$ 425	$ 33	$ —	$ 295	$ 163

Deferred Tax Asset Valuation Allowance

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS & EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
2012	$ 7,973	$ 709	$ —	$ —	$ 8,682
2011	$ 7,555	$ 418	$ —	$ —	$ 7,973
2010	$ 22,394	$ (14,839)	$ —	$ —	$ 7,555

3. Exhibits:

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index on page 78, which is incorporated herein by reference.

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 August 22, 2012.

MERCURY COMPUTER SYSTEMS, INC.

By /s/ KEVIN M. BISSON

Kevin M. Bisson
SENIOR VICE PRESIDENT, CHIEF FINANCIAL OFFICER, AND TREASURER
[PRINCIPAL FINANCIAL OFFICER]

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/ MARK ASLETT **Mark Aslett**	President, Chief Executive Officer and Director (principal executive officer)	August 22, 2012
/S/ KEVIN M. BISSON **Kevin M. Bisson**	Senior Vice President, Chief Financial Officer, and Treasurer (principal financial officer)	August 22, 2012
/S/ CHARLES A. SPEICHER **Charles A. Speicher**	Vice President, Controller, and Chief Accounting Officer (principal accounting officer)	August 22, 2012
/S/ JAMES K. BASS **James K. Bass**	Director	August 22, 2012
/S/ GEORGE W. CHAMILLARD **George W. Chamillard**	Director	August 22, 2012
/S/ MICHAEL A. DANIELS **Michael A. Daniels**	Director	August 22, 2012
/S/ GEORGE K. MUELLNER **George K. Muellner**	Director	August 22, 2012
/S/ WILLIAM K. O'BRIEN **William K. O'Brien**	Director	August 22, 2012
/S/ LEE C. STEELE **Lee C. Steele**	Director	August 22, 2012
/S/ VINCENT VITTO **Vincent Vitto**	Chairman of the Board of Directors	August 22, 2012

EXHIBIT INDEX

ITEM NO.	DESCRIPTION OF EXHIBIT
1.1	Underwriting Agreement, dated February 10, 2011, among the Company and Jefferies & Company, Inc. and Lazard Capital Markets LLC as representatives of the several underwriters named therein (incorporated herein by reference to Exhibit 1.1 of the Company's current report on Form 8-K filed on February 11, 2011)
3.1.1	Articles of Organization (incorporated herein by reference to Exhibit 3.1.1 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2009)
3.1.2	Articles of Amendment (incorporated herein by reference to Exhibit 3.1.2 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2010)
3.1.3	Articles of Amendment (incorporated herein by reference to Exhibit 1 of the Company's registration statement on Form 8-A filed on December 15, 2005)
3.2	Bylaws, amended and restated effective as of May 4, 2011 (incorporated herein by reference to Exhibit 3.2 of the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2011)
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))
4.2	Shareholder Rights Agreement, dated as of December 14, 2005, between the Company and Computershare Trust Company, N.A. (formerly known as EquiServe Trust Company, N.A.) (incorporated herein by reference to Exhibit 2 of the Company's registration statement on Form 8-A filed on December 15, 2005)
10.1.1*	1997 Stock Option Plan, as amended and restated (incorporated herein by reference to Exhibit 10.1.1 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2010)
10.1.2*	Form of Stock Option Agreement under the 1997 Stock Option Plan (incorporated herein by reference to Exhibit 10.1.2 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2010)
10.1.3*	Form of Restricted Stock Award Agreement under the 1997 Stock Option Plan (incorporated herein by reference to Exhibit 10.1.3 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2010)
10.2*	1998 Stock Option Plan (incorporated herein by reference to Exhibit 10.2 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2009)
10.3*	1997 Employee Stock Purchase Plan, as amended and restated (incorporated herein by reference to Appendix B to the Company's definitive proxy statement filed on September 19, 2011)
10.4*	Form of Indemnification Agreement between the Company and each of its current directors (incorporated herein by reference to Exhibit 10.4 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2009)
10.5*	Annual Executive Bonus Plan – Corporate Financial Performance (incorporated herein by reference to Exhibit 10.6 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2009)
10.6*	Annual Executive Bonus Plan – Individual Performance (incorporated herein by reference to Exhibit 10.7 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2009)
10.7*	2005 Stock Incentive Plan, as amended and restated (incorporated herein by reference to Appendix A to the Company's definitive proxy statement filed on September 19, 2011)
10.8.1*	Form of Stock Option Agreement under the 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.8.1 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2011)
10.8.2*	Form of Restricted Stock Award Agreement under the 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.8.2 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2011)

ITEM NO.	DESCRIPTION OF EXHIBIT
10.8.3*	Form of Deferred Stock Award Agreement under the 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.8.3 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2011)
10.8.4*	Form of Stock Option Agreement for performance stock options under the 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on September 28, 2007)
10.9.1*	Form of Change in Control Severance Agreement between the Company and Mark Aslett (incorporated herein by reference to Exhibit 10.9.1 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2011)
10.9.2*	Form of Change in Control Severance Agreement between the Company and Non-CEO Executives (incorporated herein by reference to Exhibit 10.9.2 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2011)
10.10*†	Compensation Policy for Non-Employee Directors
10.11.1*	Employment Agreement, dated as of November 19, 2007, by and between the Company and Mark Aslett (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on November 20, 2007)
10.11.2*	First Amendment to Employment Agreement, dated as of December 20, 2008, by and between the Company and Mark Aslett (incorporated by reference to Exhibit 10.2 of the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2008)
10.11.3*	Second Amendment to Employment Agreement, dated as of September 30, 2009, by and between the Company and Mark Aslett (incorporated by reference to Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2009)
10.12.1*	Agreement, dated as of March 27, 2008, by and between the Company and Didier M.C. Thibaud (incorporated herein by reference to Exhibit 10.13 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2008)
10.12.2*	First Amendment to Agreement, dated as of December 22, 2008, by and between the Company and Didier M.C. Thibaud (incorporated herein by reference to Exhibit 10.4 of the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2008)
10.13*	Agreement, dated March 1, 2010, by and between the Company and Gerald M. Haines II (incorporated herein by reference to Exhibit 10.13 of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2011)
10.14*	Agreement, dated November 26, 2011, by and between the Company and Kevin M. Bisson (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on January 17, 2012)
10.15††	Purchase and Sale Agreement dated as of April 12, 2007 among 1999 Riverneck, LLC, Riverneck Road, LLC, 191 Riverneck, LLC and BTI 199-201 Riverneck, L.P.
10.16††	Lease Agreement dated April 20, 2007 between BTI 199-201 Riverneck, L.P. and the Company
10.17	Loan and Security Agreement dated February 12, 2010 between the Company and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on February 19, 2010)
10.18	First Loan Modification Agreement dated March 30, 2011 between the Company and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on April 1, 2011)
10.19	Stock Purchase Agreement by and among the Company, LNX Corporation, and the Holders of the Securities of LNX Corporation (incorporated herein by reference to Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2011)
10.20	Agreement and Plan of Merger dated as of December 22, 2011 by and among the Company, King Merger, Inc., KOR Electronics, and the Securityholders' Representative (incorporated by reference to Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2011)

ITEM NO.	DESCRIPTION OF EXHIBIT
10.21	Agreement and Plan of Merger by and among the Company, Wildcat Merger Sub Inc., and Micronetics, Inc. dated as of June 8, 2012 (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed on June 11, 2012)
10.22*	Micronetics, Inc. 2006 Equity Incentive Plan (incorporated herein by reference to Exhibit 99.1 to the Company's registration statement on Form S-8 filed on August 10, 2012)
21.1†	Subsidiaries of the Company
23.1†	Consent of KPMG LLP
31.1†	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101++	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statement of Operations, (ii) Consolidated Balance Sheet, (iii) Consolidated Statement of Shareholders' Equity, (iv) Consolidated Statement of Cash Flows, and (v) Notes to Consolidated financial Statements

* Identifies a management contract or compensatory plan or arrangement in which an executive officer or director of the Company participates.

† Filed with this Form 10-K.

†† Indicates an exhibit the Company is re-filing with this Form 10-K since the Company cannot incorporate by reference to Exchange Act reports that are more than five years old.

\+ Furnished herewith. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

++ XBRL (Extensible Business Reporting Language) information is furnished and not filed.

Exhibit 10.10

MERCURY COMPUTER SYSTEMS, INC.

Compensation Policy for Non-Employee Directors

Objective

It is the objective of Mercury to compensate non-employee directors in a manner which will enable recruitment and retention of highly qualified directors and fairly compensate them for their services as a director.

Philosophy

Board of Director compensation includes cash and equity. It is annually reviewed by the Compensation Committee with recommendations to the Board. This review includes:

- a market survey of Board compensation to peer companies at the 50th and 75th percentiles;
- a review of Board and Committee meeting frequency;
- Board member personal preparation time for Board and Committee meetings; and
- Board member responsibilities.

The Board targets its annual cash and equity compensation to the 75th percentile of the market.

Cash Compensation

Annual retainer for non-employee directors:	$55,000 per annum, paid quarterly
Additional annual retainers:	
Independent Chairman:	$45,000 per annum, paid quarterly
Chairman of the Audit Committee:	$19,000 per annum, paid quarterly
Chairman of the Compensation Committee:	$15,000 per annum, paid quarterly
Chairman of the N&G Committee:	$10,500 per annum, paid quarterly

Directors are entitled to be reimbursed for their reasonable expenses incurred in connection with attendance at Board and committee meetings.

Quarterly retainer payments shall be paid in arrears within 30 days following the end of each quarter. The full quarterly retainer shall be paid to each director who served on the Board during all or a portion of a quarter.

Equity Compensation

New non-employee directors will be granted equity awards in connection with their first election to the Board. These awards will be granted by the Board of Directors and will consist of shares of restricted stock with a value equal to three times the annual retainer for non-employee directors divided by the average closing price of the Company's common stock during the 30 calendar days prior to the date of grant. These awards will vest as to 50% of the covered shares on each of the first two anniversaries of the date of grant.

Non-employee directors may also receive annual restricted stock awards for the number of shares of common stock equal to $100,000 divided by the average closing price of the Company's common stock during the 30 calendar days prior to the date of grant. These awards will vest as to 50% of the covered shares on the date of grant and as to the remaining covered shares on the first anniversary of the date of grant.

Non-employee directors will not be eligible to receive an annual restricted stock award for the fiscal year in which they are first elected. Non-employee directors who are first elected to the Board during the first half of Company's fiscal year will be eligible to receive an annual restricted stock award for the next fiscal year; otherwise, non-employee directors will not be eligible to receive their first annual restricted stock award until the second fiscal year following the fiscal year in which they are first elected to the Board.

Approved by the Board of Directors, as amended, on April 18, 2012.

Exhibit 10.15

PURCHASE AND SALE AGREEMENT

BY AND BETWEEN

199 RIVERNECK, LLC, RIVERNECK ROAD, LLC AND 191 RIVERNECK, LLC

(COLLECTIVELY, THE "SELLER")

AND

BTI 199-201 RIVERNECK, L.P.

("BUYER")

Dated as of: April 12, 2007

Table of Contents

List of Exhibits

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT ("**Agreement**") is made this 12th day of April, 2007, by and between 199 Riverneck, LLC, a Delaware limited liability company, Riverneck Road, LLC, a Delaware limited liability company and 191 Riverneck, LLC, a Delaware limited liability company (collectively, the "**Seller**"), and BTI 199-201 Riverneck, L.P., a Delaware limited partnership (the "**Buyer**").

W I T N E S S E T H:

In consideration of the mutual covenants and agreements set forth herein, the parties hereto do hereby agree as follows:

ARTICLE 1
SALE OF PROPERTY

1.1 Description of Property. Seller agrees to sell, transfer and assign to Buyer and Buyer agrees to purchase and accept from Seller, subject to the terms and conditions stated herein, the following:

1.1.1 The Land. The land, as more particularly described in **Exhibit 1**, together with all of Seller's right, title and interest in and to any and all rights (including development rights), privileges, rights of way, reservations and easements appurtenant thereto and any other estates of Seller in and to such land, all of Seller's right, title and interest in and to the land lying in the bed of any street, road or highway (open or proposed) in front of, adjoining or servicing said land, all of Seller's right, title and interest in and to any strips or gores adjoining said land or any part thereof, and all of Seller's rights, privileges, rights of way, reservations and easements burdening said land (all of the foregoing, collectively, the "**Land**");

1.1.2 Improvements. The buildings (the "**Buildings**"), structures and other permanent improvements situated on the Land and any fixtures and building systems therein or thereon used for the generic use, operation, repair or maintenance thereof or of the Land (collectively, the "**Improvements**") (but excluding any fixtures and building systems used for Seller's business operations, and those items listed on **Exhibit 2** hereto) (collectively, the "**Excluded Property**"); (the Land and the Improvements are hereafter collectively referred to as the "**Real Property**");

1.1.3 Permit and Other Rights. All of Seller's right, title and interest, if any, and to the extent assignable, in and to (i) any certificates of occupancy, existing licenses, permits, variances, waivers and other written approvals, authorizations and renewals thereof, substitutions therefor and additions thereto with respect to the Real Property or any part thereof, (ii) any access, air, water, riparian, utility and solar rights affecting the Land or Improvements, (iii) all approvals for the development of additional improvements to or associated with the existing Improvements, if any, but excluding, however, the licenses, permits, variances, waivers and other written approvals and authorizations relating exclusively to Seller's business operations on or about the Real Property as distinguished from the use, operation, maintenance, repair and ownership of the Land and the Improvements as a business in and of itself (collectively the "**Permit Rights**"); and

1.1.4 Plans, Warranties and Books and Records. All of Seller's right, title and interest, if any, and to the extent assignable, in: (i) all drawings, plans and specifications relating to the Real Property or any part thereof including without limitation construction drawings, blueprints, design schematics and shop drawings, and any studies, analyses, reports and other written materials pertaining to the condition of the Real Property (collectively, the "**Plans**"), (ii) books, records, reports and other files related solely to the Real Property and the Permit Rights (collectively, the "**Books and Records**"), and (iii) any guaranties, warranties, indemnifications, undertakings and other assurances relating to the Real Property or any part thereof, including without limitation, those more particularly set forth on **Schedule 1.1.4** hereto (collectively, the "**Warranties**").

The Permit Rights, the Plans, the Warranties and the Books and Records are hereafter collectively referred to as the "**Personal Property**". The Real Property and the Personal Property are hereinafter collectively referred to as the "**Property**." There is expressly excluded from the Property sold hereunder the Excluded Property, which, whether affixed to the Buildings or not, shall be excluded from the Property and shall remain the property of Seller.

ARTICLE 2
PURCHASE PRICE

2.1 Purchase Price. The total purchase price (the "**Purchase Price**") to be paid by Buyer for the purchase of the Property is $27,000,000.00. The Purchase Price shall be paid in the manner set forth in **Subsections 2.1.1** and **2.1.2**.

2.1.1 Purchase Price Deposit. Concurrently with the execution and delivery of this Agreement by both parties, Buyer has deposited in escrow with First American Title Insurance Company ("**Buyer's Title Company**") an earnest money deposit in the amount of Two Million Dollars ($2,000,000.00) (together with any interest that may be earned thereon, the "**Deposit**"). The Deposit shall be held by Buyer's Title Company in an interest bearing account pursuant to the terms of the Escrow Agreement attached hereto as **Exhibit 3** (the "**Escrow Agreement**"). If the purchase and sale of the Property is consummated as contemplated hereunder, the Deposit shall be paid to Seller and the entire Deposit shall be credited against the Purchase Price. Each party agrees to give written instructions to Buyer's Title Company with respect to the Deposit consistent with the terms and conditions of this Agreement.

2.1.2 Payment of Purchase Price. On the Closing Date, Buyer shall deliver to Seller the Purchase Price, less the Deposit, subject to the prorations and adjustments set forth in **Article 5** or as otherwise provided by this Agreement (collectively, "**Closing Adjustments**") in immediately available United States federal funds, by wire transfer as more particularly set forth in **Section 5.4** (such amount, the "**Balance of the Purchase Price**").

ARTICLE 3
CLOSING

3.1 Closing Date. The consummation (the "**Closing**") of the transaction contemplated by this Agreement (the "**Transaction**") shall take place on the "**Closing Date**," determined as hereinafter provided, unless this Agreement is earlier terminated as provided herein. The Closing Date shall be April 20, 2007 (or such earlier date as the parties may mutually agree in writing), unless the Closing Date is extended by mutual written agreement of the parties or by either party pursuant to a right to so extend as expressly provided in this Agreement, in which event the Closing Date shall be such extended date, or if the extended date is a Saturday, Sunday or a legal holiday, the Closing Date shall be the next Business Day thereafter. Closing shall be conducted through the use of an escrow with Buyer's Title Company, in which all Property conveyance documents and the Balance of the Purchase Price and other sums payable by Buyer hereunder shall be deposited. The parties shall give reasonable and customary closing instructions to close the escrow. All documents shall be deposited in escrow no later than 5:00 p.m. Eastern Time on the last business day prior to the Closing Date and funds shall be delivered on the Closing Date. The parties shall endeavor to conduct an escrow closing so that it will not be necessary for any party to attend Closing. Time is of the essence with respect to the Closing Date. Notwithstanding anything to the contrary contained in this Agreement, Seller shall have the right to terminate this Agreement at any time if the Balance of the Purchase Price is not timely received on the Closing Date.

3.2 Seller's Closing Deliveries. At the Closing, Seller shall deliver or cause to be delivered to Buyer or Buyer's Title Company, as applicable, the following:

(a) Deed. A statutory quitclaim deed in the form attached hereto as **Exhibit 4** conveying to Buyer fee simple title to the Real Property, subject only to the Permitted Exceptions, duly executed and acknowledged by Seller in a manner sufficient for recording and/or filing, as applicable (the "**Deed**").

(b) Lease. Lease of the Property in the form attached hereto as **Exhibit 6**, duly executed by Mercury Computer Systems, Inc. ("**Mercury**") (the "**Lease**").

(c) Notice of Lease. Notice of the Lease that satisfies the requirements of M.G.L. c.183 Section 4, in the form attached hereto as **Exhibit 6B**, duly executed and acknowledged by Mercury, in a manner sufficient for recording and/or filing, as applicable (the "**Notice of Lease**").

(d) Title Affidavit and Gap Indemnity. A parties in possession and mechanics' lien affidavit in the form attached hereto as **Exhibit 7A** sufficient for Buyer's Title Company to remove all standard exceptions for parties in possession except for Mercury Computer Systems, Inc. and mechanics' liens from Buyer's title policy, duly executed by Seller and a gap indemnity in the form of **Exhibit 7B**, duly executed by Seller.

(e) Non-Foreign Status. A non-foreign status affidavit as required by Section 1445 of the Internal Revenue Code in the form attached hereto as **Exhibit 11**, duly executed and acknowledged by Seller.

(f) Evidence of Authority. Documents to establish to Buyer's and Buyer's Title Company's reasonable satisfaction the due authorization of Seller's sale of the Property and Seller's execution and delivery and performance of this Agreement and Seller's and Mercury's, as the case may be, execution, delivery and performance of each of the documents to be delivered by it pursuant to this Agreement, and/or necessary to record and/or file any such documents, but a legal opinion shall not be required.

(g) Seller's Certificate. The Certificate of Seller in the form attached hereto as **Exhibit 8**, duly executed by Seller.

(h) Plans and Warranties. Complete copies of the Plans and originals or, if originals are not readily available, copies of the Books and Records and documents giving rise to the Permit Rights, the Warranties, and Books and Records in each case to the extent in the possession of Seller; provided; however, that Seller shall be entitled to retain one copy of the Plans if there is more than one such copy. To the extent the Plans, Permit Rights and Warranties are not in the possession of Seller, but in Seller's control, at Buyer's request, Seller shall instruct the holder to deliver the same to Buyer.

(i) Closing Statement. The Closing Statement, duly executed by Seller.

(j) Lease Estoppel Certificate and Subordination Agreement. An estoppel certificate in the form attached hereto as **Exhibit 12** and a subordination, non-disturbance and attornment agreement in the form attached hereto as **Exhibit 13**.

(k) Termination of Existing Leases. An agreement fully terminating the existing leases at the Property, executed by Seller and Mercury, in a form and substance reasonably acceptable to Buyer and Buyer's Title Company.

(l) Assignment of Permit Rights, Warranties, Books and Records. An assignment of the Plans, Permit Rights,

Warranties and Books and Records ("**Assignment of Personal Property**") in the form of **Exhibit 5** assigning all of Seller's rights thereto, duly executed by Seller, and any additional, specific documentation required to transfer any Plans, Permit Rights, Warranties or Books and Records to Buyer.

(m) Additional Documents. Such other additional documents reasonably required to consummate the Transaction.

3.3 Buyer Closing Deliveries. At the Closing, Buyer shall deliver or cause to be delivered to Seller the following:

(a) The Balance. The Balance of the Purchase Price, as adjusted for apportionments and other adjustments required under this Agreement.

(b) Lease. The Lease, duly executed by Buyer.

(c) Notice of Lease. The Notice of Lease, duly executed and acknowledged by Buyer.

(d) Buyer's Certificate. The Certificate of Buyer in the form attached hereto as **Exhibit 9**, duly executed by Buyer.

(e) Evidence of Authority. Documentation to establish to Seller's reasonable satisfaction the due authorization of Buyer's acquisition of the Property and Buyer's execution and delivery and performance of this Agreement and each of the documents required to be delivered by Buyer pursuant to this Agreement, and/or necessary to record and/or file any such documents, but a legal opinion shall not be required.

(f) Closing Statement. The Closing Statement, duly executed by Buyer.

(g) Assignment of Personal Property. The Assignment of Personal Property, duly executed by Buyer.

(h) A subordination, non-disturbance and attornment agreement duly executed by Buyer and Buyer's lender(s) in the form attached hereto as **Exhibit 13**.

(i) Additional Documents. Such other additional documents reasonably required to consummate the Transaction.

ARTICLE 4
CONDITIONS TO CLOSING

4.1 Seller's Obligations. Seller's obligation to close the Transaction is conditioned on satisfaction of all of the following, any or all of which may be waived by Seller by an express written waiver, at its sole option:

(a) Representations True. All representations and warranties made by Buyer in this Agreement shall be true and correct in all material respects on and as of the Closing Date, as if made on and as of such date, except to the extent they expressly relate to an earlier date;

(b) Buyer's Deliveries Complete. Buyer shall have delivered the funds required hereunder and all of the documents to be executed by Buyer as set forth in **Section 3.3** and shall have performed all other covenants, undertakings and obligations set forth in this Agreement in all material respects, and complied in all material respects with all conditions required by this Agreement to be performed or complied with by Buyer at or prior to the Closing; and

(c) Litigation. On the Closing Date, there will be no third party injunction, preliminary restraining order or any order of any nature issued or threatened by a court of competent jurisdiction affecting Buyer directing that the transaction contemplated by this Agreement not be consummated.

In the event any of the foregoing conditions in this **Section 4.1** are not satisfied at the time of Closing, Buyer shall be deemed to be in default of its obligations under this Agreement, and Seller may elect to exercise such remedies as may be permitted pursuant to the terms set forth in **Article 10**.

4.2 Buyer's Obligations. Buyer's obligation to close the Transaction is conditioned on satisfaction of all of the following, any or all of which may be expressly waived by Buyer in writing, at its sole option:

(a) Representations True. All representations and warranties made by Seller in this Agreement shall be true and correct in all material respects on and as of the Closing Date, as if made on and as of such date, except to the extent that they expressly relate to an earlier date;

(b) Title Conditions Satisfied. At the time of the Closing, title to the Real Property shall be as provided in **Article 7** of this Agreement and Buyer shall receive conveyance of good, clear, record and marketable title to the Real Property as will enable Buyer's Title Company to issue its title policy in the amount of the Purchase Price without exception as to matters of survey or any liens or other matters of any nature affecting the title, except for the Permitted Exceptions;

(c) Seller's Deliveries Complete. Seller shall have delivered all of the documents and other items required pursuant to **Section 3.2** and shall have performed all other covenants, undertakings and obligations set forth in this Agreement in all material respects, and complied in all material respects with all conditions required by this Agreement to be performed or complied with by Seller at or prior to the Closing;

(d) No Material Adverse Change. There shall have been no material adverse change in the title to, possession of or physical condition of the Property occurring after the end of the Due Diligence Period (including, without limitation, a Release of Hazardous Materials on the Property requiring remediation or response action under Environmental Laws), other than any change arising from casualty or condemnation, which shall be governed by **Article 11** below;

(e) Seller's and Mercury's Financial Condition. No petition shall have been filed by or against Seller or Mercury under the Federal Bankruptcy Code or any similar State laws, whether now or hereafter existing. There shall not have occurred and be continuing at Closing any material, adverse change in the

financial condition of Mercury, from the condition thereof as of the expiration of the Due Diligence Period. A material, adverse change in the financial condition of Mercury shall be deemed to include, but not be limited to, a downrating by either Standard & Poors or Moodys of the long term unsecured debt rating of Mercury from the rating of such party as of the expiration of the Due Diligence Period; and

(f) Litigation. On the Closing Date, there will be no third party injunction, preliminary restraining order or any order of any nature issued or threatened by a court of competent jurisdiction affecting Seller directing that the transaction contemplated by this Agreement not be consummated.

In the event any of the foregoing conditions are not satisfied in this **Section 4.2** at the time of Closing, Seller shall be deemed to be in default of its obligations under this Agreement, and Buyer may elect to exercise such remedies as may be permitted pursuant to the terms of **Article 10**.

4.3 Waiver of Failure of Conditions Precedent. At the Closing or any time or times on or before the date specified for the satisfaction of any condition, Seller or Buyer may elect in writing to waive the benefit of any condition in this Agreement expressly for the benefit of Seller or Buyer, respectively. Except with respect to **Subsection 4.2(a)**, by closing the Transaction, each party shall be conclusively deemed to have waived the benefit of any remaining unfulfilled condition herein for such party's benefit. To the extent, if any, that this **Section 4.3** is inconsistent with **Subsections 6.3.1** through **6.3.4** below, the provisions of said **Subsections 6.3.1** through **6.3.4** shall govern.

ARTICLE 5
ADJUSTMENTS AND PRORATIONS

5.1 Possession After Closing. At Closing, Seller shall deliver possession of the Property to Buyer, free of tenants and other occupants, except that Mercury shall retain possession of portions of the Real Property as tenant under the Lease pursuant to and subject to the terms of the Lease. Except to the extent that Mercury remains responsible therefor pursuant to the Lease, real estate and personal property taxes (exclusive of installments of any betterment assessments not yet due and payable), water and sewer charges, and other operating expenses shall be apportioned between the parties at the Closing as of the close of the Business Day prior to the Closing Date on the basis of the fiscal period for which assessed or billed. If the Closing shall occur before a new tax rate is fixed, the apportionment of taxes at the Closing shall be upon the basis of the old tax rate for the preceding period applied to the latest assessed valuation. Promptly after the new tax rate is fixed, the apportionment of taxes shall be recomputed. The terms of this **Section 5.1** shall survive Closing and not be merged therein for a period of one (1) year after Closing.

5.2 Closing Costs. Buyer shall pay all premiums and charges for Buyer's title policy (including endorsements), the cost of any survey obtained by Buyer (the "**Survey**"), all recording and filing charges in connection with the deeds and any other instruments by which Seller conveys the Property, one-half (1/2) of all escrow charges, and any other costs customarily paid

by a buyer of similar properties pursuant to local practice. Seller shall pay all deed excise stamp taxes and other transfer taxes, if any, applicable to the transfer of the Property to the Buyer, one half (1/2) of all escrow charges, the Seller's Broker's fee, and any other costs customarily paid by a seller of similar properties pursuant to local practice. Each party shall pay its own attorneys. The obligations of the parties to pay applicable closing costs shall survive the Closing or any termination of this Agreement.

5.3 Apportionment Credit. In the event the adjustments and apportionments to be made at the Closing result in a credit balance (i) to Buyer, such sum shall be paid at the Closing by giving Buyer a credit against the Purchase Price in the amount of such credit balance or (ii) to Seller, such sum shall be paid by Buyer to Seller at the Closing by wire transfer of immediately available federal funds to the account or accounts to be designated by Seller for the payment of the Balance of the Purchase Price.

5.4 Closing Statement. All adjustments and prorations shall be made in accordance with the provisions of this Agreement and otherwise in accordance with generally accepted accounting principles. Buyer and Seller will prepare, no later than two (2) Business Days prior to the Closing Date, a closing statement (the "**Closing Statement**"), which shall (a) contain the wiring instructions for the wire transfer of the Balance of the Purchase Price to Seller (the "**Wiring Instructions**"), (b) contain the amounts of the items requiring the prorations and adjustments in accordance with this Agreement, and (c) become the basis upon which the prorations and adjustments provided for herein shall be made at the Closing, except as Seller and Buyer shall otherwise agree prior to Closing. The Closing Statement shall be based on the Purchase Price and the adjustments and prorations described in this **Article 5**.

5.5 Delayed Adjustment. Any adjustments and prorations made based on an estimate shall be adjusted as soon after Closing as final information becomes available. If, following the Closing Date, the amount of an item referred to in any section of this **Article 5** shall prove to be incorrect, the party in whose favor the error was made shall be obligated to pay to the other party the sum necessary to correct such error within thirty (30) days after receipt of proof of such error, provided that such proof is delivered to the party from whom payment is requested on or before one (1) year after Closing. The provisions of this **Article 5** shall survive the Closing.

ARTICLE 6
REPRESENTATIONS AND WARRANTIES

6.1 Buyer's Representations. Buyer represents and warrants to Seller as follows, as of the date of this Agreement:

(a) Buyer is duly organized, validly existing and in good standing under the laws of Delaware and is authorized to consummate the Transaction and fulfill all of Buyer's obligations hereunder and under all documents contemplated hereunder to be executed by Buyer. Buyer has all necessary power to execute and deliver this Agreement and all documents contemplated hereunder to be executed by Buyer and to perform all of Buyer's obligations hereunder and thereunder. This Agreement, the Lease and all documents contemplated hereunder to be executed by Buyer have been duly authorized by all requisite action on the part of

Buyer, have been and will at Closing be duly executed by Buyer, and are the valid and legally binding obligation of Buyer enforceable against Buyer in accordance with their respective terms. Neither the execution and delivery of this Agreement, the Lease and all documents contemplated hereunder to be executed by Buyer, nor the performance of the obligations of Buyer hereunder or thereunder will result in the violation of any law or any provision of the Buyer's governing documents or will conflict with any order or decree of any court or governmental instrumentality or any other agreement of any nature by which Buyer is bound.

(b) Buyer has obtained or filed, as the case may be, all authorizations, consents, approvals, waivers, exemptions, licenses, qualifications, registrations, filings, declarations, exemptions or orders of any governmental or regulatory agency, authority, division or body, court or any third party which are required in connection with the execution, delivery, observance or performance by Buyer of the documents to be delivered by Buyer at Closing and the consummation of the Transaction contemplated hereby.

(c) At Closing Buyer will have available the funds necessary to purchase the Property.

(d) The execution, delivery and compliance with, and performance of the terms and provisions of, this Agreement, and the purchase of the Property, shall not (i) conflict with or result in any violation of Buyer's organizational documents, or (ii) violate any existing term or provision of any order, writ, judgment, injunction, decree, statute, law, rule or regulation applicable to Buyer or Buyer's assets or properties.

(e) There is no proceeding pending or threatened by or against Buyer under the United States Bankruptcy Code or any similar State laws.

(f) Buyer is not, and will not become, a person or entity with whom United States persons or entities are restricted or prohibited from doing business under regulations of the Office of Foreign Asset Control ("**OFAC**") of the Department of the Treasury (including those named on OFAC's specially designated and blocked persons list) or under any statute, executive order, including the September 24, 2001, Executive Order No. 13224 entitled "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism" (the "**Executive Order**") or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, or other governmental action (collectively, the "**Anti-Money Laundering and Anti-Terrorism Laws**"), and is not and will not engage in any dealings or transactions or be otherwise associated with such persons or entities;

(g) To the current actual knowledge of Joseph Bonner, neither the Buyer nor its affiliates, is in violation of Anti-Money Laundering and Anti-Terrorism Laws.

(h) To the current actual knowledge of Joseph Bonner, neither the Buyer nor its affiliates, is acting, directly or indirectly, on behalf of terrorists, terrorist organizations or narcotics traffickers, including those persons or entities that appear on the Annex to the Executive Order, or are included on any relevant lists maintained by the OFAC, the U.S. Department of State, or other U.S. government agencies, all as may be amended from time to time.

(i) To the current actual knowledge of Joseph Bonner, neither the Buyer nor its affiliates nor, without inquiry, any of its brokers or other agents, in any capacity in connection with the purchase of the Property (A) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any person included in the lists set forth in the preceding paragraph, (B) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order, or (C) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Money Laundering and Anti-Terrorism Laws.

(j) The Buyer understands and acknowledges that the Seller may become subject to further anti-money laundering regulations, and agrees to execute instruments, provide information, or perform any other acts as may reasonably be requested by the Seller, for the purpose of: (A) carrying out due diligence as may be required by applicable law to establish the Buyer's identity and source of funds; (B) maintaining records of such identities and sources of funds, or verifications or certifications as to the same; and (C) taking any other actions as may be required to comply with and remain in compliance with anti-money laundering regulations applicable to the Buyer.

(k) "**Government List**" shall mean any of (i) the two lists maintained by the United States Department of Commerce (Denied Persons and Entities), (ii) the list maintained by the United States Department of Treasury (Specially Designated Nationals and Blocked Persons), and (iii) the two lists maintained by the United States Department of State (Terrorist Organizations and Debarred Parties). Neither the Buyer, nor any person controlling or controlled by the Buyer, is a country, territory, individual or entity named on a Government List, and the monies used in connection with this Agreement and amounts committed with respect thereto, were not and are not derived from any activities that contravene any applicable anti-money laundering or anti-bribery laws and regulations (including funds being derived from any person, entity, country or territory on a Government List or engaged in any unlawful activity defined under Title 18 of the United States Code, Section 1956(c)(7)).

6.2 Seller's Representations. Seller represents and warrants to Buyer as follows, as of the date of this Agreement:

6.2.1 Seller's Authorization.

(a) Seller is duly organized, validly existing and in good standing under the laws of the State of Delaware, is duly qualified to do business in the Commonwealth of Massachusetts and is authorized to consummate the Transaction and fulfill all of its obligations hereunder and under all documents contemplated hereunder to be executed by Seller. Seller has all necessary power to execute and deliver this Agreement and all documents contemplated hereunder to be executed by Seller and to perform all of Seller's obligations hereunder and thereunder. This Agreement and all documents contemplated hereunder to be executed by Seller have been duly authorized by all requisite corporate action on the part of Seller, have been and will at Closing be duly executed by Seller, and are the valid and legally binding obligations of Seller enforceable in accordance with their respective terms. Neither the execution and delivery of this Agreement and all documents contemplated hereunder to be executed by Seller, nor the performance of the obligations of the Seller hereunder or thereunder will result in the violation of any law or any provision of Seller's articles of incorporation or bylaws or will conflict with any order or decree of any court or governmental instrumentality or any other agreement of any nature by which Seller is bound.

(b) Seller has obtained or filed, as the case may be, all authorizations, consents, approvals, waivers, exemptions, licenses, qualifications, registrations, filings, declarations, exemptions or orders of any governmental or regulatory agency, authority, division or body, court or any third party which are required in connection with the execution, delivery, observance or performance by Seller of this Agreement, the documents to be delivered by Seller at Closing and the consummation of the Transaction contemplated hereby.

(c) Mercury is duly organized, validly existing and in good standing under the laws of the State of Massachusetts, is duly qualified to do business in the Commonwealth of Massachusetts and is authorized to enter into the Lease . Mercury has all necessary power to execute and deliver the Lease and to perform all of Mercury's obligations thereunder. The Lease will at Closing be duly authorized by all requisite corporate action on the part of Seller, will at Closing be duly executed by Mercury, and will be the valid and legally binding obligations of Mercury enforceable in accordance with its terms. Neither the execution and delivery of the Lease, nor the performance of the obligations of Mercury thereunder will result in the violation of any law or any provision of Mercury's articles of organization or bylaws or will conflict with any order or decree of any court or governmental instrumentality or any other agreement of any nature by which Mercury is bound.

(d) As of the Closing, Mercury will have obtained or filed, as the case may be, all authorizations, consents, approvals, waivers, exemptions, licenses, qualifications, registrations, filings, declarations, exemptions or orders of any governmental or regulatory agency, authority, division or body, court or any third party which are required in connection with the execution, delivery, observance or performance by Mercury of the obligations under the Lease.

6.2.2 Other Seller Representations.

(a) Neither Seller nor Mercury have received any written notice of any pending or threatened litigation, suit, claim, condemnation, proceeding or special assessment against Seller, Mercury or the Property which would, if determined adversely to Seller or Mercury, materially and adversely affect the Property or the operation thereof, or Seller's or Mercury's ability to perform all of the obligations hereunder or under the agreements to be executed and delivered by Seller and Mercury at Closing.

(b) Neither Seller nor Mercury has received written notice from any governmental agency of any violation of any laws, ordinances or regulations applicable to any of the Property that has not been corrected as of the date hereof;

(c) There is no proceeding pending or threatened by or against Seller or Mercury under the United States Bankruptcy Code or any similar State laws;

(d) As of the Closing, except for the Lease, there will be no leases, license agreements or other occupancy agreements under which any person occupies, leases or subleases or has the right to occupy, lease or sublease any portion of the Real Property,

(e) As of the Closing, except for the Lease, no person will have an option to purchase, occupy or lease all or any portion of the Property or any right of first offer, right of first refusal or similar right to purchase, lease or acquire interests in all or any portion of the Property other than Buyer pursuant to this Agreement;

(f) There are no pending real property tax reduction or abatement proceedings affecting the Real Property;

(g) To Seller's Knowledge, there are no underground storage tanks on the Real Property;

(h) The service, maintenance, supply or other contracts or agreements or equipment leases relating to the security, operation, repair or maintenance of the Property that remain in effect from and after the Closing and will continue to be the obligation of Mercury under the Lease and will not be binding on Buyer;

(i) The Evaluation Materials delivered or made available to Buyer prior to the expiration of the Due Diligence Period shall be true, accurate and complete copies of such Evaluation Materials in Seller's possession or control and constitute all books, records, and other writings in Seller's possession or control related in any material way to the use, ownership or operation of the Property. To Seller's Knowledge, except as disclosed to Buyer in the Evaluation Material or in the other Confidential Information, or as discovered by Buyer in connection with its due diligence review of the Property, there are no material adverse physical conditions affecting the Property.

(j) The Designated Employees are familiar with the Property and have managed the Property for at least three (3) years prior to Closing;

(k) To the knowledge of the Designated Employees, there are no pending or threatened condemnation proceedings which would affect the Property, or any part thereof, nor any pending or threatened planned public improvements, annexations, zoning or subdivision changes, or other claims or proceedings affecting the Property;

(l) Seller is not, and will not become, a person or entity with whom United States persons or entities are restricted or prohibited from doing business under regulations of the OFAC of the Department of the Treasury (including those named on OFAC's specially designated and blocked persons list) or under any Anti-Money Laundering and Anti-Terrorism Laws, and is not and will not engage in any dealings or transactions or be otherwise associated with such persons or entities;

(m) To the current actual knowledge of Craig Barrows, General Counsel of Mercury, Seller and Seller's affiliates are not in violation of Anti-Money Laundering and Anti-Terrorism Laws.

(n) To the current actual knowledge of Craig Barrows, General Counsel of Mercury, Seller and Seller's affiliates are not acting, directly or indirectly, on behalf of terrorists, terrorist organizations or narcotics traffickers, including those persons or entities that appear on the Annex to the Executive Order, or are included on any relevant lists maintained by the OFAC, the U.S. Department of State, or other U.S. government agencies, all as may be amended from time to time.

(o) To the current actual knowledge of Craig Barrows, General Counsel of Mercury, Seller and Seller's affiliates nor, without inquiry, any of its brokers or other agents, in any capacity in connection with the purchase of the Property (A) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any person included in the lists set forth in the preceding paragraph, (B) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order, or (C) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Money Laundering and Anti-Terrorism Laws.

(p) The Seller understands and acknowledges that the Buyer may become subject to further anti-money laundering regulations, and agrees to execute instruments, provide information, or perform any other acts as may reasonably be requested by the Buyer, for the purpose of: (A) carrying out due diligence as may be required by applicable law to establish the Seller's identity; (B) maintaining records of such identities, or verifications or certifications as to the same; and (C) taking any other actions as may be required to comply with and remain in compliance with anti-money laundering regulations applicable to the Seller.

(q) Neither the Seller, nor any person controlling or controlled by the Seller, is a country, territory, individual or entity named on a Government List and, to the current actual knowledge of Craig Barrows, General Counsel of Mercury, the monies used by Seller to purchase the Property were not derived from any activities that contravene any applicable anti-money laundering or anti-bribery laws and regulations (including funds being derived from any person, entity, country or territory on a Government List or engaged in any unlawful activity defined under Title 18 of the United States Code, Section 1956(c)(7)).

(r) Seller represents and warrants to Buyer and The Prudential Insurance Company of America ("**Prudential**") that none of Seller's equity interests are held by (a) "employee benefit plans" as that term is defined in Section 3(3) of ERISA, which are subject to Title I of ERISA or plans subject to Section 4975 of the Internal Revenue Code of 1986, as amended (collectively, "**ERISA Plans**"), or (b) any entity whose underlying assets include "plan assets" by reason of any such ERISA Plan investment in such entity, or (c) a "governmental plan" within the meaning of Section 3(32) of ERISA and Seller and such interests are not owned by such a governmental plan or otherwise subject to state statutes regulating investments of and fiduciary obligations with respect to governmental plans. Notwithstanding any provision in this Agreement to the contrary, the representations set forth in this **Subsection 6.2.2(r)** are intended to inure to the benefit of both Buyer and Prudential and Prudential shall be entitled to rely hereon and enforce the provisions hereof;

(s) To the knowledge of the Designated Employees, no written notice of cancellation has been received by Seller or Mercury with respect to any insurance affecting the Property and all premiums therefor have been paid. No insurance company insuring the Buildings or the board of fire underwriters has delivered to Seller or Mercury written notice (i) that any insurance policy now in effect will not be renewed or (ii) that Seller or Mercury has failed to comply with insurance requirements or (iii) that material defects or inadequacies exist in the Property, or in any part thereof.

6.3 General Provisions.

6.3.1 No Liability for Known Facts. Neither party shall have any liability in connection with this Agreement by reason of an inaccuracy of a representation or warranty, if and to the extent that such inaccuracy is in fact actually known by the other party (for the purposes hereof, actual knowledge shall mean the knowledge of individuals involved in the Transaction) at the time of the Closing and such other party would be entitled not to close by virtue of such inaccuracy, but such other party elects, nevertheless, to consummate the Transaction.

6.3.2 Definition of "Seller's Knowledge". All references in this Agreement to "**Seller's Knowledge**" shall refer only to the actual knowledge of Steve Nigzus, Mercury's Chief Information Officer and Jesse Sawyer, Seller's Manager of Facilities (the "**Designated Employees**") and shall not be construed to refer to the knowledge of any other officer, agent or employee of Seller or any affiliate thereof or to impose or have imposed upon the Designated Employee any duty to investigate the matters to which such knowledge, or the absence thereof, pertains, including, but not limited to, the contents of the files, documents and materials made available to or disclosed to Buyer or the contents of files maintained by the Designated Employee. There shall be no personal liability on the part of said individual arising out of any representations or warranties made herein.

6.3.3 Survival of Representations, and Warranties. (a) The representations and warranties contained in **Article 6** as made herein and to be confirmed in the certificates to be delivered at Closing by each of Seller and Buyer pursuant to **clause (g)** of **Section 3.2** and **clause (d)** of **Section 3.3**, respectively, shall survive the Closing and delivery of the Deeds for a period of nine (9) months following the Closing Date (the "**Expiration Date**").

6.3.4 Limitation on Damages. The Buyer may not assert any claim against Seller for a breach of the representations and warranties contained in Article 6 unless (a) Buyer's damages are reasonably expected to exceed $50,000.00 in the aggregate, and in no event shall the aggregate of such damages exceed $500,000.00 and (b) Buyer gives Seller written notice containing a description of the specific nature of the breach within seven (7) days after the expiration of the nine (9) month period as noted in Section 6.3.3.

ARTICLE 7
TITLE MATTERS

7.1 Title to Real Property. Buyer has obtained, at its sole cost and expense, a title commitment (ALTA Commitment Number NCS-282591-CHI2) with an effective date of March 1, 2007 with respect to the Real Property (the "**Title Commitment**"). Except as provided in **Section 7.2**, and unless this Agreement is terminated as provided hereunder, at the Closing Seller shall transfer to Buyer fee simple title to the Real Property and Buyer shall accept the same, subject to the following matters:

(a) All laws, statutes, ordinances, codes, rules, regulations, requirements, or executive mandates, including, without limitation, all environmental, building and zoning restrictions, ordinances and regulations, insofar as applicable to the Property or the ownership, use or operation thereof adopted by the United States, the Commonwealth of Massachusetts, the town of Chelmsford, and any and every other agency, department, instrumentality and/or political subdivision of government of every kind whatsoever having jurisdiction thereof, and all amendments or additions thereto now in effect or which may be in force and effect on the Closing Date (collectively "**Laws**"); and

(b) Real estate taxes and assessments and water and sewer charges which are not yet due and payable but which may be a lien on all or a portion of the Real Property, subject to the Closing Adjustments;

(c) The exceptions to title shown on the Title Commitment, except for those matters or items which Seller has agreed to discharge, release or terminate as provided in Section 7.2, below;

(d) The Lease to Mercury; and

(e) Any matters deemed to constitute additional Permitted Exceptions under **Subsection 7.3** hereof.

The foregoing together with any liens or other matters created or caused by Buyer, its agents, contractors, employees or representatives, are hereinafter referred collectively to as the "**Permitted Exceptions.**"

7.2 Title Cure Obligations. Seller's title cure obligations ("Title Obligations") are set forth below in this Section 7.2.

7.2.1. Seller agrees to obtain certificates as to the proper release and recordation of discharges of the following matters:

(a) First Mortgage and Security Agreement from Riverneck Road LLC to Massachusetts Mutual Life Insurance Company and C.M. Life Insurance Company dated as of October 26, 1999 and recorded in Book 10502, Page 34 and filed as Document 186688.

(b) First Mortgage and Security Agreement from Riverneck Road LLC to Massachusetts Mutual Life Insurance Company and C.M. Life Insurance Company dated as of October 26, 1999 and recorded in Book 10502, Page 141.

(c) Lease Assignment and Agreement by and between Riverneck Road, LLC (Lessor), Mercury Computer Systems, Inc. (Lessee), Massachusetts Mutual Life Insurance Company (Mortgagee) and C.M. Life Insurance Company (Mortgagee)) dated as of October 26, 1999 and filed on November 3, 1999 as Document 186690 and recorded in Book 10502, Page 79.

(d) Lease Assignment and Agreement by and between 199 Riverneck Road, LLC (Lessor), Mercury Computer Systems, Inc. (Lessee), Massachusetts Mutual Life Insurance Company (Mortgagee) and C.M. Life Insurance Company (Mortgagee) dated as of October 26, 1999 in Book 10502, Page 185.

(e) Tenant Agreement by and between 199 Riverneck Road, LLC (Lessor), Mercury Computer Systems, Inc. (Lessee), Massachusetts Mutual Life Insurance Company (Mortgagee) and C.M. Life Insurance Company (Mortgagee) dated as of October 26, 1999 and recorded in Book 10502, Page 208.

(f) Tenant Agreement by and between Riverneck Road, LLC (Lessor), Mercury Computer Systems, Inc. (Lessee), Massachusetts Mutual Life Insurance Company (Mortgagee) and C.M. Life Insurance Company (Mortgagee) dated as of October 26, 1999 and filed on November 3, 1999 as Document 186691 and recorded in Book 10502, Page 104.

(g) UCC Financing Statement in which 199 Riverneck LLC is the Debtor and C.M. Life Insurance Company (c/o Massachusetts Mutual Life Insurance Company) is the Secured Party, recorded in Book 10711, Page 159, as affected by Continuation Statement recorded in Book 18478, Page 62.

(h) UCC Financing Statement in which 199 Riverneck LLC is the Debtor and Massachusetts Mutual Life Insurance Company is the Secured Party, recorded in Book 10711, Page 163, as affected by Continuation Statement recorded in Book 18478, Page 61.

(i) Any mortgage, mechanics' or materialmen's lien (unless resulting from any act or omission of Buyer or any of its agents, representatives, contractors or employees) or other encumbrance securing payment of a liquidated monetary obligation of Seller or Mercury (a "**Monetary Encumbrance**").

7.2.2. Seller has provided evidence to Buyer's Title Company that the betterment assessment by the Town of Chelmsford dated June 15, 1988 recorded with said Deeds in Book 4567, Page 17 has been paid in full and Buyer's Title Company has agreed to remove this exception from the Title Commitment. Seller shall have no further obligations with respect to this exception.

7.2.3. Seller shall terminate the following Leases:

a. Lease by and between 199 Riverneck, LLC and Mercury Computer Systems, Inc., Tenant dated March 1, 1999.

b. Lease by and between Riverneck Road, LLC and Mercury Computer Systems, Inc., dated January 1, 1999.

7.2.4. Seller shall obtain and record and file as appropriate terminations of the following Notices of Lease:

(a) Notice of Lease dated November 2, 1999 by and between 199 Riverneck, LLC (the "Landlord") and Mercury Computer Systems, Inc. ("Tenant"), recorded on November 3, 1999, in the Middlesex North Registry of Deeds in Book 10502, Page 138.

(b) Notice of Lease dated October 26, 1999 by and between Riverneck Road, LLC (the "Landlord") and Mercury Computer Systems, Inc. ("Tenant"), filed on November 3, 1999, as Document No. 186687, in Transfer Certificate of Title No. 33300 in the Land Court Registry District of Northern Middlesex County in Land Registration Book 169 Page 199.

7.2.5. Seller shall remove any other title matters affecting title to the Real Property that Seller or Mercury voluntarily created or assumed after March 1, 2007 that were not consented to by Buyer ("**Involuntary Title Objection**").

7.2.6. Seller shall deliver to Buyer a parties in possession and mechanics' lien affidavit in the form attached hereto as **Exhibit 7A** sufficient for Buyer's Title Company to remove all standard exceptions for parties in possession except for Mercury Computer Systems, Inc. and mechanics' liens from Buyer's title policy, duly executed by Seller and a gap indemnity in the form of **Exhibit 7B**, duly executed by Seller, as provided in Section 3.2(d) above.

7.2.7. Seller shall have no obligations to cure any matters that are shown on the updated survey of the Property obtained by Buyer in connection with its due diligence investigations of the Property.

7.3 Extension to Cure Title. Seller shall be entitled, at Seller's election, by notice to Buyer, to extend the Closing Date for up to thirty (30) days in order to provide Seller additional time in which to satisfy its Title Obligations (or, if Buyer's financial arrangements for purchase of the Property will not remain in place for such thirty (30) day period, such shorter extension period as Buyer notifies Seller will result in Buyer's financing arrangements for the purchase of the Property being preserved). If Seller fails to satisfy its Title Obligations on or prior to the Closing, as the same may be extended as provided herein, such failure shall constitute a default under this Agreement and Buyer may elect to exercise its rights and remedies pursuant to this Agreement. Buyer shall be entitled to elect at Closing to effect cure of any Monetary Encumbrance not cured by Seller by payment from the proceeds otherwise constituting the Purchase Price of any amounts which may be required in order to effect satisfaction and cure of such Monetary Encumbrance.

7.3.1 Discharge of Title Objections. If on the Closing Date as the same may be extended pursuant to **Subsection 7.2.2** there are any title exceptions which Seller is able to remove or required to remove as provided herein, Seller shall remove the same at or prior to Closing. The term "remove" as used in this Agreement shall mean that Seller in its discretion shall either (a) cause the Buyer's Title Company, in a manner acceptable to Buyer in Buyer's sole discretion, (i) to remove the same as an exception to title in both Buyer's and its mortgagee's title policies, or (ii) to insure against the same without any additional cost to Buyer, whether such insurance is made available in consideration of payment, bonding, indemnity of Seller or otherwise.

7.3.2 Pre Closing "Gap" Defects. Buyer may at or prior to Closing notify Seller in writing of any defects in title arising between March 1, 2007 and the Closing Date. Seller's obligation to cure any such defects are set forth in Section 7.2.5 above.

ARTICLE 8
BUYER'S DUE DILIGENCE/CONDITION OF THE PROPERTY

8.1 Right to Enter. The provisions of this Section 8.1 are subject to the provisions of Sections 8.3 and 8.4 below, Seller hereby grants to Buyer permission to enter upon the Property, upon at least twenty-four (24) hours' prior notice (which may be verbal) to Steve Nigzus (Telephone No.: 978-967-1499), and at reasonable times convenient to Seller, without material

damage to all or any portion of the Property, to undertake investigation and testing on the Property of soil and site conditions, the building structure and mechanical systems, zoning, permitting, title and environmental matters and such other matters as Buyer deems relevant and material, all subject to the terms and conditions of this Agreement (any such investigation and testing, collectively, the "**Testing**"). Buyer shall permit Seller or Seller's representatives to be present during any Testing. The Testing may be performed by Buyer's or its lender's agents, employees, contractors, attorneys, engineers or other consultants (any such party, a "**Buyer Consultant**"). Copies of any reports, testing results, or other data or information produced by Buyer's investigation of the Property (collectively, "**Reports**") will promptly be provided to Seller.

8.1.1 Environmental Testing. Buyer agrees to provide to Seller for Seller's prior approval the scope of any proposed Testing with respect to Hazardous Materials (as hereinafter defined) (any such testing, the "**Environmental Testing**"). Seller's approval of the proposed scope of any Environmental Testing shall not be unreasonably withheld or delayed. If Buyer takes any samples from the Property in connection with any Environmental Testing, Seller shall be permitted to take split samples, and Buyer shall provide to Seller a portion of any sample being tested to allow Seller, if Seller so chooses, to perform its own testing. Notwithstanding the foregoing, Buyer shall not be required to seek approval or consent for a Phase I environmental report.

For purposes of this Agreement, "**Hazardous Materials**" shall mean and include those substances defined in 42 U.S.C. Sec. 9601(14) or any related or applicable federal, state or local statute, law, regulation, or ordinance, pollutants of contaminants (as defined in 42 U.S.C. Sec. 9601(33), petroleum (including crude oil or any fraction thereof), any form of natural or synthetic gas, sludge (as defined in 42 U.S.C. Sec. 6903(26A), radioactive substances, hazardous waste (as defined in 42 U.S.C. Sec. 6903(27)) and any other hazardous wastes, hazardous substances, contaminants or pollutants as defined or described in any of the Environmental Laws. As used in this Agreement, "**Environmental Laws**" means all federal, state and local environmental laws, and any rule or regulation promulgated thereunder and any order, standard, interim regulation, moratorium, policy or guideline of or pertaining to any federal, state or local government, department or agency, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("**CERCLA**"), the Superfund Amendments and Reauthorization Act of 1986 ("**SARA**"), the Clean Water Act, the Clean Air Act, the Toxic Substances Control Act, the Occupational Safety and Health Act, the Federal Insecticide, Fungicide and Rodenticide Act, the Marine Protection, Research, and Sanctuaries Act, the National Environmental Policy Act, the Noise Control Act, the Safe Drinking Water Act, the Resource Conservation and Recovery Act ("**RCRA**"), as amended, the Hazardous Material Transportation Act, the Refuse Act, the Uranium Mill Tailings Radiation Control Act and the Atomic Energy Act and regulations of the Nuclear Regulatory Agency, and all state and local counterparts or related statutes, laws, regulations, and order and treaties of the United States.

8.1.2 Governmental Notification. Buyer agrees that in the event Buyer's environmental engineer advises Buyer that it is necessary under applicable laws to notify any federal, state or local governmental authority of any event or condition on or about the Property as a result of any findings in any Testing, Buyer shall immediately notify Jesse Sawyer

(telephone no.: 978-967-1106) and Steve Nigzus, and, at Seller's sole election, Seller, not Buyer or any Buyer Consultant, shall give such notification as Seller deems appropriate. If Seller does not so notify such governmental authority in a timely manner after such notice, Buyer or a Buyer Consultant may do so, but only if required by law to make such disclosure.

8.1.3 Interference; Damage. The Testing shall be performed so as to minimize interference with the operation and use of the Property and so as not to cause any material damage to all or any portion of the Property. Buyer shall, in a timely manner, at its sole cost and expense, restore any damage to the Property caused by Buyer or any Buyer's Consultant, to substantially the same condition that existed immediately prior to the Testing, provided, however, that, notwithstanding the foregoing, Buyer shall not be obligated to remediate any discovery or release of Hazardous Material on the Property unless such release or the spread or migration of such release is caused by the negligence of Buyer or Buyer's Consultant.

Any Testing which involves roof, floors, or structural tests, or work that is either physically intrusive or requires subsurface investigations, will be subject to Seller's prior written approval, which approval shall not be unreasonably withheld, conditioned, or delayed. Such Testing shall be performed in accordance with any reasonable instructions, rules and regulations which Seller may impose or require.

8.1.4 Indemnity for Entry. Buyer assumes all risks associated with its entry, the Testing, and any other activity hereunder, and agrees to defend, indemnify and save Seller, its officers, directors, employees, agents, contractors, affiliates, invitees and guests, and Mercury Computer, Inc., its officers, directors, employees, agents, contractors, affiliates, invitees and guests, harmless from and against any and all debts, liens, losses, liabilities, costs, fines, penalties (including, without limitation, court costs, attorneys' fees and expert witness fees), expenses, damages, claims, demands, causes of action, cost recovery actions, administrative orders or notices and consent agreements (collectively, "**Liability**") caused by the entry or activities of Buyer or any of its agents, employees, contractors, consultants or other representatives on or at the Property. The indemnity provided for by this section shall not include the costs of reporting or any other matter caused solely by the mere discovery of Hazardous Materials on or about the Property by Buyer. The foregoing indemnity shall not be deemed to apply to any actual or alleged loss or damage to the value of any of the Property or any loss of the sale contemplated by this Agreement, to the extent due solely from (i) any test results, studies or evaluations made by Buyer (or any of Buyer's Consultants) being unfavorable or (ii) Buyer's decision not to proceed with the purchase of the Property, and shall exclude consequential damages or business losses. The provisions of this **Section 8** shall survive any termination of this Agreement.

8.2 Evaluation Material. To assist Buyer with its due diligence, prior to the date hereof Seller has provided, and from and after the date hereof, Seller shall provide Buyer with reasonable access to non-proprietary, non-privileged reports, documents, books and records to the extent in Seller's or Mercury's possession or under its control which pertain to the Property (all of the foregoing documents being herein collectively called the "**Evaluation Material**").

8.3 Expiration of Due Diligence Period;. Prior to the execution of this Agreement, the Buyer was given a period of time to undertake its due diligence review of the Property (the "**Due Diligence Period**"). The Due Diligence Period expired at 6:00 p.m. Eastern Time on March 27, 2007. Except for certain title matters which Seller already is obligated to cure or to address as expressly set forth in Article 7 above, Buyer has accepted all other aspects of the condition of the Property and shall no longer have the right to terminate the P&S Agreement on account thereof. The Due Diligence Period as defined in this Section 8.3 has terminated. Notwithstanding the foregoing, Buyer shall have the right to continue to have access to the Property for further review and inspection pursuant to **Section 8.1**, but Buyer shall not be entitled to terminate this Agreement based upon such further inspection, except as expressly provided in clause (d) of **Section 4.2**.

8.4 Due Diligence Acknowledgment. Buyer acknowledges that:

(a) Buyer has conducted all such Testing as Buyer considers necessary or appropriate;

(b) Buyer has had such access to copies of the Evaluation Materials as Buyer has deemed necessary or appropriate;

(c) Buyer has reviewed, examined, evaluated and verified all Evaluation Material and the results of the Testing to the extent it deems necessary or appropriate with the assistance of such experts as Buyer deemed appropriate;

(d) Buyer has determined to its satisfaction the assignability of any Evaluation Material to be assigned hereunder; and

(e) Buyer (i) is familiar with the physical condition of all of the Property, (ii) has completed its Testing with respect to the Property and the Evaluation Material to its satisfaction, and (iii) shall acquire the Property based exclusively upon its own investigations of the Property and the Evaluation Material and the representations and warranties of Seller herein, subject to the limitations set forth herein.

The foregoing acknowledgments notwithstanding, nothing in this **Section 8.4** shall limit Buyer's rights with respect to Surviving Obligations (as hereinafter defined) or Excluded Claims (as hereinafter defined).

8.5 Final Sale.

8.5.1 "**As Is**" Sale. Buyer acknowledges and agrees that, except for (a) the representations and warranties of Seller under **Section 6.2** (as limited by the provisions of **Section 6.3** of this Agreement), (b) any other representations, covenants or agreements of Seller which, under the express provisions of this Agreement survive the Closing and the consummation of the Transaction, (c) any representations, warranties, agreements or covenants of Seller or Mercury contained in the documents executed and delivered by Seller or Mercury at the Closing ((a), (b) and (c), collectively, the "**Surviving Obligations**"), and (d) Excluded Claims (as hereinafter defined): (i) the Property is being sold, and Buyer shall accept possession of the Property on the Closing Date, "as is, where is, with all faults," with no right of setoff or reduction in the Purchase Price (except as reflected on the Closing Statement or the Purchase Agreement); and (ii) except for the Surviving Obligations, neither Seller, nor Mercury, nor any

parent, subsidiary, partner, officer, director, shareholder, contractor, employee, agent or attorney of Seller, Mercury, or Broker or their respective counsel, consultants, advisors or agents, nor any other party related in any way to any of the foregoing (all of which parties are herein collectively called the "**Seller Parties**") have or shall be deemed to have made any verbal or written representations, warranties, promises or guarantees (whether express, implied, statutory or otherwise) to Buyer with respect to the Property, any matter set forth, contained or addressed in the Evaluation Material (including, but not limited to the accuracy and completeness thereof) or with respect to the results of the Testing.

8.5.2 No Seller Warranty or Representation. Buyer specifically acknowledges that, except for the representations and warranties included among the Surviving Obligations, Buyer is not relying on (and Seller and each of the Seller Parties does hereby disclaim and renounce) any representations or warranties of any kind or nature whatsoever, whether oral or written, express, implied, statutory or otherwise, from Seller or any Seller Parties, including, but not limited to, any representations and warranties as to: (a) the operation of the Property or the income potential thereof; (b) the physical condition of the Property or the condition or safety of the Property, including, but not limited to, the presence or absence, location or scope of any Hazardous Materials in, at, or under the Property; (c) the accuracy of any statements, calculations or conditions stated or set forth in Seller's books and records, concerning the Property or set forth in any of Seller's offering materials with respect to the Property or any of the Evaluation Material; or (d) the ability of Buyer to obtain any and all necessary governmental approvals or permits for Buyer's intended use and development of the Property; provided, however, the foregoing is not intended and shall not be construed as affecting or impairing any rights that Buyer may have with respect to Excluded Claims.

8.5.3 Survival. The provisions of this **Section 8.5** shall survive Closing.

8.6 Waiver.

8.6.1 General. Buyer, for Buyer and Buyer's successors and assigns, hereby waives and releases Seller and Seller Parties from any claims, demands, liabilities, penalties, fines, settlements, damages, costs or expenses of whatever kind or nature, known or unknown, existing and future, contingent or otherwise (collectively "**Claims**") against Seller or Seller Parties for or attributable to, the following:

(a) any and all statements or opinions made prior to Closing, or information furnished, by Seller or Seller Parties to Buyer or its agents or representatives; and

(b) any structural or physical condition at the Property or title thereto, including, but not limited to, the presence of any asbestos or asbestos containing material on the Property, whether or not friable or encapsulated;

provided, however, that Buyer does not hereby waive or release (i) any Claim that arises or accrues as a result of the acts or omissions after the Closing of any of the Seller Parties; or (ii) any Claim for fraud, or (iii) any Third Party Claims for wrongful death or personal injury or property damage (other than damage to the Property itself), where the death or injury to the

person or property damage occurred on the Property during the period of Seller's ownership of the Property; or (iv) any Claim for breach or default of any of the Surviving Obligations (collectively, the "**Excluded Claims**"), which Excluded Claims shall survive Closing as provided by applicable law as limited by this Agreement. The foregoing waiver and release of claims shall not be deemed to be a waiver or release of possible claims against Mercury that may arise under the Lease. For purposes hereof, "**Third Party Claims**" shall mean Claims brought by a party other than any governmental authority, Buyer or any party affiliated with Buyer, or any party claiming by, under or through Buyer, including, but not limited to, any tenant or other occupant of the Property after Closing (other than Seller or Mercury).

8.6.2 Environmental. Buyer, for Buyer and Buyer's successors and assigns, hereby waives and releases Seller and Seller Parties from any and all Claims (including any action or proceeding, brought or threatened, or ordered by governmental authorities) incurred by Buyer or any third party or entity relating to any of the following (hereinafter collectively called the "**Hazardous Materials Matters**"): (i) presence, misuse, use, disposal, release or threatened release of any Hazardous Materials on or about the Property prior to Closing; (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to Hazardous Materials on or about the Property prior to Closing; (iii) any work performed in connection with or disturbance of Hazardous Materials on or about the Property prior to Closing; (iv) any violation of laws, orders, regulations, requirements or demands of governmental authorities which are based upon or in any way related to disturbance or existence of any Hazardous Materials on or about the Property prior to Closing; and (v) all claims or causes of actions based upon any Environmental Law in connection with Hazardous Materials or other contamination or environmental condition at, in or under the Property prior to Closing; provided, however, that this waiver and release shall not extend to any Excluded Claims.

8.6.3 Survival. The provisions of this **Section 8.6** shall survive Closing.

8.7 Confidentiality. The Evaluation Material, Testing and Reports (collectively the "**Confidential Information**") will be used by Buyer and Buyer's Consultants solely for the purpose of evaluating a possible purchase and financing of the Property and not in any way directly or indirectly detrimental to the Seller or its representatives and, unless and until Buyer has completed the acquisition of the Property from Seller pursuant to this Agreement, Buyer agrees that all Confidential Information will be kept confidential by the Buyer, except that Buyer may disclose the Confidential Information or portions thereof (a) to those of Buyer's Consultants who need to know such information for the purpose of evaluating Buyer's possible acquisition or financing of the Property, and (b) as any governmental agency may require in order to comply with applicable laws or a court order. Buyer shall take reasonable steps to inform persons or firms that receive Confidential Information of the obligation to keep such information confidential.

8.7.1 Use. The Confidential Information will be used solely for the purpose of evaluating the Property. The Confidential Information will be kept confidential by Buyer; provided, however, that Buyer may disclose the Confidential Information or portions thereof (i) to those Buyer Consultants and prospective lenders or partners of Buyer, together with their attorneys and consultants (collectively, "**Investors**") who need to know such information for the purpose of evaluating the Property (it being understood that prior to such disclosure those Buyer

Consultants will be informed of the confidential nature of the Confidential Information and shall use reasonable efforts to cause each of Buyer's Consultants to comply with the terms of this Agreement) and to governmental or regulatory officials or authorities who need to know such information for the purpose of evaluating Buyer's proposed redevelopment plans for the Property, (ii) as any governmental agency or stock exchange may require in order to comply with applicable laws or regulations (including securities laws applicable to Buyer), (iii) as may be required for Buyer to conduct any arbitration or litigation proceedings with Seller or (iv) as otherwise required by law or applicable legal process; provided, however, that nothing herein shall be deemed to authorize Buyer to disclose confidential information beyond the minimum extent required for the purposes described in clauses (i) through (iv) above. Information that is available publicly and obtained independently by Buyer from third parties other than Seller, or any officer, employee, agent, or representative of Seller, or from the Testing, shall not be deemed to constitute "confidential information" for purposes of this **Subsection 8.7.1**. Buyer will not, and will direct Buyer's Consultants not to, disclose to any person the Confidential Information without prior written consent of Seller, except as otherwise expressly provided herein. Buyer agrees to use diligent efforts to cause Buyer's Consultants to comply with the terms of this Agreement.

8.7.2 Accuracy and Completeness of Evaluation Material, Testing, and Reports. Except as may be provided to the contrary herein, Buyer understands and acknowledges that the Seller Parties have not made and shall not make any representations or warranties, express or implied, as to the accuracy or completeness of any Evaluation Material, Testing and Reports. Except as may be provided to the contrary herein, the Seller Parties shall have no liability to Buyer or any of Buyer's Consultants or any other persons resulting from the use of the Evaluation Material, Testing and Reports.

8.7.3 Legal Requirements. In the event that Buyer or any of Buyer's Consultants or Investors receives a request to disclose all or any part of the Confidential Information under the terms of a subpoena, order, civil investigative demand or similar process issued by a court of competent jurisdiction or by a governmental body or regulatory authority, Buyer or such Buyer's Consultant or Investor shall: (i) notify Seller promptly in writing of the existence, terms and circumstances surrounding such a request known to Buyer or Buyer's Consultant or Investor, as the case may be, (ii) use reasonable efforts to consult with Seller as to the advisability of taking legally available steps to resist or narrow such request, (iii) if disclosure of such information is required, furnish only that portion of the Confidential Information which Buyer or Buyer's Consultant or Investor is legally compelled to disclose, and (iv) use reasonable efforts to cooperate with any action by Seller to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded the Confidential Information. Seller will reimburse Buyer or Buyer's Consultant or Investor, as the case may be, for Buyer's and Buyer's Consultant's or Investor's reasonable out-of-pocket expenses incurred in complying with clauses (ii-iv) above. No disclosure of Confidential Information pursuant to subpoena or other legal process or otherwise pursuant to any other law, regulation or rule shall constitute a breach of this Agreement, so long as Buyer or Buyer's Consultant or Investor, as the case may be, has reasonably complied with the requirements of this **Subsection 8.7.3**. In addition, the Confidential Information may be submitted as evidence in any legal proceeding between Seller and Buyer.

8.7.4 Disposition. The limited and sole purpose of the transmission of the Evaluation Material and all other Confidential Information is exclusively for the purpose of Buyer evaluating the Property. If the transaction contemplated under this Agreement is not consummated by Buyer, Buyer and Buyer's Consultants shall promptly return to Seller all hard copies of the Evaluation Material and other Confidential Information provided to Buyer by Seller. Notwithstanding the return of the Evaluation Material and other Confidential Information, Buyer and Buyer's Consultants shall continue to be bound by Buyer's confidentiality obligations hereunder if the transaction contemplated by this Agreement is not consummated by Buyer.

8.7.5 Survival. Without limiting the generality of **Section 12.3**, the confidentiality requirements of this Article 8 shall survive the termination of this Agreement for a period of five (5) years.

ARTICLE 9
COVENANTS

9.1 Approvals Not a Condition to Buyer's Performance. Buyer acknowledges and agrees that, except as expressly set forth in this Agreement, its obligation to perform under this Agreement is not contingent upon Buyer's ability to obtain any (a) governmental or quasi-governmental approval of changes or modifications in use or zoning, or (b) modification of any existing land use restriction, or (c) approval of any governmental or quasi governmental body to the Transaction.

9.2 Seller's Covenants.

9.2.1 Leases, Service Contracts. Without Buyer's prior written consent, which consent shall not be unreasonably withheld, neither Seller nor Mercury shall enter into, extend, renew, replace, modify or amend any service or other Property related contract with respect to the Property that would be binding on Buyer. Except for the Lease, Seller shall not enter into, extend, renew, replace, modify or amend any license, easement, lease or occupancy agreement of all or any part of to the Property without Buyer's prior written consent. Seller and Mercury agree to terminate any service or other Property related contracts that would be binding on Buyer as owner of the Property effective as of the Closing Date without cost to Buyer.

9.2.2 Operations. Between the date hereof and the Closing Date:

(a) Seller shall continue to operate the Property in a manner consistent with its current operations and continue to maintain the Improvements in substantially the condition they now are, reasonable wear and tear and damage by casualty and condemnation excepted; provided, however, that Seller shall not be required to make any capital improvements or replacements to the Property.

(b) Deliver to Buyer promptly (a) any notice (including without limitation any notice of default) sent or received with respect to any contracts which affect the Property (b) copies of any tax bills, notice or statement of value from any taxing authority (including without limitation notices or correspondence related to any tax proceedings undertaken by Seller or Mercury), notice from any

governmental authority regarding the Property or any portion thereof, including without limitation notices regarding condemnation or threats thereof, and (c) any notice sent or received with respect to any pending or threatened litigation affecting Seller, Mercury, or any portion of the Property.

(c) Neither Seller nor Mercury shall make or permit to be made any material alterations to or upon the Property.

(d) Neither Seller nor Mercury shall make any commitments or representations to any governmental authorities, any adjoining or surrounding property owners, civic association, any utility or other person or entity that would be binding upon Buyer or the Property.

9.2.3 No New Exceptions. From and after the date hereof, Seller shall not execute any deed, easement, restriction, covenant or other matter affecting title to the Property unless Buyer has received a copy thereof and has approved the same in writing. If Buyer fails to object in writing to any such proposed instrument within five (5) Business Days after receipt of the aforementioned notice, Buyer shall be deemed to have approved the proposed instrument. Buyer's consent shall not be unreasonably withheld, conditioned or delayed with respect to any such instrument that is proposed prior to the expiration of the Due Diligence Period. Buyer, in its sole and absolute discretion, shall be entitled to grant or withhold its consent with respect to any such instrument that is proposed between the expiration of the Due Diligence Period and the Closing.

9.2.4 Representations and Warranties. Seller shall notify Buyer promptly in writing if prior to the Closing Date, to the knowledge of the Designated Employees, any fact, transaction, event or occurrence would make any of the representations and warranties of Seller under this Agreement not true and correct in any material respect. Seller hereby agrees to indemnify Buyer and to hold Buyer harmless from all claims, demands, causes of action, loss, damage, liability, cost and expense (including without limitation reasonable attorneys fees) incurred by Buyer resulting from (a) torts that occurred on the Real Property during Seller's period of ownership thereof and not caused by Buyer or Buyer's agents, representatives contractors or employees; and (b) contracts or leases entered into by Seller or Mercury prior to the Closing pertaining to the Property. The provisions of the preceding sentence of this Section 9.2.4 shall survive the Closing.

9.2.5 Lease Negotiations. On behalf of Mercury, Seller agrees to cooperate with the reasonable requests of Buyer's lender with respect to changes to the Lease prior to Closing, provided that such requests (a) do not affect the financial or other business terms of the Lease and (b) do not increase Mercury's costs or liabilities under the Lease. Any such changes to the Lease requested by Buyer's Lender shall be subject to Seller's consent, which consent shall not be unreasonably withheld. Any changes which, in Seller's reasonable business judgment, would affect the financial or other business terms of the Lease or increase Mercury's costs or liabilities thereunder shall be subject to Seller's approval which may be granted or withheld in Seller's sole discretion.

9.3 Mutual Covenants.

9.3.1 Publicity. Seller and Buyer each hereby covenant that prior to Closing neither Seller nor Buyer shall issue any press release or public statement (a "**Press Release**") with respect to the transactions contemplated hereby without the prior consent of the other, such consent not to be unreasonably withheld or delayed, except to the extent required by law or, in the good faith judgment of the party subject to such requirements, to the extent required by the Securities Exchange Commission or any stock exchange on which the stock of Seller or Buyer or any affiliate thereof is traded. If either Seller or Buyer is required by law to issue a Press Release, such party shall, at least two (2) Business Days prior to the issuance of the same, deliver a copy of the proposed Press Release to the other party for its review. The provisions of this **Subsection 9.3.1** shall survive the Closing or earlier termination of this Agreement.

9.3.2 Broker. Seller and Buyer expressly acknowledge that Richard, Barry Joyce & Partners ("**Seller's Broker**") has acted as the exclusive broker with respect to the Transaction and with respect to this Agreement. Seller shall pay any brokerage commission due to Seller's Broker in accordance with the separate agreement between Seller and Seller's Broker if and when the Closing occurs, and not otherwise. Seller and Buyer each represents and warrants to the other that it has not dealt with any other broker in this transaction, and each agrees to hold harmless the other and indemnify the other from and against any and all damages, costs or expenses (including, but not limited to, reasonable attorneys' fees and disbursements) suffered by the indemnified party as a result of acts of the indemnifying party that would constitute a breach of its covenant or representation and warranty in this **Subsection**. The provisions of this **Subsection 9.3.2** shall survive the Closing or earlier termination of this Agreement.

ARTICLE 10
FAILURE OF PERFORMANCE

10.1 Seller's Remedies. If, on the Closing Date, (i) any Buyer's material representations or warranties are untrue in any material respect, or (ii) Buyer defaults in its obligation to purchase the Property in accordance with the terms of this Agreement or other material obligations (and Buyer's breach or default is not excused by any failure or default or inability to perform of Seller), and any such circumstance described in either **clauses (i)** or **(ii)** continues for five (5) Business Days after written notice from Seller to Buyer, which written notice shall detail such default, untruth or failure, as applicable, then, unless otherwise expressly provided in this Agreement, Seller may elect, as its sole remedy therefor, to (x) terminate this Agreement by written notice to Buyer, or (y) waive such default or condition and proceed to close the Transaction in accordance with the terms of this Agreement. If Seller so elects to terminate this Agreement, then Seller shall be immediately entitled to the Deposit, together with all interest accrued thereon, as liquidated damages, and thereafter neither party to this Agreement shall have any further rights or obligations hereunder, other than any arising under any provision herein which expressly provides that it survives the termination of this Agreement. Without limiting the generality of the foregoing, in such event Seller shall not have any right to commence or pursue any action or proceeding against Buyer for specific performance or damages in excess of the Deposit. The amount of liquidated damages set forth in this **Section 10.1** shall be for all loss, damage and expense suffered by Seller as a result of such default, including, without limitation, the loss of its bargain, it being agreed that Seller's damages are difficult if not impossible to ascertain.

10.2 Buyer's Remedies. If, on the Closing Date (i) any of Seller's material representations or warranties are untrue in any material respect, or (ii) Seller defaults in its obligation to sell the Property in accordance with the terms of this Agreement or Seller or Mercury defaults in any other material obligation (and Seller's breach or default is not excused by any failure or default or inability to perform of Buyer), and any such circumstance described in either of **clauses (i)** or **(ii)** continues for five (5) Business Days after written notice from Buyer to Seller, which written notice shall detail such default, untruth or failure, as applicable, then, unless otherwise expressly provided in this Agreement, Buyer may elect, as its sole remedy, to (x) terminate this Agreement by written notice to Seller, promptly after which the Deposit shall be returned to Buyer, (y) waive such default or condition and proceed to close the Transaction in accordance with the terms of this Agreement, without any reduction of or credit against the Purchase Price, or (z) seek specific performance of this Agreement. In the event that this Agreement is terminated as provided in (x), after the Deposit is returned, neither party to this Agreement shall have any further rights or obligations hereunder, other than any arising under any provision herein which expressly provides that it survives the termination of this Agreement. Without limiting the generality of the foregoing, in such event Buyer shall not have any right to commence or pursue any action or proceedings against Seller for damages. Nothing herein shall prevent Buyer from bringing any claim for fraud.

ARTICLE 11
CONDEMNATION/CASUALTY

11.1 Condemnation.

11.1.1 Right to Terminate. If, prior to the Closing Date, all or any significant portion (as hereinafter defined) of the Property is taken by eminent domain (or is the subject of a pending or threatened taking which has not yet been consummated), Seller shall notify Buyer of such fact promptly after obtaining knowledge thereof, and Buyer shall have the right to terminate this Agreement by giving notice to Seller not later than ten (10) days after the giving of Seller's notice (and Closing will be delayed). For purposes hereof, a "significant portion" of the Property shall mean a portion (a) that has a value in excess of Five Hundred Thousand Dollars ($500,000), or (b) the loss of which will have a material adverse effect on the operation of the Property, access to or parking at the Property, or the Lease to Mercury. If Buyer elects to terminate this Agreement as aforesaid, the provisions of **Section 11.4** shall apply.

11.1.2 Assignment of Proceeds. If (i) Buyer does not elect to terminate this Agreement as aforesaid in the event all or any significant portion of the Property is taken, or if (ii) a portion of the Property having a value not in excess of Five Hundred Thousand Dollars ($500,000) and not causing a material adverse effect on access to or the operation of the Real Property or Buyer's proposed redevelopment thereof is taken by eminent domain or becomes subject to a pending taking, there shall be no abatement of the Purchase Price; provided, however, that, at the Closing, Seller shall pay to Buyer the amount of any award for or other proceeds on account of such taking which may have been paid to Seller prior to the Closing Date as a result of such taking, and Seller shall assign to Buyer at the Closing (without recourse to

Seller) the rights of Seller to all awards for the taking of the Property or such portion thereof and Buyer shall be entitled to receive and keep the same. Seller shall cooperate with Buyer, at no out-of-pocket expense to Seller, in the processing of the claim for such award. Seller shall not accept or make any settlement with respect to any award for any such taking without Buyer's prior written consent.

11.1.3 Termination of the Lease. Notwithstanding any terms of **Section 11.1** to the contrary, if any condemnation of the property would permit Mercury to terminate the Lease or materially reduce rental payments and Mercury fails to waive such rights in writing prior to Closing, Buyer shall have the right to terminate this Agreement by giving written notice of such election to Seller. Closing shall be reasonably delayed to permit the parties to ascertain the extent of damage to any portion of the Property.

11.2 Destruction or Damage.

11.2.1 Insured Casualty: Less than $500,000. In the event the Property is damaged or destroyed prior to the Closing Date and such damage or destruction (a) is caused by an insured casualty and (b) would cost less than Five Hundred Thousand Dollars ($500,000) to repair or restore, then this Agreement shall remain in full force and effect, and Buyer shall acquire the Property upon the terms and conditions set forth herein. In such event, Buyer shall receive a credit against the Purchase Price equal to the deductible amount applicable under Seller's casualty insurance policy (less all reasonable costs and expenses, including reasonable attorneys' fees and costs, payable to third parties and incurred by Seller prior to the Closing Date in connection with the negotiation and settlement of the casualty claim ("**Realization Costs**")), and Seller shall assign to Buyer all of Seller's right, title and interest in and to all proceeds of insurance on account of such damage or destruction; provided, if processing of the claim by Seller is necessary to maximize the recovery from the insurance carrier, Seller will process the claim and in all events cooperate with Buyer in the processing thereof at no out-of-pocket expense to Seller. Further, in such event Seller shall keep Buyer informed about and permit Buyer to participate in negotiation and settlement of the claim.

11.2.2 Insured Casualty: $500,000 or More. In the event the Property is damaged or destroyed prior to the Closing Date by insured casualty and the cost of repair or restoration would equal or exceed Five Hundred Thousand Dollars ($500,000), then, notwithstanding anything to the contrary set forth above in this section, Buyer shall have the right, at its election, either (i) to terminate this Agreement or (ii) proceed to close the Transaction in accordance with the terms of this Agreement. Buyer shall have fifteen (15) days after Seller notifies Buyer that a casualty has occurred to make such election by delivery to Seller of a written election notice (the "**Election Notice**"). The failure by Buyer to deliver the Election Notice within such fifteen (15) day period shall be deemed an election not to terminate this Agreement. In the event Buyer does not elect to terminate this Agreement as set forth above, this Agreement shall remain in full force and effect and at the Closing Seller shall assign to Buyer all of Seller's right, title and interest in and to all proceeds of insurance on account of such damage or destruction, and Buyer shall receive a credit against the Purchase Price equal to the deductible amount under Seller's casualty insurance policy.

11.2.3 Uninsured Casualty. In the event the Property is damaged or destroyed prior to the Closing Date and such damage or destruction (a) is caused by an uninsured casualty and (b) would cost less than Five Hundred Thousand Dollars ($500,000) to repair or restore, then this Agreement shall remain in full force and effect and Buyer shall acquire the Property upon the terms and conditions set forth herein. In such event, Buyer shall receive a credit against the Purchase Price equal to the amount required to repair such damage or destruction. In the event the Property is damaged or destroyed prior to the Closing Date by uninsured casualty and the cost of repair or restoration would equal or exceed Five Hundred Thousand Dollars ($500.000), then, notwithstanding anything to the contrary set forth above in this section, Buyer shall have the right, at its election, either (i) to terminate this Agreement or (ii) proceed to close the Transaction in accordance with the terms of this Agreement. Buyer shall have thirty (30) days after Seller's notice to Buyer of the casualty to make such election by delivery to Seller of a written election notice (the "**Notice of Election**"). The failure by Buyer to deliver the Notice of Election Notice within such thirty (30) day period shall be deemed an election not to terminate this Agreement. In the event Buyer does not elect to terminate this Agreement as set forth above, this Agreement shall remain in full force and effect and at the Closing Buyer shall receive a credit against the Purchase Price equal to the amount required to repair such damage or destruction but in no event shall such credit exceed Three Million Dollars ($3,000,000).

11.2.4 Termination of Lease. Notwithstanding any terms of **Section 11.2** to the contrary, if any damage or destruction of the Property or any portion thereof would permit Mercury to terminate the Lease or materially reduce rental payments, and Mercury fails to waive such rights in writing prior to Closing, Buyer shall have the right to terminate this Agreement by giving written notice of such election to Seller. Closing shall be reasonably delayed to permit the parties to ascertain the extent of damage to any portion of the Property.

11.3 Insurance. Seller shall maintain the property insurance coverage currently in effect for the Property through the Closing Date, which is described in **Exhibit 10** attached hereto. Seller shall not be obligated to assign to Buyer any insurance policies in connection with the Property at the Closing.

11.4 Effect of Termination. If this Agreement is terminated pursuant to **Section 11.1** or **Section 11.2**, the Buyer's Title Company shall promptly return the entire Deposit to Buyer. Upon such return, this Agreement shall terminate and neither party to this Agreement shall have any further rights or obligations hereunder other than any arising under any provision herein which expressly provides that it shall survive the termination of this Agreement.

11.5 Waiver. The provisions of this **Article 11** supersede the provisions of any applicable statutory or decisional law with respect to the subject matter of this **Article 11**.

ARTICLE 12
MISCELLANEOUS

12.1 Buyer's Assignment. Buyer shall not assign this Agreement or its rights hereunder to any individual or entity without the prior written consent of Seller, which consent shall not be unreasonably withheld, conditioned or delayed, and any such assignment undertaken without such consent shall be null and void. No assignment, whether consented to by Seller or not, shall relieve the original Buyer of its obligations under this Agreement and after any such permitted assignment, the original Buyer and the permitted assignee shall remain jointly liable hereunder.

12.2 Designation Agreement. Section 6045(e) of the United States Internal Revenue Code and the regulations promulgated thereunder (collectively, the "**Reporting Requirements**") require an information return to be made to the United States Internal Revenue Service, and a statement to be furnished to Seller, in connection with the Transaction. Buyer's Title Company is either (i) the person responsible for closing the transaction (as described in the Reporting Requirements) or (ii) the disbursing title or escrow company that is most significant in terms of gross proceeds disbursed in connection with the transaction (as described in the Reporting Requirements). Accordingly:

(a) Buyer's Title Company is hereby designated as the "**Reporting Person**" (as defined in the Reporting Requirements) for the transaction. Buyer's Title Company shall perform all duties that are required by the Reporting Requirements to be performed by the Reporting Person for the transaction.

(b) Seller and Buyer shall furnish to Buyer's Title Company, in a timely manner, any information requested by Buyer's Title Company and necessary for Buyer's Title Company to perform its duties as Reporting Person for the transaction.

(c) Buyer's Title Company hereby requests Seller to furnish to Buyer's Title Company Seller's correct taxpayer identification number. Seller acknowledges that any failure by Seller to provide Buyer's Title Company with Seller's correct taxpayer identification number may subject Seller to civil or criminal penalties imposed by law. Accordingly, Seller hereby certifies to Buyer's Title Company, under penalties of perjury, that Seller's correct taxpayer identification numbers are: (i) 199 Riverneck, LLC—Taxpayer ID # 04-3772599; (ii) Riverneck Road, LLC—Taxpayer ID # 04-3392458; and

(iii) 191 Riverneck, LLC—Taxpayer ID # 04-3511604.

(d) Each of the parties hereto shall retain this Agreement for a period of four (4) years following the calendar year during which Closing occurs.

12.3 Survival; Merger. None of the terms of this Agreement shall survive the Closing, except for the provisions of this Agreement which expressly state that they are to survive the Closing. The delivery of the Deeds and any other documents and instruments by Seller and the acceptance thereof by Buyer shall effect a merger, and be deemed the full performance and discharge of every obligation on the part of Buyer and Seller to be performed hereunder, except for the obligations on the part of Buyer and Seller under the provisions of this Agreement which expressly state that they are to survive the Closing.

12.4 Integration; Waiver. This Agreement, together with the Exhibits hereto, embodies and constitutes the entire understanding between the parties with respect to the transactions contemplated herein, and all prior agreements (including, without limitation, any letters of intent), understandings, representations and statements, oral or written, are merged into this Agreement. Neither this Agreement nor any provision hereof may be waived, modified, amended, discharged or terminated except by an instrument signed by the party against whom the enforcement of such waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in such instrument. No waiver by either party hereto of any failure or refusal by the other party to comply with its obligations hereunder shall be deemed a waiver of any other or subsequent failure or refusal to so comply.

12.5 Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the Commonwealth of Massachusetts, without regard to conflict of laws principles.

12.6 Captions Not Binding; Exhibits. The captions in this Agreement are inserted for reference only and in no way define, describe or limit the scope or intent of this Agreement or of any of the provisions hereof. All Exhibits and Schedules attached hereto are incorporated by reference as if set out herein in full.

12.7 Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns, subject to Section 12.1.

12.8 Severability. If any term or provision of this Agreement or the application thereof to any persons or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

12.9 Notices. All notices given under this Agreement shall be in writing and shall be addressed to parties at the addresses indicated below:

Notice to Buyer shall be addressed to:

BTI 199-201 Riverneck, L.P.
c/o Prudential Real Estate Investors
8 Campus Circle Drive, 4th Floor
Parsippany, New Jersey 07054-4493
Attention: Joseph Bonner
Telephone: (973) 683-1613
Facsimile: (973) 734-1411
E-mail: joseph.bonner@prudential.com

and with a copy to:

Prudential Real Estate Investors
8 Campus Circle Drive, 4th Floor
Parsippany, New Jersey 07054-4493

Attention: Joan Hayden, Esq.
Telephone: (973) 683-1772
Facsimile: (973) 683-1788
E-mail: joan.hayden@prudential.com

Sonnenschein Nath & Rosenthal LLP
7800 Sears Tower
233 South Wacker Drive
Chicago, Illinois 60606-6404
Attention: Robert F. Messerly, Esq.
Telephone: (312) 876-8117
Facsimile: (312) 876-7934
E-mail: rmesserly@sonnenschein.com

Notices to Seller shall be addressed to:

199 Riverneck, LLC
Riverneck Road, LLC
191 Riverneck, LLC
c/o Mercury Computer Systems, Inc.
199 Riverneck Road
Chelmsford, MA 01824
Attention: General Counsel
Telephone: (978) 256-1300
Facsimile: (978) 256-7379
E-mail: cbarrows@mc.com

and with a copy to:

Goodwin Procter LLP
Exchange Place
Boston, MA 02109
Attention: Martin R. Healy, Esq.
Telephone: 617-570-1371
Facsimile: 617-523-1231
E-mail: mhealy@goodwinprocter.com

Any notice may be mailed, delivered by hand or messenger (including overnight courier) or transmitted by facsimile or e-mail and shall be deemed to have been delivered if and when received at the office of the addressee, except that any notice sent by facsimile and received on a day other than a Business Day shall be deemed received on the next Business Day. Any party may, by giving written notice to the other party, change the addresses to which notices shall be given to such party. A notice delivered on behalf of a party by its counsel shall be an effective notice of such party hereunder. A certified or registered mail receipt or receipt from a generally recognized commercial delivery service evidencing receipt by the addressee or refusal at the address of the addressee stated above or as changed pursuant to this section shall be deemed conclusive evidence of receipt.

12.10 Counterparts. This Agreement may be executed in counterparts, each of which shall be an original and all of which counterparts taken together shall constitute one and the same agreement.

12.11 No Recordation. Seller and Buyer each agrees that neither this Agreement nor any memorandum or notice hereof shall be recorded.

12.12 Attorneys' Fees. If any action is brought by either party against the other party under this Agreement, the prevailing party shall be entitled to recover from the other party reasonable attorneys' fees, costs and expenses incurred in connection with the prosecution or defense of such action. For purposes of this Agreement, the term "attorneys' fees" or "attorneys' fees, costs and expenses" shall mean the fees and expenses of counsel to the parties hereto, which may include printing, photostating, duplicating and other expenses, air freight charges, and fees billed for law clerks, paralegals and other persons not admitted to the bar but performing services under the supervision of an attorney, and the costs and fees incurred in connection with the enforcement or collection of any judgment obtained in any such proceeding. The provisions of this paragraph shall survive the entry of any judgment, and shall not merge, or be deemed to have merged, into any judgment.

12.13 Time of Essence. Time is of the essence with respect to this Agreement.

12.14 Facsimile Signatures. Signatures to this Agreement transmitted by telecopy or by e-mail transmittal of pdf files or similar electronic means shall be valid and effective to bind the party so signing. Each party agrees to promptly deliver an execution original to this Agreement with its actual signature to the other party, but a failure to do so shall not affect the enforceability of this Agreement, it being expressly agreed that each party to this Agreement shall be bound by its own telecopied or e-mailed signature and shall accept the telecopied or e-mailed signature of the other party to this Agreement.

12.15 Joint and Several Liability. The obligations of the Seller under this Agreement and with all respects to the Transaction shall be joint and several.

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be duly executed on its behalf on the day and year first above written.

SELLER:

199 RIVERNECK, LLC

By: /s/ James R. Bertelli
Name: James R. Bertelli
Title: Authorized Signatory

RIVERNECK ROAD, LLC

By: /s/ James R. Bertelli
Name: James R. Bertelli
Title: Authorized Signatory

191 RIVERNECK, LLC

By: /s/ James R. Bertelli
Name: James R. Bertelli
Title: Authorized Signatory

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be duly executed on its behalf on the day and year first above written.

BUYER:

BTI 199-201 RIVERNECK, L.P., a
Delaware limited partnership

By: 199-201 Riverneck LLC, a Delaware limited liability company, its general partner

By: /s/ Gregory Killeen
Name: Gregory Killen
Title: Vice President

By: /s/ Valerie Thompson
Name: Valerie Thompson
Title: Vice President

JOINDER

The undersigned hereby joins in this Agreement solely for the purpose of guarantying the Surviving Obligations of the Seller Parties, provided that (a) the Closing occurs and (b) the Seller Parties expressly have liability to Buyer under this Agreement after the Closing. From and after the Closing, the obligations of the undersigned and Seller under this Agreement shall be joint and several. Notwithstanding the foregoing, to the extent that Seller's liability is limited pursuant to **Section 6.3.4** or any other provision of this Agreement or the Closing Documents, the same limitations shall be applicable to the aggregate liability of Seller and the undersigned pursuant to this Joinder.

In witness whereof, the undersigned has executed this Joinder as of April 12, 2007.

MERCURY COMPUTER SYSTEMS, INC., a Massachusetts corporation

By: /s/ James R. Bertelli
Name: James R. Bertelli
Title: President

INDEX OF DEFINITIONS

“Agreement”	-	as defined on first page
“Assignment of Personal Property”	-	as defined in Subsection 3.2(k).
“Anti-Money Laundering and Anti-Terrorism Law”	-	as defined in Subsection 6.1(f)
“Balance of the Purchase Price”	-	as defined in Subsection 2.1.2.
“Books and Records”	-	as defined in Subsection 1.1.4.
“Buildings”	-	as defined in Subsection 1.1.2.
“Business Days”	-	Any day other than a Saturday, a Sunday, or a weekday on which banks in the Commonwealth of Massachusetts are not open for business.
“Buyer”	-	as defined in first page
“Buyer Consultant”	-	as defined in Section 8.1.
“Buyer’s Title Company”	-	as defined in Subsection 2.1.1.
“CERCLA”	-	as defined in Subsection 8.1.1.
“Claims”	-	as defined in Subsection 8.6.1.
“Closing”	-	as defined in Section 3.1.
“Closing Adjustments”	-	as defined in Subsection 2.1.2.
“Closing Date”	-	as defined in Section 3.1.
“Closing Statement”	-	as defined in Section 5.4.
“Confidential Information”	-	as defined in Section 8.7.
“Deed”	-	as defined in Subsection 3.2(a).
“Deposit”	-	as defined in Subsection 2.1.1.
“Designated Employees”	-	as defined in Subsection 6.3.2.

“Due Diligence Period”	-	as defined in Section 8.3.
“Election Notice”	-	as defined in Subsection 11.2.2.
“Environmental Laws”	-	as defined in Subsection 8.1.1.
“Environmental Testing”	-	as defined in Subsection 8.1.1.
“ERISA Plans”	-	as defined in Subsection 6.2.2(r).
“Escrow Agreement”	-	as defined in Subsection 2.1.1.
“Evaluation Material”	-	as defined in Section 8.2.
“Excluded Claims”	-	as defined in Subsection 8.6.1.
“Excluded Property”	-	as defined in Subsection 1.1.2.
“Expiration Date”	-	as defined in Subsection 6.3.3.
“Executive Order”	-	as defined in Subsection 6.1(f).
“Government List”	-	as defined in Subsection 6.1(k)
“Hazardous Materials”	-	as defined in Subsection 8.1.1.
“Hazardous Materials Matters”	-	as defined in Subsection 8.6.2.
“Improvements”	-	as defined in Subsection 1.1.2.
“Investors”	-	as defined in Subsection 8.7.1.
“Involuntary Title Objection”	-	as defined Subsection 7.2.5.
“Land”	-	as defined in Subsection 1.1.1.
“Laws”	-	as defined in Subsection 7.1(a).
“Lease”	-	as defined in Subsection 3.2(b).
“Liability”	-	as defined in Subsection 8.1.4.
“Mercury”	-	as defined in Subsection 3.2(b).
“Monetary Encumbrance”	-	as defined in Subsection 7.2.1(i)
“Notice of Election”	-	as defined in Subsection 11.2.3.
“Notice of Lease”	-	as defined in Subsection 3.2(c).

“OFAC”	-	as defined in Subsection 6.1.(f).
“Permit Rights”	-	as defined in Subsection 1.1.3.
“Permitted Exceptions”	-	as defined in Section 7.1.
“Personal Property”	-	as defined in Section 1.1.4.
“Plans”	-	as defined in Subsection 1.1.4.
“Press Release”	-	as defined in Subsection 9.3.1.
“Property”	-	as defined in Section 1.1.4.
“Purchase Price”	-	as defined in Subsection 2.1.
“Prudential”	-	as defined in Subsection 6.2.2(r).
“RCRA”	-	as defined in Subsection 8.1.1.
“Realization Costs”	-	as defined in Subsection 11.2.1.
“Real Property”	-	as defined in Subsection 1.1.2.
“Reporting Person”	-	as defined in Subsection 12.2(a).
“Reporting Requirements”	-	as defined in Section 12.2.
“Reports”	-	as defined in Subsection 8.1.
“SARA”	-	as defined in Subsection 8.1.1.
“Seller”	-	as defined in first page
“Seller Parties”	-	as defined in Subsection 8.5.1.
“Seller’s Broker”	-	as defined in Subsection 9.3.2.
“Seller’s Knowledge”	-	as defined in Subsection 6.3.2.
“Survey”	-	as defined in Section 5.2.
“Surviving Obligations”	-	as defined in Subsection 8.5.1.
“Testing”	-	as defined in Section 8.1.
“Third Party Claims”	-	as defined in Section 8.6.1.
“Title Commitment	-	as defined in Section 7.1.

“Transaction”	-	as defined in Section 3.1.
“Warranties”	-	as defined in Subsection 1.1.4.
“Wiring Instructions”	-	as defined in Section 5.4

Exhibit 10.16

LEASE

by and between

BTI 199-201 RIVERNECK, L.P.,

a Delaware limited partnership

as Landlord

and

MERCURY COMPUTER SYSTEMS INC.,

as Tenant

With respect to property

located at 199 and 201 Riverneck Road,

Chelmsford, Massachusetts

April 20, 2007

TABLE OF CONTENTS

LEASE

Article I REFERENCE DATA

1.1 Subjects Referred To.

Each reference in this Lease to any of the following subjects shall be construed to incorporate the following data.

DATE:	April 20, 2007
LANDLORD:	BTI 199-201 RIVERNECK, L.P., a Delaware limited liability company
TENANT:	Mercury Computer Systems Inc., a Massachusetts corporation
LAND:	Those certain parcels of land in Chelmsford, Middlesex County, Massachusetts, as more particularly described in **Exhibit A** attached hereto and made a part hereof, commonly known as and numbered 199 and 201 Riverneck Road, together with any rights appurtenant thereto.
BUILDINGS:	The existing buildings together with all fixtures and building systems located on or in the buildings not owned by Tenant located on the Land.
PREMISES:	The Land, the Buildings and the other improvements now or hereafter located thereon.
RENTABLE AREA OF BUILDINGS:	Agreed to be 185,327 square feet
COMMENCEMENT DATE:	April 20, 2007
TERM:	Commencing on the Commencement Date and expiring at the close of the day on April 30, 2017, as it may be extended as provided herein
BASE RENT:	Annual Base Rent for the Premises shall be $1,945,933.50 per annum, $162,161.13 per month ($10.50 per square foot of Rentable Area) for Lease Years one through five and $2,140,526.85 per annum, $178,377.24 per month ($11.55 per square foot of Rentable Area) for Lease Years six through ten.

DEPOSIT	Three Million Dollars ($3,000,000.00) in the form of a letter of credit as provided in **Article 12**
LEASE YEAR:	Means each period of one year during the Term commencing on the Commencement Date or on any anniversary thereof, or, if the Commencement Date does not fall on the first day of a calendar month, the first Lease Year shall consist of the partial calendar month following the Commencement Date and the succeeding twelve full calendar months, and each succeeding Lease Year shall consist of a one-year period commencing on the first day of the calendar month following the calendar month in which the Commencement Date fell (provided, however, that the last Lease Year of the Lease Term hereof shall end on the date on which the Lease Term ends)
PERMITTED USES	See **Section 4.1.**

1.2 Exhibits. The exhibits listed below are attached hereto and incorporated in this Lease by reference and are to be construed as a part of this Lease:

Exhibit A: Legal Description

Exhibit B: Repair Items

Exhibit C: Tenant's Insurance Certificates

Exhibit D: Landlord's Insurance Certificates

Exhibit E: Form of Subordination, Nondisturbance and Attornment Agreement

Exhibit F: Form of Notice of Lease

Article II PREMISES AND TERM

2.1 Premises and Term. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, subject to and with the benefit of the terms, covenants, conditions and provisions of this Lease, the Premises hereunder for the Term, unless sooner terminated as provided herein.

2.2 Acceptance of Premises. Tenant and Landlord acknowledge: that Landlord has acquired the fee interest in the Premises from two (2) wholly-owned subsidiaries of Tenant as of the date hereof; that prior to the date hereof, Tenant was and that Tenant currently remains in possession of the Premises; that Tenant and Landlord have examined the Premises and are familiar with the physical condition of the Premises; that Tenant is leasing the same in "as is" condition; that the Premises were in satisfactory condition on the Commencement Date with the exception of the items (the "Repair Items") listed on **Exhibit B** attached hereto and made a part hereof; that Tenant shall complete the Repair Items in a commercially reasonable manner at its sole cost and expense within the time period specified in Exhibit B; that no promise has been made by Landlord or by Tenant to alter, remodel or improve the Premises and no representation respecting the condition of the Premises has been made by Landlord or by Tenant. Notwithstanding the foregoing, nothing herein is intended to limit Tenant's obligation to comply with all Legal Requirements applicable to Tenant's use, operation, or occupancy of the Premises as specified in Section 4.4.1 below. Without in any way limiting the generality of the foregoing, in entering into this Lease and leasing the Premises, Tenant and Landlord hereby acknowledge that the parties have not made, do not hereby make and will not hereafter make any representations or warranties or guarantees, whether express or implied, with respect to the Premises or the physical condition thereof as of the Commencement Date, including, without limitation:

(a) the quality, nature, adequacy and physical condition of the Premises; or

(b) the quality, nature, adequacy and physical condition of soils, geology and groundwater; or

(c) the existence, quality, nature, adequacy and physical condition of utilities servicing the Premises; or

(d) the development potential of the Premises, and the Premises' use, habitability, merchantability, fitness, suitability, value or adequacy for any particular purpose; or

(e) the zoning or other legal status of the Premises or any other public or private restrictions on the use of the Premises; or

(f) the compliance of the Premises or its operation with any applicable codes and laws or with the restrictions of any governmental or quasi governmental entity or of any other person or entity; or

(g) the presence of Hazardous Materials (as hereinafter defined) on, under, in or about the Premises or the adjoining or neighboring property or the existence of any underground tanks, containers or conduits in, on or about the Premises. For the purposes of this Lease, "**Hazardous Materials**" shall mean and include those substances defined in 42 U.S.C. Sec. 9601(14) or any related or applicable federal, state or local statute, law, regulation, or ordinance, pollutants of contaminants (as defined in 42 U.S.C. Sec. 9601(33), petroleum (including crude oil or any fraction thereof), any form of natural or synthetic gas, sludge (as defined in 42 U.S.C. Sec. 6903(26A), radioactive substances, hazardous waste (as

defined in 42 U.S.C. Sec. 6903(27)) and any other hazardous wastes, hazardous substances, contaminants or pollutants as defined or described in any of the Environmental Laws. As used in this Lease, "**Environmental Laws**" means all federal, state and local environmental laws, and any rule or regulation promulgated thereunder and any order, standard, interim regulation, moratorium, policy or guideline of or pertaining to any federal, state or local government, department or agency, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("**CERCLA**"), the Superfund Amendments and Reauthorization Act of 1986 ("**SARA**"), the Clean Water Act, the Clean Air Act, the Toxic Substances Control Act, the Occupational Safety and Health Act, the Federal Insecticide, Fungicide and Rodenticide Act, the Marine Protection, Research, and Sanctuaries Act, the National Environmental Policy Act, the Noise Control Act, the Safe Drinking Water Act, the Resource Conservation and Recovery Act ("**RCRA**"), as amended, the Hazardous Material Transportation Act, the Refuse Act, the Uranium Mill Tailings Radiation Control Act and the Atomic Energy Act and regulations of the Nuclear Regulatory Agency, and all state and local counterparts or related statutes, laws, regulations, and order and treaties of the United States; or

(h) the condition of title of the Premises; or

(i) access rights to and from the Premises; or

(j) the economics of the operation of the Premises; or

(k) the quality of any labor and materials used in any improvements on the Premises.

2.3 Options to Extend.

(a) Provided that, at the time of each such exercise, (i) this Lease is in full force and effect, and (ii) no Event of Default shall have occurred and be continuing (either at the time of exercise or at the commencement of an Extended Term) (any of which conditions described in clauses (i) and (ii) may be waived by Landlord at any time), Tenant shall have the right and option to extend the Term of this Lease for two (2) extended terms (each, an "**Extended Term**") of five (5) years each by giving written notice (the "Extension Notice") to Landlord not later than fifteen (15) months prior to the expiration date of the initial Term or the first Extended Term, as applicable. The effective giving of an Extension Notice shall automatically extend the Term of this Lease for the applicable Extended Term (provided no Event of Default shall have occurred and be continuing either on the date of the Extension Notice or at the commencement of an Extended Term), and no instrument of renewal or extension need be executed. Upon determination of Fair Market Rental Value (as hereinafter defined), Landlord and Tenant shall enter into an agreement setting forth the Extended Term, new Termination Date, new Base Rent rate and any such other terms agreed to by Landlord and Tenant. In the event that Tenant fails timely to give an Extension Notice to Landlord, this Lease shall automatically terminate at the end of the Term, and Tenant shall have no further option to extend the Term of this Lease. Each

Extended Term shall commence on the day immediately succeeding the expiration date of the Term or first Extended Term, as the case may be, and shall end on the day immediately preceding the fifth (5th) anniversary of the first day of such Extended Term. The Extended Terms shall be on all the terms and conditions of this Lease, and all references in this Lease to the Term shall be deemed to include each Extended Term, except: (i) during the second Extended Term, Tenant shall have no further option to extend the Term, and (ii) the Base Rent for each Extended Term shall be equal to the Fair Market Rental Value of the Premises as of the commencement of such Extended Term, taking into account all relevant factors, determined pursuant to paragraph (b) below.

(b) Within thirty (30) days after receiving an Extension Notice extending the Term of this Lease pursuant to paragraph (a) above, Landlord shall provide written notice to Tenant (the "Rent Notice") setting forth Landlord's good faith estimate of the Fair Market Rental Value of the Premises for the upcoming Extended Term based upon rents being paid by tenants entering into leases for space similar in size, build-out and condition, amenities, build-out allowance (or lack thereof), and term in the Interstate 495-north suburban area (Acton, Andover, Boxborough, Carlisle, Chelmsford, Dracut, Lawrence, Littleton, Lowell, Methuen, North Andover, Tewksbury, Tyngsborough, and Westford) (the "I-495 North Market Area"). If Tenant disputes Landlord's estimate of the Fair Market Rental Value as set forth in the Rent Notice, and the parties are unable to reach agreement thereon within thirty (30) days after the delivery of the Rent Notice to Tenant (the "Negotiation Period"), then Tenant may elect to rescind its election to extend the Term by written notice (the "Rescission Notice") within ten (10) Business Days after the expiration of the Negotiation Period (the "Rescission Period"). In the event Tenant fails to provide Landlord with a Rescission Notice, the Fair Market Rental Value of the Premises shall be determined by arbitration as specified below. Within fifteen (15) Business Days after the expiration of the Rescission Period, both parties shall (i) appoint its own arbitrator by notifying the other party of its arbitrator, and (ii) Landlord and Tenant shall each simultaneously submit to the other in a sealed envelope its good faith estimate of the Fair Market Rental Value. If the higher of such estimates is not more than one hundred five percent (105%) of the lower of such estimates, then the Fair Market Rental Value shall be the average of the two estimates. If either party shall fail to identify an arbitrator or submit its sealed estimate within such fifteen (15) Business Day period after the expiration of the Rescission Period, and such failure shall continue for an additional ten (10) Business Days after written notice from the other party, the Fair Market Rental Value of the Premises shall be determined by the arbitrator appointed by the non-defaulting party. If both arbitrators shall have been so appointed, the two arbitrators thus appointed shall, within fifteen (15) Business Days after the date both arbitrators have been selected, appoint a third arbitrator. If the two initial arbitrators are unable timely to agree on the third arbitrator, then either party or its arbitrator may, on behalf of both parties, request such appointment by the Boston office of The American Arbitration Association, or its successor, or, on its failure, refusal or inability to act, by a court of competent jurisdiction. Within fifteen (15) days after the appointment of the third arbitrator, the three arbitrators shall determine the Fair Market Rental Value of the Premises and give notice thereof to the parties hereto, and the arbitrators' determination shall be binding upon the parties; provided, however, that in determining the Fair Market Rental Value, the arbitrators shall be required to select either Landlord's determination of Fair Market Rental Value or Tenant's determination of Fair Market

Rental Value, and in no event shall the arbitrators have the right (i) to average the final determination of Fair Market Rental Value of Landlord and Tenant, or (ii) to choose another number. All arbitrators shall be appraisers or other qualified real estate professionals who are independent from the parties who have had at least ten (10) years commercial real estate experience in the I-495 North Market Area. Each party shall pay the fees of its own arbitrator, and the fees of the third arbitrator shall be shared equally by the parties.

(c) Landlord shall have no obligation to make any improvements, decorations or alterations to the Premises, other than Landlord's existing obligations under this Lease, and Tenant shall accept the Premises in their then current "as-is" condition as of the commencement of each Extended Term.

(d) Any termination, cancellation or surrender of this Lease shall terminate the extension options with respect to the portion of the Premises for which this Lease is terminated, canceled or surrendered.

(e) Time shall be of the essence with respect to the exercise by Tenant of its rights under the extension options granted in this **Section 2.3**.

Article III RENT; CERTAIN OPERATING COSTS; REPAIR AND MAINTENANCE

3.1 Base Rent; Additional Rent. Base Rent at the rates set forth in **Section 1.1** shall be payable in advance on the first day of each calendar month during the Term to Landlord without setoff or deduction (except as otherwise expressly provided herein) at the address set forth herein for notices or such other address as Landlord may thereafter specify by notice to Tenant. Base Rent for any partial month at the beginning or end of the Term shall be pro rated. Base Rent payable for any partial month at the beginning of the Term shall be paid on the Commencement Date. All amounts payable by Tenant to Landlord under this Lease other than Base Rent shall constitute "**Additional Rent**" and shall be paid without setoff or deduction (except as otherwise expressly provided herein). "**Rent**" shall mean Base Rent and Additional Rent. It is the intention of the parties that, to the full extent permitted by law, Tenant's covenant to pay Rent shall be independent of all other covenants contained in this Lease.

3.2 Late Payments.

3.2.1 Interest. If Tenant fails to make any payment of Rent within five (5) Business Days following the date due more than once in any twelve (12) month period, then at Landlord's option, in addition to all other rights and remedies of Landlord, Tenant shall pay upon demand to Landlord as Additional Rent interest thereon at an annual rate equal to the so-called "Prime Rate" in effect at Bank of America (or its successor) from time to time plus two percent (2%) (the "**Default Rate**").

3.2.2 Late Charge. In addition to any interest due on overdue Rent pursuant to **Subsection 3.2.1**, if any payment of Base Rent or regularly scheduled payment of Additional Rent is not paid within five (5) Business Days after the date due more than once in any twelve (12) month period, such late payment shall be subject to a charge equal to two percent (2%) of such late payment.

3.3 Real Estate Taxes.

3.3.1 Tax Year and Taxes. "**Tax Year**" shall mean a twelve-month period commencing on July 1 and falling wholly or partially within the Term, and "**Taxes**" shall mean all ad valorem real estate taxes, assessments (special or otherwise), levies, fees and all other government levies, exactions and charges of every kind and nature, general and special, ordinary and extraordinary, foreseen and unforeseen, which are, at any time prior to or during the Term, imposed or levied upon or assessed against the Premises as it may be constituted from time to time or any portion thereof, including any penalties and interest charged as a result of Tenant's failure to pay Taxes on a timely basis, but the amount of special taxes or special assessments included in Taxes shall be limited to the amount of the installment (plus any interest, other than penalty interest, payable thereon) of such special tax or special assessment required to be paid during the year in respect of which such Taxes are being determined (Landlord hereby agreeing to elect to pay any such assessments over the maximum period of time allowed by law). There shall be excluded from Taxes all income, estate, succession, exercise, inheritance and transfer taxes of Landlord; provided, however, that if at any time during the Term the present system of ad valorem taxation of real property shall be changed so that a capital levy, franchise, income, profits, sales, rental, use and occupancy, or other tax or charge shall (a) in whole or in part be substituted for such ad valorem tax or (b) be imposed solely on or with respect to real property or the income generated thereby, and, in either case, be levied against, or be payable by, Landlord with respect to the Premises or any portion thereof, such tax or charge shall be included in the term "**Taxes**" for the purposes of this Article. Tenant shall pay directly to the authority charged with collection thereof all Taxes prior to the date such Taxes would become delinquent. Landlord agrees to endeavor to deliver copies of all tax bills to Tenant as soon as possible upon receipt, and shall deliver such copies to Tenant within ten (10) days of Landlord's receipt of such tax bills.

3.3.2 Failure to Pay. In the event Tenant fails to pay Taxes on a timely basis more than once during the Term of this Lease, and except to the extent that any such failure to timely pay Taxes arises due to Landlord's failure to timely forward any tax bills to Tenant, or if Tenant fails to make any payment of overdue Taxes within ten (10) days after having received written notice from Landlord that such Taxes are overdue, Landlord may thereafter elect, in its sole discretion, to collect from Tenant on a monthly basis any amounts due for Taxes and pay such amounts. Upon notice from Landlord thereof, and on the first day of each month of the Term thereafter, Tenant covenants and agrees to deposit with Landlord's managing agent (or such other party as Landlord may hereafter designate in writing from time to time) ("**Escrow Agent**") at the same place it pays Rent a sum equal to one-twelfth of the total Taxes for the last ascertainable year (which amount so deposited shall change as the amount of Taxes for the last ascertainable year changes) on the Premises unless said taxes are based upon assessments which exclude the improvements or any part thereof, in which event the amount of such deposits shall be based upon Landlord's reasonable estimate as to the amount of Taxes to be levied and assessed. Such deposits are to be held by Escrow Agent without any allowance of interest and are to be used for the payment of Taxes on the Premises which accrue during the Term when

they become due. If the funds so deposited are insufficient to pay any such Taxes for any year (including all or a portion of the last Lease Year of the Term) when the same shall become due and payable, Tenant shall, within ten (10) days after receipt of demand therefor from Landlord, deposit with Escrow Agent such additional funds as may be necessary to pay such Taxes in full. Without limitation of any other obligations of Tenant which survive the end of the Term, the obligation of Tenant to pay Taxes as stated aforesaid shall survive the expiration of the Term. If the funds so deposited exceed the amount required to pay such Taxes for any year, the excess shall be applied toward a subsequent deposit or deposits due from Tenant or at the end of the Term refunded to Tenant after payment of all Taxes which accrued during the Term have been paid.

3.3.3 Evidence of Payment. In the event Tenant is not required to make deposits with Managing Agent in accordance with **Subsection 3.3.2** hereinabove, Tenant shall provide Landlord evidence that such Taxes have been paid on or before thirty

(30) days after the same are due and payable.

3.3.4 Abatement. If Tenant shall deem itself aggrieved by any such tax or charge and shall elect to contest the payment thereof, Tenant, at its sole cost and expense, shall be entitled to seek an abatement from time to time of such Taxes and Landlord shall, upon Tenant's written request, reasonably cooperate with Tenant in connection therewith, provided that Tenant shall reimburse Landlord for its out of pocket costs therefor. If Tenant files an abatement application, Tenant shall (i) promptly provide a copy thereof to Landlord, (ii) diligently pursue such application, (iii) keep Landlord informed of the status thereof in writing, (iv) with respect to claims relating to a Tax Year which falls entirely or partially within the last three (3) Lease Years of the Term, not settle any such claim thereof without the prior, written approval of Landlord (which may be withheld in Landlord's sole but reasonable discretion, provided that Landlord shall not withhold consent if the settlement does not establish the amount of Taxes for any period of time subsequent to the expiration of the Term of the Lease), and (v) not dismiss such claim (other than in connection with a settlement which must first be approved by Landlord where required under the preceding clause) without first giving Landlord at least thirty (30) days' prior written notice and opportunity to assume the prosecution of such claim. Landlord shall have the right at its own cost and expense to file an application for abatement of Taxes only if either (a) at least thirty (30) days prior to the last day for filing an application for abatement of real estate or personal property taxes for any year, Landlord shall give Tenant notice that it desires to file an application for abatement and at least ten (10) days prior to the last day for filing such application Tenant has not given Landlord notice that it shall file such application, or (b) the abatement relates to a Tax Year that falls entirely or partially within or after the one (1) year period immediately preceding the expiration of the Term of the Lease and Tenant has not furnished a timely and effective Extension Notice. Both Landlord and Tenant shall reasonably cooperate with the moving party in prosecuting any abatement. Any Taxes that are refunded, reimbursed or abated for any Tax Year shall belong to Tenant, provided that in no event shall Tenant be entitled to receive more than the payments made by Tenant on account of Taxes for such Tax Year. If Landlord receives any refund, reimbursement or abatement of Taxes or sum in lieu thereof with respect to any Tax Year, then Landlord shall pay all such funds to Tenant after deducting from the balance thereof Landlord's reasonable out-of-pocket fees for consultants and attorneys and all other reasonable out-of-pocket costs incurred by Landlord in obtaining such refund, reimbursement or abatement.

3.4 Landlord's Operating Costs. "**Landlord's Operating Costs**" shall mean the costs and expenses incurred by Landlord in accordance with sound management practice in connection with the management, maintenance, repair, replacement and operation of the Premises, including, without limitation, amounts paid or incurred for:

(1) Maintaining, repairing and or replacing the roof and structural elements of the Buildings and otherwise performing obligations under **Subsections 3.8.1 or 3.8.2**;

(2) Premiums for insurance required or permitted to be carried by Landlord hereunder (including, without limitation, all-risk commercial property, rental value, and liability insurance), and permitted deductible amounts thereunder, but subject to the limitations specified in **Subsection 3.6.2**;

(3) a management fee to a property manager ("**Manager**") not in excess of three percent (3%) of gross income from the Premises, it being agreed that management may be provided by Landlord, or an affiliate thereof; provided, however, that any fees paid to Landlord or its affiliate who is engaged as the Manager do not exceed commercially reasonable amounts charged for management of comparable facilities; and

(4) payments under service contracts for any of the foregoing.

If Landlord installs a new or replacement capital item (i) in order to comply with a legal requirement or interpretation thereof first arising after the date of this Lease, or (ii) for the purposes of reducing Landlord's Operating Costs, or (iii) in compliance with Landlord's obligations under Section 3.8, the cost thereof as reasonably amortized by Landlord over the useful life of the item (provided that the cost of any replacement of the Trane unit on the roof of building #199 within the first five (5) Lease Years shall be amortized over the balance of the remaining portion of the Term) together with interest at the rate of interest actually charged to Landlord for borrowing funds to finance such item, (or the prevailing market interest rate Landlord reasonably determines would have been charged if Landlord does not finance such item) on the unamortized amount, shall be included in Landlord's Operating Costs, except that the amortized amount of any capital expense for the purpose of reducing Landlord's Operating Costs shall be limited by the amount of actual savings achieved each year. If Landlord leases any items of capital equipment which is intended to reduce expenses which would otherwise be included in Landlord's Operating Costs, or is for the purpose of complying with a legal requirement or interpretation thereof first arising after the date of this Lease, then the rentals and other costs paid pursuant to such leasing shall be included in Landlord's Operating Costs for the year in which they were incurred, except that the rentals and other costs incurred for the purpose of reducing Landlord's Operating Costs shall be limited by the amount of actual savings achieved each year.

Landlord's Operating Costs shall exclude the following:

(1) Taxes;

(2) the interest and amortization on mortgages for the Buildings and the Landlord or leasehold interests therein;

(3) ground rent; depreciation on the Buildings or equipment or systems therein;

(4) costs in connection with leasing, releasing, or subleasing space at the Buildings (including but not limited to legal fees and brokerage commissions);

(5) costs incurred in connection with the sale, financing or refinancing of the Buildings and/or the Land;

(6) the cost of repairs or other work to the extent Landlord has the right to be reimbursed by insurance or condemnation proceeds or by any other third party or any tenant (including Tenant);

(7) costs incurred in enforcing leases against other tenants;

(8) the cost of special services rendered to tenants (including Tenant) for which a special charge is made.

(9) Salaries or benefits for Landlord's executives and employees above the level of building manager;

(10) Capital expenditures except as expressly provided above;

(11) Advertising and promotional expenditures;

(12) Bad debt loss, rent loss, or reserves of any kind;

(13) Costs of fines or penalties incurred by Landlord due to violations of or non-compliance with any applicable legal requirements, unless such violation or non-compliance was caused by Tenant;

(14) Costs incurred in the removal, abatement or other treatment of underground storage tanks or Hazardous Materials present in the Buildings or on the Premises;

(15) Costs associated with the operation of the business of the entity which constitutes Landlord as the same are distinguished from the costs of operation of the Buildings, including, without limitation, accounting and legal expenses, costs of selling, syndicating, financing, mortgaging or hypothecating Landlord's interest in the Buildings, costs of any disputes between Landlord and its employees, or building managers;

(16) Landlord's general overhead and administrative expenses; and

(17) Expenses for any item or service which Tenant pays in full directly to a third party or separately pays in full to Landlord.

3.5 Payment of Landlord's Operating Costs. Tenant shall pay to Landlord, as Additional Rent, all of Landlord's Operating Costs attributable to the Term of this Lease, as set forth herein. With respect to each calendar year or fraction thereof during the Term, Tenant shall pay, as Additional Rent, on the first day of each month of such calendar year and each ensuing calendar year thereafter, estimated monthly payments (hereafter, "**Estimated Monthly Expense Payments**") of Landlord's Operating Costs for which Tenant will be liable, equal to 1/12th of Landlord's estimate of Landlord's Operating Costs for the respective calendar year. The Estimated Monthly Expense Payment during the first calendar year of the Lease Term shall be equal to $4,578.70, with the first Estimated Monthly Expense Payment due on the Commencement Date. Within one hundred twenty (120) days after the end of each calendar year ending during the Term and after Lease termination, Landlord shall render a statement ("**Landlord's Statement**") in reasonable detail in accordance with generally accepted accounting practices and in form reasonably acceptable to Tenant, showing for the preceding calendar year or fraction thereof, as the case may be, Landlord's Operating Costs. The calculation of Landlord's Operating Costs reflected in the Landlord's Statement shall be binding upon Landlord. Tenant shall pay an appropriate additional payment (or credit by Landlord against Tenant's future payments of Landlord's Operating Costs or, if at expiration of the Term, promptly refunded to Tenant) reconciling the Estimated Monthly Expense Payments collected during the preceding calendar year with the actual outlay of Landlord's Operating Costs within thirty (30) days after Landlord's Statement is delivered to Tenant. Landlord may reasonably adjust the Estimated Monthly Expense Payments from time to time and at any time during a calendar year, and Tenant shall pay, as Additional Rent, on the first day of each month following receipt of Landlord's written notice thereof (provided it receives at least thirty (30) days' advance notice), the adjusted Estimated Monthly Expense Payment.

Landlord agrees to make its books and records relating to Landlord's Operating Costs available for examination during normal business hours upon reasonable notice by Tenant and its representatives; provided that any such examination shall be at Tenant's sole cost and expense and shall be conducted with respect to any particular fiscal year pursuant to a notice sent by Tenant not later than sixty (60) days following delivery of Landlord's Statement with respect to such fiscal year; provided further, that if the examination discloses an overcharge to Tenant, Landlord shall promptly rebate the same to Tenant, and, if the overcharge exceeds five percent (5%), with interest at the Default Rate. If Tenant fails to notify Landlord of its desire to conduct such an examination within such sixty (60) day period or after such notice, fails to commence an audit within an additional period of sixty (60) days, then the calculation of Landlord's Operating Costs reflected in the Landlord's Statement shall be final and conclusive for all purposes and Tenant shall be deemed to have waived any rights under this Lease, at law or in equity, to contest the same. Tenant agrees to use commercially reasonable efforts to complete any audit within ninety (90) days after having commenced the audit, and in any event will complete the same within one hundred twenty (120) days after commencement provided that Tenant shall have been given reasonable access to Landlord's books and records during such time period. Also, if the examination discloses a discrepancy which the parties agree (or a court of competent jurisdiction determines) involves an

overcharge to Tenant of more than five (5%) percent, Landlord shall pay the reasonable expenses incurred by Tenant for such audit. Tenant's audit shall be conducted by a Certified Public Accountant whose compensation is not contingent upon the results of Tenant's audit or the amount of any refund received by Tenant, and who is not affiliated with Tenant, except to the extent that such accountant has been engaged by Tenant to conduct Tenant's audit or is an employee of Tenant. A complete copy of any report delivered to Tenant by the auditor concerning the results of Tenant's audit shall be delivered to Landlord within thirty (30) days after Tenant's receipt of such report.

3.6 Insurance.

3.6.1 Tenant's Insurance. Tenant shall maintain in full force from the Commencement Date and thereafter throughout the Term the following types of insurance:

(a) Commercial general liability insurance under which Tenant is the named insured and Landlord and any Mortgagee (as defined in **Section 8.1** below) (provided that Landlord has identified such Mortgagee by notice to Tenant) are named as additional insureds with respect to their vicarious liability for covered claims arising from Tenant's use or occupancy of the Premises, and under which the insurer provides a contractual liability endorsement, and such coverage shall be written on an occurrence basis, with a minimum combined single limit of liability (alone or in combination with excess or umbrella liability coverage) of not less than Five Million Dollars ($5,000,000.00);

(b) Commercial property insurance, including sprinkler leakages, vandalism, and malicious mischief and plate glass damage covering all the items specified as Tenant's property and all other property of every description including stock-in-trade, furniture, fittings, installations, alterations and additions, partitions and fixtures or anything in the nature of a leasehold improvement made or installed by or on behalf of the Tenant (but only to the extent said alterations, additions, partitions, fixtures or leasehold improvements are required to be removed by Tenant at the expiration or sooner termination of this Lease in accordance with the provisions herein) in an amount of not less than one hundred percent (100%) of the full replacement cost thereof as shall from time to time be determined by Tenant in form satisfactory to Landlord in its reasonable discretion;

(c) Worker's compensation and occupational disease insurance with statutory limits, provided that Tenant may self-insure for such purposes to the extent permitted by Legal Requirements; and

(d) Loss of use insurance which shall insure the Landlord against loss of use of the Premises due to fire or other hazards, however caused; and

(e) any other form or forms of insurance as Landlord may reasonably require from time to time (other than insurance that Landlord is required to maintain) in amounts and for insurable risks (on commercially reasonable terms) against which a prudent tenant would protect itself to the extent landlords of comparable buildings in the I-495 North Market Area require their tenants to carry such other form(s) of insurance.

In addition, during the performance of any construction by Tenant on the Premises, in addition to the above coverage required to be maintained by Tenant, Tenant shall cause the general contractor performing the work under any contract costing in excess of One Hundred Thousand Dollars ($100,000.00) to carry: (a) Workers' compensation and occupational disease insurance in statutory amounts; (b) employer's liability insurance with a limit of not less than One Million Dollars ($1,000,000.00); (c) commercial general liability insurance, including personal injury and property damage, on an occurrence basis in the amount of a combined single limit of not less than One Million Dollars ($1,000,000.00) for each occurrence; and (d) all risk installation floater insurance (on the complete value/full coverage form) to protect Landlord's interest and that of Tenant, contractors and subcontractors during the course of the construction, with limits of not less than the total replacement cost of the completed improvements under construction. Such contractor insurance policies shall be endorsed to include Landlord and any Mortgagee (provided that Landlord has identified such Mortgagee by notice to Tenant) as additional insureds.

Each policy of insurance required under this **Subsection 3.6.1** shall be issued by companies acceptable to Landlord in the Landlord's reasonable discretion and licensed to do business in the Commonwealth of Massachusetts, and shall be noncancellable with respect to Landlord and any Mortgagee (provided that Landlord has identified such Mortgagee by notice to Tenant), without thirty (30) days' prior notice to Landlord and such Mortgagee. Tenant shall, following Landlord's written request therefor, deliver to Landlord and any Mortgagee (provided that Landlord has identified such Mortgagee by notice to Tenant) certificate(s) of insurance evidencing the coverage required hereunder. Landlord acknowledges and agrees that the insurance coverages reflected in the Tenant's Certificates of Insurance attached hereto as **Exhibit C** are in compliance with the requirements of this Lease as of the Commencement Date. Notwithstanding anything to the contrary hereinabove contained, Tenant may, at its option, include any of the insurance coverage hereinabove set forth in general or blanket policies of insurance, and the coverage afforded may be effected by any combination of basic, excess or umbrella coverage; provided that as to property insurance, any blanket policy shall include an agreed amount clause or its equivalent. Any insurance policy which Tenant is required to maintain under this Lease may have a maximum deductible of no more than $100,000.00. Tenant will be responsible to bear the deductible portion of any claims or losses.

3.6.2 Landlord's Insurance. Landlord shall purchase, as part of Landlord's Operating Costs, and keep in force during the Term, the following insurance with insurance companies licensed or authorized to do business in the State of Massachusetts:

(a) An insurance policy or policies of Special Form (all risk) coverage, covering loss or damage to 100% of the replacement cost of the Buildings (which is agreed to be $34,099,248 as of the Commencement Date), not including any of Tenant's property or the contents of the Buildings for which Landlord has no responsibility, with a deductible not in excess of $100,000 and with no penalty for unintentional underinsuring (no co-insurance or margin clause), which policy shall include an agreed upon value endorsement and coverages for contingent liability from the operation of building laws, demolition costs and increased costs of construction;

(b) Commercial General Liability Insurance pertaining to the Premises, and bodily injuries, death and property damage arising or occurring therein on an occurrence form including premises, operations, products/completed operations, hazards and contractual coverage with limits of no less than $5,000,000 per occurrence, $10,000,000 General Aggregate and $10,000,000 Completed Operations Aggregate and with a deductible not in excess of $100,000;

(c) Boiler and machinery insurance and equipment breakdown insurance covering the Building systems;

(d) Such other insurance in such amounts and with such policy provisions as may be reasonably required by Landlord's institutional lender from time to time; and

(e) Such other insurance in such amount, and with such policy provisions as may be reasonably required of a prudent owner of the Premises.

Notwithstanding anything to the contrary in this Lease, including without limitation **Section 3.4**, **Subsection 3.6.1** or this **Subsection 3.6.2**, Landlord acknowledges and agrees that (i) Tenant shall not be required to carry environmental pollution liability insurance, nor shall Tenant be required to pay the premiums of such insurance coverage as part of Landlord's Operating Costs if such coverage is maintained by Landlord, (ii) Tenant shall not be required to carry (or pay the premiums as part of Landlord's Operating Costs for) loss of "rental value" insurance for any amount in excess of the aggregate sum of Base Rent and Additional Rent due under the Lease for a period of twelve (12) months, and (iii) Tenant shall not be required to maintain any other property insurance coverage against any risk that is adequately covered by insurance that is maintained by Landlord at Tenant's expense as part of Landlord's Operating Costs.

As of the Commencement Date, all insurance coverages being carried by Landlord pursuant to the requirements of this **Subsection 3.6.2** are evidenced by the Certificates of Insurance attached hereto as **Exhibit D**. With respect to any insurance policy the premium of which is being paid for by Tenant as part of Landlord's Operating Costs, upon Tenant's written request Landlord shall deliver a Certificate of Insurance to Tenant.

For purposes of Tenant's payment of Additional Rent, to the extent Landlord pays insurance premiums less frequently than monthly, the cost of the same shall be calculated separately from the other Landlord's Operating Costs, and Tenant shall have the option to either (i) pay the portion of Landlord's Operating Costs attributable to such insurance premiums as part of the Estimated Monthly Expense Payments in accordance with **Section 3.5** or (ii) pay the portion of Landlord's Operating Costs attributable to such insurance premiums on the later of five (5) Business Days after receipt of an invoice from Landlord or fifteen (15) Business Days prior to the date Landlord is obligated to pay the same to the insurance company as specified in a notice from Landlord to Tenant.

3.6.3 Waiver of Subrogation. All insurance which is carried by either party with respect to the Premises, whether or not required, shall include provisions which deny to the insurer acquisition by subrogation of rights of recovery against the other party to the extent such rights have been waived by the insured party prior to the occurrence of loss or injury, insofar as, and to the extent that such provisions may be effective without making it impossible to obtain insurance coverage from responsible companies qualified to do business in the Commonwealth of Massachusetts (but if extra premium results therefrom, the other party shall reimburse the insuring party therefor, on demand). Each party shall be entitled to have certificates of any policies containing such provisions. Each party hereby waives all rights of recovery against the other for loss or injury against which the waiving party is protected by insurance containing said provisions, reserving, however, any rights with respect to any excess of loss or injury over the amount recovered by such insurance.

3.7 Utilities and Other Services. Tenant shall pay or cause to be paid directly to the proper authorities charged with the collection thereof all charges for any utilities or services separately metered to Tenant used or consumed on the Premises. Tenant shall install separate meters to measure Tenant's use and consumption of any utility (including electricity) furnished to each Building but which is not separately metered to such Building by the applicable utility as of the Commencement Date, at Tenant's sole cost and expense. At Landlord's request, Tenant shall provide evidence of payment of utility services. Landlord shall have the right to pay such utility costs if Tenant fails to pay such charges and Landlord shall have the right to recover from Tenant as Additional Rent any amounts paid therefor.

3.8 Repair and Maintenance.

3.8.1 Tenant Repairs and Maintenance. Subject to Landlord's obligations in **Subsection 3.8.2** below, Tenant shall throughout the Term, in compliance with all laws, keep and maintain the Premises, including, without limitation, (i) the building systems, including HVAC, back-up generators and roof-top units, elevators, boilers, the plumbing, sprinkler, electrical and mechanical lines and equipment associated therewith, each to the extent located within or attached to the Buildings; (ii) utility and trunk lines, tanks and transformers, each to the extent located within, attached to, or on the roof of the Buildings; (iii) improvements to the Land outside of the Buildings, including detention basins, ditches, shrubbery, landscaping and fencing; (iv) the parking areas and the access drive; (v) HVAC systems, trash compactors, and the two emergency generators and the associated oil fuel tank, and all connecting piping, electrical conduits, controls, and other related equipment located outside of the Buildings; (vi) the

underground conduits connecting the Buildings and containing telephone, communications and control wiring, security and other computer wiring; and (viii) the existing mechanical screen support frame and metal screen panels on the Building at 199 Riverneck Road, in at least as good order, condition and repair as they are in on the Commencement Date or as improved during the Term, excepting only (x) reasonable wear and tear, (y) damage by fire or other casualty or taking by condemnation or eminent domain, and (z) damage caused by Landlord or its agents, contractors or employees. Tenant shall contract for regular maintenance of the HVAC with a professional service provider reasonably acceptable to Landlord and shall keep records of the performance of all scheduled maintenance of the HVAC systems and shall provide copies thereof to Landlord from time to time upon request by Landlord. Landlord agrees to make available to Tenant the benefit of any warranties and guaranties in favor of Landlord of any part of the Premises that Tenant is responsible to repair. In the event that a capital replacement of any portion of any of the Building Systems is reasonably necessary as determined by Landlord and Tenant, notwithstanding anything to the contrary anywhere in this Lease, including without limitation the foregoing provisions of this **Subsection 3.8.1** or **Subsection 3.8.2**, Landlord and not Tenant shall cause such replacement to be performed, and the amortized costs incurred by Landlord with respect to such capital replacement shall constitute a Landlord's Operating Cost and shall be reimbursed by Tenant in accordance with the provisions of **Sections 3.4 and 3.5** above. Landlord shall have the right upon reasonable prior notice to review any repair and maintenance reports maintained by Tenant concerning any repair, replacement and maintenance activities performed at the Premises by Tenant. Tenant agrees to furnish to Landlord repair and maintenance reports, in reasonable detail, indicating the material items of repair, replacement (other than Landlord capital replacements) and maintenance performed at the Premises on a semi-annual basis (on or before August 15 with respect to activities performed during the preceding period from January 1 through June 30 and on or before February 15 with respect to activities performed during the preceding period from July 1- December 31).

3.8.2 Landlord Repairs and Maintenance. Subject to Tenant's obligations set forth in **Subsection 3.8.1** above, Landlord shall maintain, repair and replace, as necessary, and keep in at least as good order, condition and repair as they are in on the Commencement Date or as improved during the Term, the bearing walls, roof, exterior walls, exterior glass, support beams and columns, foundation, window frames and floor slabs of the Buildings (collectively, the "**Structure**") as well as any portion of the following systems, to the extent located outside of the Buildings but on the Premises: plumbing, sprinkler, electrical and mechanical lines and equipment associated therewith and utility and trunk lines, provided that Landlord shall not be obligated to maintain or repair any tanks, transformers, HVAC units, back-up generators or roof-top building systems units and any equipment installed by Tenant for the purpose of supporting Tenant's light manufacturing operations, as opposed to the functioning of the Buildings for other Permitted Uses. Landlord shall in no event be responsible to Tenant for the repair of any condition on the Premises caused by any act or neglect of Tenant.

3.8.3 Tenant's Right to Self-Help. If Tenant shall have given written notice to Landlord, and any ground lessor or mortgagee of whose identity Tenant shall have been given notice, of Landlord's obligation to perform maintenance, repairs or replacements for which Landlord is responsible under this Lease, and Landlord shall have failed to commence performance of the same within thirty (30) days following Tenant's notice as aforesaid, or such shorter period as may be necessary in case of emergency, Tenant may (but shall not be obligated to) perform such maintenance, repairs or replacements, and Landlord shall reimburse the Tenant for the reasonable cost thereof no later than thirty (30) days after receipt of Tenant's invoice therefor (if not paid by Landlord within said thirty days, together with interest at the Default Rate, from the expiration of such thirty (30) day period until paid). If Landlord has timely commenced the performance of such maintenance, repairs, or replacements but fails to continue diligently to complete the same, except to the extent caused by External Causes (as defined herein), Tenant shall have the aforesaid right to self-help if Landlord does not cure its failure within such time. As used in this Lease, "**External Causes**" means any of the following: Acts of God, war, civil commotion, fire, flood or other casualty, strikes or other extraordinary labor difficulties, shortages of labor or materials or equipment in the ordinary course of trade, government order or regulations or other cause not reasonably within the control of the party in question, and not due to the fault or neglect of such party, excluding, however, inability to pay obligations as they become due.

Article IV TENANT'S ADDITIONAL COVENANTS

4.1 Permitted Use. Tenant agrees to use the Premises only for general office use, for light manufacturing and assembly, product storage and distribution as an accessory use in connection with general office use, and light manufacturing and assembly, and all other lawful uses accessory to the foregoing primary uses, including without limitation a cafeteria serving Tenant's employees, guests and invitees (the "**Permitted Uses**"). Tenant shall have the right to use the Premises for storage trailers and movable containers (provided that such trailers and containers (i) do not impermissibly encroach, either entirely or partially, on land that is adjacent to the Premises, (ii) are not visible from the main entrance of either of the Buildings and (iii) are not located in such a manner as to cause the number of parking spaces at the Premises to fall below the minimum number of parking spaces that are required to be provided at the Premises in order to comply with any applicable Legal Requirements) and to install other equipment and perform improvements on and to the Premises from time to time in compliance with all applicable laws and the terms and conditions of this Lease. Tenant shall not use or occupy the Premises for any other purpose without the prior written consent of the Landlord, which shall not be unreasonably withheld or delayed.

4.2 Prohibited Uses. Tenant shall not use the Premises or allow the Premises to be used (a) for any illegal or immoral purpose; (b) so as to create waste, or constitute a private or public nuisance; (c) in violation of any restrictions of record as of the date hereof; (d) in violation of any Legal Requirements; (e) for offices of any agency or bureau of the United States or any State or political subdivision thereof, provided that Tenant shall be permitted to allow governmental officials to use desk space at the Premises from time to time in Tenant's usual course of business; (f) for offices or agencies of any foreign government or political subdivision thereof; (g) for offices of any health care professionals; (h) for school facilities which are not ancillary to corporate, executive or professional office use; (i) for retail or restaurant uses other than a cafeteria serving Tenant's employees, guests and invitees; and

(j) for radio and/or television stations. Tenant shall not place any loads upon the floors, walls, or ceiling which endanger the structure, or place any harmful fluids or other materials in the drainage system of the Buildings, or overload existing electrical or other mechanical systems. No waste materials or refuse shall be dumped upon or permitted to remain outside of the Premises except in trash containers placed inside exterior enclosures designated by Landlord for that purpose.

4.3 Hazardous Materials.

4.3.1 Hazardous Materials. Tenant agrees not to generate, store or use any Hazardous Materials on or about the Premises, except those used by Tenant in connection with the Permitted Uses and janitorial services, in both cases limited to such Hazardous Materials in such amounts as are customarily used in connection with the Permitted Uses and for janitorial service provided to the Permitted Uses, in all cases in compliance with any and all applicable Environmental Laws (also as hereinafter defined); provided, however, that no Hazardous Materials shall be used in connection with light manufacturing that are not also customarily used in connection with the Permitted Uses other than light manufacturing. Tenant agrees not to dispose of Hazardous Materials (a) on the Premises or (b) from the Premises to any other location except a properly approved disposal facility and then only in compliance with any and all Environmental Laws regulating such activity, nor permit any occupant of the Premises to do so. In accordance with **Section 4.5** below, Tenant shall indemnify, defend, and hold harmless Landlord, and the holder of any mortgage on the Premises or any larger parcel of land of which the Premises may be a part, from and against any claim, cost, expense, liability, obligation or damage, including, without limitation, attorney's fees and the cost of litigation, arising from or relating to the use of Hazardous Materials or breach by Tenant or anyone claiming by, through or under Tenant of the provisions of this **Subsection 4.3.1**, and shall immediately discharge or cause to be discharged any lien imposed upon the Premises or any larger parcel of land of which the Premises may be a part in connection with any such claim. The provisions of this **Subsection 4.3.1** shall survive the expiration or earlier termination of this Lease.

4.3.2 Tenant's Obligation to Remediate. In compliance with applicable Environmental Laws, Tenant shall investigate, assess, monitor and remediate, at Tenant's sole cost and expense, any release of Hazardous Materials requiring Response Action (as defined in 310 CMR 40.0000) under any Environmental Law, which arises out of Tenant's use, operation, or occupancy of the Premises during the Term (a "**Tenant's Release**"). Tenant shall make available to Landlord copies of drafts of any submittals to governmental authorities in connection with any remediation of a Tenant's Release for Landlord's approval at least ten (10) Business Days prior to such submittal. Tenant shall be solely responsible for and sign any manifests or other documents as the waste generator for any Hazardous Materials it disposes of or sends off site or otherwise arising from a Tenant's Release. The remediation of any Tenant's Release shall be carried out in accordance with the applicable provisions of the Massachusetts Contingency Plan (310 CMR 40.0000) and any other Environmental Laws governing such remediation activity. This indemnity shall survive the Term and shall be subject to the provisions of **Section 4.5**.

4.3.3 Landlord's Indemnity. Landlord shall indemnify, defend upon demand with counsel reasonably acceptable to Tenant, and hold Tenant harmless from and against, any liabilities, losses, claims, damages, interest, penalties, fines, attorneys' fees, experts' fees, court costs, remediation costs, and other expenses which result from any the use, storage, handling, treatment, transportation, release or disposal of Hazardous Materials in, on or about the Premises by Landlord Responsible Parties, as well as any violation of the Environmental Laws by Landlord Responsible Parties.

4.4 Compliance with Legal and Insurance Requirements.

4.4.1 Compliance with Legal Requirements. Tenant, at Tenant's cost and expense, agrees to comply with all Legal Requirements applicable to Tenant's use, operation, or occupancy of the Premises or any Alterations made by or on behalf of Tenant, and to provide Landlord with a copy of any notice alleging violation of any such Legal Requirement given to Tenant by any governmental authority or third party; except that Tenant may defer compliance so long as the validity of any such Legal Requirement shall be contested by Tenant in good faith and by appropriate legal proceedings, if such contest would not subject Landlord to any possible civil or criminal penalties and such contest would not place Landlord in default under any Mortgage applicable to the Premises, and if Tenant first gives Landlord appropriate assurance in Landlord's reasonable judgment against any damage, loss, cost or expense on account thereof. If any present or future Legal Requirement requires any licenses or permits for Tenant's particular use, operation, and occupancy of the Premises, including without limitation any required licenses or permits for the storage of inflammables and/or the presence of storage trailers and/or movable containers at the Premises, Tenant will obtain and maintain such licenses and permits at Tenant's own expense, and, upon Landlord's request, will promptly provide copies to Landlord of all such licenses and permits. If any Legal Requirement requires any Alterations to the Premises for Tenant's particular use or operation of the Premises that would not generally be required for the Permitted Uses, Tenant shall make all such Alterations at its sole cost and expense and in compliance with the terms hereof. If any Legal Requirement requires any Alterations to the Premises that would generally be required for the Permitted Uses, such Alterations shall be the responsibility of Landlord to perform (with the costs thereof being included as Landlord's Operating Costs and passed through to the Tenant to the extent provided for in **Section 3.4**). Notwithstanding anything to the contrary anywhere in this Lease, and except for any Repair Items, Tenant shall not be obligated to undertake any Alterations, or to pay the amortized portion of the costs thereof as part of Landlord's Operating Costs to the extent provided for in **Section 3.4**, that are required or alleged to be required due to the violation of a Legal Requirement in effect and applicable to the Premises prior to or as of the Commencement Date in the absence of an order or citation requiring said Alterations issued by a governmental official or judicial body having jurisdiction to require such Alterations; provided that Tenant may defer compliance with said order or citation so long as the validity of any such order or citation shall be contested by Tenant in good faith and by appropriate legal proceedings, if such contest would not subject Landlord to any possible civil or criminal penalties and such contest would not place Landlord in default under any Mortgage applicable to the Premises, and if Tenant first gives Landlord appropriate assurance in Landlord's reasonable judgment against any damage, loss, cost or expense on account thereof.

4.4.2 Insurance Requirements. Tenant shall not do anything, or permit anything to be done, in or about the Premises that would: (i) invalidate any fire or other insurance policies covering the Buildings or any property located therein, (ii) result in a refusal by fire insurance companies of good standing to insure the Buildings or any such property in amounts reasonably satisfactory to Landlord (which amounts shall be comparable to the amounts required by comparable landlords of comparable buildings, or (iii) result in the cancellation of any policy of insurance maintained by or for the benefit of Landlord. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the American Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body that shall hereafter perform the function of such Association.

4.5 Indemnity.

4.5.1 Tenant. To the maximum extent this agreement may be made effective according to law, and except as otherwise expressly provided in this Lease, Tenant agrees to indemnify and save harmless Landlord, Landlord Responsible Parties (as hereinafter defined) and any Mortgagee providing financing with respect to any portion of the Premises from and against all costs, expenses, liabilities, claims, loss, or damage of whatever nature to the extent:

(i) arising from the use, occupancy, operation, maintenance or management of the Premises by Tenant or Tenant's contractors, subtenants, licensees, invitees, agents, servants or employees or others for whom Tenant is legally responsible, but in no event any Landlord Responsible Parties (collectively, with Tenant, "**Tenant Responsible Parties**") during the Term;

(ii) arising from any accident, physical injury or physical damage occurring on any portion of the Premises during the Term applicable to that portion of the Premises and any further period during which Tenant retains occupancy of that portion of the Premises;

(iii) arising from Tenant's or Tenant Responsible Parties' use of Hazardous Materials during the Term or violation of or failure to comply with the provisions of **Section 4.3** above with regard to Hazardous Materials during the Term;

(iv) arising from any litigation or proceeding not commenced by Landlord relating to or arising out of Tenant's use, occupancy, operation, maintenance or management of the Premises to which Landlord or its employees or agents are made a party without fault on its part, whether commenced by or against Tenant; or

(v) arising out of a risk which is required to be insured by Tenant or its contractors pursuant to **Subsection 3.6.1** hereof, and is not so insured, but only to the extent of the insurance limits specified in **Subsection 3.6.1** hereof;

provided, however, that (x) the foregoing indemnity shall not include any cost or damage to the extent arising from any negligent act or omission or willful misconduct of Landlord or Landlord's contractors, licensees, invitees, agents, servants or employees or others for whom the Landlord is legally responsible (collectively, with Landlord, "**Landlord Responsible Parties**") and (y) in no event shall Tenant be liable under this indemnity for indirect or consequential damages (except that nothing in this **Subsection 4.5.1** shall have any impact on the Landlord's rights specified in Article VII below in the event of a holdover by Tenant). This indemnity and hold harmless agreement shall include indemnity against reasonable attorneys' fees and all other costs, expenses and liabilities incurred or in connection with any such claim or proceeding brought thereon, and the defense thereof.

4.5.2 Landlord. To the maximum extent this agreement may be made effective according to law, and except as otherwise expressly provided in this Lease, Landlord agrees to indemnify and save harmless Tenant from and against all claims, loss, or damage of whatever nature to the extent arising from any negligent act or omission or willful misconduct of Landlord or Landlord Responsible Parties on or about the Premises during the Term; provided, however, that (x) the foregoing indemnity shall not include any cost or damage to the extent arising from any negligent act or omission or willful misconduct of Tenant or any Tenant Responsible Parties and (y) in no event shall Landlord be liable under this indemnity for indirect or consequential damages. This indemnity and hold harmless agreement shall include indemnity against reasonable attorneys' fees and all other costs, expenses and liabilities incurred or in connection with any such claim or proceeding brought thereon, and the defense thereof.

4.5.3 General Provisions Regarding Indemnity. If a party (the **"Indemnified Party"**) becomes aware of a claim, action or proceeding or any other event which could result in an obligation to indemnify the Indemnified Party by the other party (the **"Obligated Party"**) under this Lease, the Indemnified Party shall notify the Obligated Party thereof in writing within sixty (60) days after it becomes so aware, giving a reasonably detailed description of the claim, action, proceeding or other event to the extent then known, and providing a copy of any written demand, notice, summons or other paper received by the Indemnified Party. If the Indemnified Party fails to so notify the Obligated Party, and as a result of such failure to notify, the obligation to indemnify is increased, then to the extent of such increase, the Obligated Party's obligation to indemnify under this Lease shall thereupon cease unless the Obligated Party already knows of the claim, action, proceeding or other event. In any action or proceeding that is subject to an indemnity obligation of an Obligated Party under this Lease, the Obligated Party shall have the exclusive right and obligation to defend the Indemnified Party at the Obligated Party's expense with legal counsel chosen by the Obligated Party and reasonably acceptable to the Indemnified Party. The Indemnified Party shall have the right to retain its own legal counsel, at its sole cost, to advise the Indemnified Party in such action or proceeding and the Obligated Party and its legal counsel shall cooperate with such counsel of the Indemnified Party. If at any time, the Indemnified Party in its reasonable discretion determines that the Obligated Party is not diligently and adequately pursuing such defense, the Indemnified Party may immediately assume control of its defense by so notifying the Obligated Party and may appoint substitute counsel chosen by the Indemnified Party. All expenses incurred by the Indemnified Party in connection with such substitute defense including, without limitation, reasonable attorneys' fees and expenses, shall be payable by the Obligated Party on demand. Each party, as an Indemnified Party, agrees to cooperate with the Obligated Party in the defense of any claim, and the failure to

cooperate shall release the Obligated Party from its obligation to defend and indemnify. An Obligated Party shall not settle any claim, action or proceeding against an Indemnified Party without the Indemnified Party's prior written consent, which consent shall not be unreasonably withheld or delayed.

4.5.4 Survival. The covenants and agreements contained in this **Section 4.5** shall survive the expiration or earlier termination of this Lease with respect to any matters arising or accruing prior thereto.

4.6 Landlord's Right to Enter. Tenant agrees to permit Landlord and purchasers and Mortgagees and their authorized representatives and, during the last eighteen (18) months of the Term with respect to any portion of the Premises, any prospective tenants, to enter the Premises (or, as to prospective tenants, the applicable portion of the Premises) to inspect the same or to exercise any of Landlord's rights under this Lease (i) after at least 24 hours prior notice to Tenant's representative at all reasonable times during usual business hours; provided, however, that any such entry shall be made so as to minimize interference with the operation and use of the Premises by Tenant and without damage to the Premises or any portion thereof and Tenant shall have the right for Tenant's representative to accompany any person so inspecting or entering the Premises; and (ii) at any time and without notice in the event of emergency.

4.7 Personal Property at Tenant's Risk. Tenant agrees that all of the furnishings, fixtures, equipment, effects and property of every kind, nature and description of Tenant and of all persons claiming by, through or under Tenant which may be on any part of the Premises during the continuance of the Term applicable to that portion of the Premises or any occupancy of that portion of the Premises by Tenant or anyone claiming under Tenant, shall be at the sole risk and hazard of Tenant, and if the whole or any part thereof shall be destroyed or damaged by fire, water or otherwise, or by the leakage or bursting of water pipes, by theft or from any other cause, no part of said loss or damage is to be charged to or to be borne by Landlord, except that Landlord shall in no event be exonerated from any liability to Tenant or to any other person, for any injury, loss, damage or liability to the extent prohibited by law.

4.8 Yield Up. Tenant agrees, at the expiration of the Term or earlier termination of this Lease: to surrender all keys to the Premises, to remove all of Tenant's personal property and trade fixtures from the Premises, and to yield up the Premises, broom clean, in the same condition in which Tenant is obliged to keep and maintain the Premises by the provisions of this Lease, reasonable use and wear and tear and damage by fire or other casualty or condemnation excepted. Tenant shall have the right to remove its trade fixtures from the Premises at any time. Tenant shall remove the four existing antenna installations on the Building located at 201 Riverneck Road, and all connecting electrical conduits, controls and other equipment related to said antenna installations, from the Premises at the expiration of the Term or earlier termination of this Lease. Tenant shall repair any damage to the Premises caused by removal of any of Tenant's trade fixtures or personal property or Alterations. Tenant shall terminate, without cost, expense or liability to Landlord, any and all contracts and agreements entered into by or on behalf of Tenant (including, without limitation, any employment or collective bargaining agreements and any management contracts) with respect to the management, maintenance or

repair of the Premises or that otherwise would be binding upon the Premises or Landlord. In no event shall Tenant be required to surrender the Premises in any better condition than they were in on the Commencement Date. If Tenant fails to perform its removal obligations hereunder, without limiting any other right or remedy, Landlord may, on five (5) Business Days prior written notice to Tenant perform such obligations at Tenant's expense, and Tenant shall promptly reimburse Landlord upon demand for all out-of-pocket costs and expenses incurred by Landlord in connection with such work. Tenant's obligations under this Section shall survive the termination of this Lease. Any items of Tenant's personal property or trade fixtures which remain in the Premises after the expiration date of the Term may, on five (5) Business Days prior written notice to Tenant, at the option of Landlord, be deemed abandoned and in such case may either be retained by Landlord as its property or be disposed of, without accountability, at Tenant's expense in such manner as Landlord may see fit. The foregoing terms of this Section 4.8 shall survive the expiration or earlier termination of this Lease.

4.9 Personal Property Taxes. Tenant agrees to pay, on or before the due date thereof, all taxes charged, assessed or imposed upon the personal property (including, without limitation, fixtures and equipment) of Tenant in or upon the Premises.

4.10 Assignment, Subletting, etc.

4.10.1 Consent Required. Except as otherwise expressly provided herein, Tenant shall not sell, assign, encumber, pledge or otherwise transfer or hypothecate all or any part of its interest in or rights with respect to the Premises or its leasehold estate (collectively, "**Assignment**"), or permit all or any portion of the Premises to be occupied by anyone other than itself or sublet all or any portion of the Premises (collectively, "**Sublease**") in either case without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Landlord agrees that the offer and sale by Tenant (or any stockholder or member of Tenant) of any stock or other membership interests pursuant to an effective registration statement filed pursuant to the Securities Act of 1933 or pursuant to and in accordance with the securities laws of the United States or any foreign country governing publicly-traded companies shall not constitute an assignment of this Lease, and shall not require the consent or approval of Landlord. In the event that the ownership interests of Tenant cease to be publicly-traded, the transfer of fifty percent (50%) or more of such ownership interests in Tenant to other than an Affiliate or Successor Entity after such time as the ownership interests of Tenant cease to be publicly-traded shall be deemed an Assignment. No Assignment shall relieve Tenant of Tenant's primary liability under this Lease. A consent to one Assignment or Sublease shall not constitute consent to any further Assignment or Sublease. If Landlord consents to any Assignment or Sublease, Tenant shall reimburse Landlord for the reasonable out-of-pocket attorneys' fees and expenses incurred by Landlord in consenting to such Assignment or Sublease. Tenant shall furnish Landlord with a copy of the Assignment or Sublease. In the case of any Assignment or Sublease as to which Landlord may consent (and expressly excluding any Assignment or Sublease permitted under **Subsection 4.10.2** hereof) Tenant agrees that fifty percent (50%) of the "Assignment/Sublease Profits" (hereinafter defined) actually received by Tenant, if any, shall be paid to Landlord. The "Assignment/Sublease Profits" shall be the excess, if any, of (a) the "Assignment/Sublease Net Revenues" as hereinafter defined over (b) the Base Rent and

Additional Rent and other charges provided in this Lease (provided, however, that for the purpose of calculating the Assignment/Sublease Profits in the case of a Sublease, appropriate pro-rations in the applicable Base Rent, Additional Rent and other charges under this Lease shall be made based on the percentage of the Premises subleased and on the terms of the Sublease). The "Assignment/Sublease Net Revenues" shall be the fixed rent, additional rent and all other charges and sums actually received by Tenant either initially or over the term of the Sublease or Assignment, exclusive of amounts paid to Tenant for the purchase or lease of property or equipment of Tenant and after deducting all reasonable and actual out-of-pocket expenses incurred by Tenant in procuring such Assignment or Sublease, including broker fees and legal fees (if any) paid by Tenant, any improvements which Tenant makes to the applicable portion of the Premises at Tenant's expense in connection with such Assignment or Sublease, any buy-out of the Assignee's or Sublessee's existing lease paid for by Tenant as a part of such transaction, the amount of any reasonable improvement allowance or moving expenses paid by Tenant to the proposed assignee or subtenant, costs of advertising the space for sublease or assignment, and any other costs reasonably paid in assigning this Lease or subletting the transferred space or in negotiating or effectuating the Assignment or Sublease. Landlord shall not be entitled to any sums due under this **Subsection 4.10.1** until Tenant has fully recovered or been credited its costs in connection therewith.

4.10.2 Permitted Transfers. Notwithstanding the foregoing, Tenant shall have the right to make an Assignment to an Affiliate or to a Successor Entity (hereinafter defined) without Landlord's consent, provided that upon consummation of the transaction resulting in the Assignment to the Successor Entity, the credit of the party or parties liable for Tenant's obligations under this Lease (including any assignor tenant that has not been released), taken as a whole, shall be at least as good (as determined by the major rating agencies if the credit of any such parity is rated at such time) as that of the assignor Tenant existing immediately prior to such consummation and a new Letter of Credit meeting the requirements of Article XII is delivered to Landlord if the existing Letter of Credit will be rendered invalid as a result of the Assignment to the Successor Entity. A **"Successor Entity",** as used in this Section shall mean a corporation or other business entity (i) into which or with which Tenant, its corporate or other successors or permitted assigns, is merged or consolidated, in accordance with applicable statutory provisions for the merger or consolidation of a corporation or other business entity, or (ii) which acquires control of Tenant in a *bona fide* transaction not entered into for the purpose of avoiding the restrictions on transfer set forth in this Lease, or (iii) which acquires in a *bona fide* arms-length transaction all or substantially all of the assets of Tenant or all or substantially all of the assets of any operating unit of Tenant; provided that: (a) in the case of a merger or consolidation, if Tenant will not survive such merger or consolidation, by operation of law or by effective provisions contained in the instruments of merger or consolidation or acquisition, the liabilities of Tenant under this Lease are assumed by the corporation or other business entity surviving such merger or consolidation; and (b) in the case of an asset sale, by operation of law or by effective provisions contained in the instruments of sale, the liabilities of Tenant under this Lease are assumed by the corporation or other business entity acquiring Tenant's assets. Tenant shall notify Landlord promptly upon consummation of any Assignment hereunder not requiring Landlord's consent, and, at Landlord's request, the assignee shall execute and deliver such written affirmation as Landlord reasonably may request of the assignee's assumption of Tenant's

obligations under this Lease from and after the date of such Assignment. In addition, Tenant may Sublease all or any portion of the Premises to any corporation, partnership, trust, association or other business organization directly or indirectly controlling or controlled by or under common control with Tenant (an "Affiliate", and any such Sublease, an "Affiliate Sublease"), so long as Tenant gives Landlord not less than a fifteen (15) days' prior written notice thereof. Tenant shall also have the right, without the consent of Landlord, to permit the use or occupancy of space in the Premises by employees of any Affiliate or by persons who have an ongoing contractual or other business relationship with Tenant and a reasonable need to work in proximity with Tenant.

4.10.3 Further Requirements. If this Lease be assigned, or if the Premises or any part thereof be sublet or occupied by anyone other than Tenant, whether or not in violation of the terms and conditions of the Lease, Landlord may, at any time and from time to time, collect rent and other charges from the assignee, subtenant or occupant, and apply the net amount collected to the rent and other charges herein reserved, but no such assignment, subletting, occupancy, collection or modification of any provisions of this Lease shall be deemed a waiver of this covenant, or the acceptance of the assignee, subtenant or occupant as a tenant or a release of Tenant from the further performance of covenants on the part of Tenant to be performed hereunder. Any consent by Landlord to a particular assignment, subletting or occupancy or other act for which Landlord's consent is required under this **Section 4.10** shall not in any way diminish the prohibition stated in this **Section 4.10** as to any further such assignment, subletting or occupancy or other act or the continuing liability of the original named Tenant. No assignment or subletting hereunder shall relieve Tenant from its obligations hereunder, and Tenant shall remain fully and primarily liable therefor. Tenant shall reimburse Landlord on demand, as Additional Rent, for any reasonable out-of-pocket costs (including reasonable attorneys' fees and expenses) incurred by Landlord in connection with any request for consent to any proposed Assignment or Sublease, whether or not consummated, including the costs of making investigations as to the acceptability of the proposed assignee or subtenant. Any Sublease to which Landlord gives its consent shall not be valid unless and until Tenant and the sublessee execute a consent agreement in form and substance satisfactory to Landlord in its reasonable discretion and a fully executed counterpart of such Sublease has been delivered to Landlord. Any Sublease shall provide that: (i) the term of the Sublease ends no later than one day before the last day of the Term of this Lease; (ii) such Sublease is subject and subordinate to this Lease; (iii) Landlord may enforce the provisions of the Sublease, including collection of rents; and (iv) in the event of termination of this Lease or reentry or repossession of the Premises by Landlord, Landlord may, at its sole discretion and option, take over all of the right, title and interest of Tenant, as sublessor, under such Sublease, and such subtenant shall, at Landlord's option, attorn to Landlord but nevertheless Landlord shall not (a) be liable for any previous act or omission of Tenant under such Sublease; (b) be subject to any defense or offset previously accrued in favor of the subtenant against Tenant; (c) be bound by any previous modification of such Sublease made without Landlord's written consent or by any previous prepayment of more than one month's rent or be liable for the return of any security deposit posted with Tenant (unless actually received by Landlord); or (d) be obligated to make any payment to or on behalf of such subtenant, or to perform any work in the area leased by the subtenant beyond Landlord's obligations under this Lease.

4.11 Installations, Alterations or Additions.

4.11.1 Alterations by Tenant. Tenant shall not make any improvements, alterations or additions (other than the Repair Items) in or to the Premises within the Term ("**Alterations**") without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed and which in any event shall not be withheld if such Alteration is required to eliminate or cure the violation of a Legal Requirement. Notwithstanding the foregoing, Tenant may place and replace its trade fixtures, tools, machinery and systems serving such trade fixtures, tools and machinery, as well as furniture, floor coverings, equipment and other tangible personal property in the Premises and may make Minor Alterations as it may desire at its own expense without Landlord's approval or consent, but with prior written notice to Landlord. Any such Minor Alterations shall be performed in compliance with all of the terms and conditions of this Lease. As used herein, "**Minor Alterations**" shall mean Alterations costing in the aggregate less than $250,000.00 annually which (i) shall not affect the exterior or the Structure of the Buildings; (ii) shall not adversely affect the proper functioning of any of the Building Systems (including, without limitation, the heating, ventilation, air conditioning, plumbing, electrical, fire, health and life safety, sprinkler or security systems serving the Buildings); (iii) shall not jeopardize health, safety or life safety; (iv) shall not require a change to the certificate of occupancy for the Buildings due to an intended change in use of all or any portion of the Premises; (v) shall not cause the Premises to be in violation of any Legal Requirements; and (vi) are not visible from the exterior of the Premises.

4.11.2 Additional Covenants Regarding Alterations.

(a) All Alterations shall be made (i) at Tenant's sole expense, (ii) according to plans and specifications approved in writing by Landlord (except for Minor Alterations), (iii) in compliance with all applicable Legal Requirements, (iv) by a licensed contractor, and (v) in a good and workmanlike manner using materials of good quality and at least equal to Building standards. Tenant shall pay, within thirty (30) days of being billed therefor, all of Landlord's reasonable out-of-pocket expenses in consenting to the plans and specifications for the Alterations.

(b) It is expressly covenanted and agreed by and between the parties hereto that nothing in this Lease shall authorize Tenant to do any act which shall in any way encumber the title of Landlord in and to the Premises, nor shall the interest or estate of Landlord in the Premises be in any way subject to any claim by way of lien or encumbrance, whether by operation of law or by virtue of any express or implied contract by Tenant, and any claim to or lien upon the Premises arising from any act or omission of Tenant shall accrue only against the leasehold estate of Tenant and shall in all respects be subject and subordinate to the paramount title and rights of Landlord in and to the Premises. Tenant shall keep the Premises and the Buildings free from any liens arising out of any work performed, materials ordered or obligations incurred by or on behalf of Tenant. Without limitation, Tenant shall be responsible for, and shall pay when due, all

costs associated with the preparation of plans and the performance of Alterations, and the same shall be performed in a lien-free, good and workmanlike manner, and in accordance with applicable codes and requirements, including the requirements of the Americans with Disabilities Act ("**ADA**"). In the event that a statutory and/or common law lien is asserted against the Premises or the applicable Buildings as a result of Tenant's acts or omissions, and Tenant shall fail, within twenty (20) days after notice of such assertion, to cause (by payment, posting of a proper bond, or otherwise) such lien to be released of record, Landlord shall have the right (but not the obligation), upon prior written notice to Tenant, at Tenant's expense, to cause such lien to be bonded over or released of record and any amounts advanced by Landlord for such purposes shall be Additional Rent due from Tenant to Landlord within ten (10) days after notice thereof to Tenant, with interest at the Default Rate until the repayment thereof by Tenant to Landlord (such interest commencing to accrue on the date of Landlord's payment if Landlord provides written notice informing Tenant that Landlord has made such payment within twenty (20) days after Landlord makes such payment; otherwise such interest shall commence to accrue on the date of Landlord's demand therefor). Tenant shall have the right to contest in good faith and with reasonable diligence the validity of any such lien or claimed lien if Tenant shall give to Landlord such reasonable security as may be demanded by Landlord to insure payment thereof and to prevent any sale, foreclosure or forfeiture of the Premises by reason of non-payment thereof. On final determination of the lien or claim for lien, Tenant will immediately and at its own expense cause the lien to be released of record. In case Tenant shall fail to prosecute any such contest, Landlord shall have the right (but not the obligation), upon notice to Tenant to cause such lien to be bonded over or released of record and any amounts advanced by Landlord for such purposes shall be Additional Rent due from Tenant to Landlord within ten (10) days after notice thereof to Tenant, with interest at the Default Rate until the repayment thereof by Tenant to Landlord (such interest commencing to accrue on the date of Landlord's payment if Landlord provides written notice informing Tenant that Landlord has made such payment within twenty (20) days after Landlord makes such payment; otherwise such interest shall commence to accrue on the date of Landlord's demand therefor).

(c) Tenant shall ensure that all contractors and subcontractors performing Alterations are insured in amounts required by law. If Landlord requests, certificates of such insurance shall be delivered to Landlord.

(d) Tenant agrees that Landlord will have the right to inspect any Alterations. In the performance of Alterations in accordance with this Lease, Tenant shall keep all construction areas clean and free of trash and debris.

(e) Tenant shall provide copies of any warranties for Alterations and the materials and equipment which are incorporated into the Buildings and Premises in connection therewith, and either assign to Landlord, or enforce on Landlord's behalf, all such warranties to the extent repairs and/or maintenance on warranted items would be covered by such warranties and are otherwise Landlord's responsibility under this Lease.

(f) Tenant shall not place a load upon any floor of the Premises that exceeds the pounds per square foot "live load" design limit of such floor.

4.11.3 Removal of Alterations. Landlord shall notify Tenant in writing at the time of Landlord's approval of any Alterations, excluding any Minor Alterations, whether or not the proposed Alterations will be required to be removed by Tenant at the end of the Term. Provided Tenant has complied with the requirement below in this **Subsection 4.11.3** to include in its request for consent a request that Landlord notify Tenant whether or not the proposed Alteration will be required to be removed by Tenant at the end of the Term, any Alterations that Landlord has not so designated in writing for removal at the time of Landlord's approval, will be permitted to remain on the Premises in accordance with **Section 4.8**. Provided Tenant has complied with the requirement below in this **Subsection 4.11.3** to include in its notice a request that Landlord notify Tenant whether or not the proposed Minor Alteration will be required to be removed by Tenant at the end of the Term, any Minor Alteration shall be permitted to remain on the Premises in accordance with **Section 4.8** unless Landlord, within ten (10) days after receipt of notice from Tenant of its intent to undertake such Minor Alteration, furnishes notice to Tenant stating that Tenant shall be required to remove such Minor Alteration at the end of the Term. Tenant shall include in its request for consent to any Alteration, and in its notice of intent to undertake any Minor Alteration, a request that Landlord notify Tenant whether or not the proposed Alteration or Minor Alteration will be required to be removed by Tenant at the end of the Term. In no event shall Tenant be required to remove any Alteration or Minor Alteration undertaken to eliminate or cure the violation of a Legal Requirement.

4.12 Signage. Tenant may, from time to time during the Term, at its own cost and expense, install identification signage on the Premises. The character, location, design, size, materials, shape, form, graphics and lighting shall be subject to all Applicable Laws. Tenant shall be responsible for obtaining, at its sole cost and expense, all permits and approvals required by Applicable Laws. Tenant's installation work shall be subject to all of the applicable terms and conditions of this Lease regarding Alterations, and Tenant hereby covenants and agrees to maintain such exterior signage in good condition, consistent with the first class quality of the Buildings, and Tenant shall remove such signage from the Premises, and repair any damage caused thereby, upon the expiration or earlier termination of this Lease. Tenant's rights under this Section 4.12 shall not be assignable or transferable other than by the assignment of this Lease.

4.13 Roof Rights. Tenant shall have the right to use the roof of the Buildings and building structure required by Tenant from time to time for installation and use of equipment exclusively in connection with its operations in the Premises, including, without limitation, HVAC equipment, microwave dish or other communications radio antenna and associated equipment ("Roof Equipment") under the following conditions: (a) the Roof Equipment shall

comply with all Legal Requirements, (b) all installation, removal and maintenance of the Roof Equipment shall be performed by Tenant at Tenant's sole cost and expense, (c) the Roof Equipment shall be removed by Tenant at the expiration of the Term or earlier termination of this Lease in accordance with the requirements of Section 4.8, (d) the Roof Equipment shall be used solely for Tenant's internal operational benefit and Tenant shall not derive any benefit from the sale of use privileges of the Roof Equipment, (e) any new Roof Equipment that Tenant desires to install subsequent to the Commencement Date shall be placed in a location reasonably agreed to by Landlord and Tenant and (f) any new Roof Equipment that Tenant desires to install subsequent to the Commencement Date shall not exceed the pounds per square foot "live load" design limit of the roof. Tenant shall have no obligation to pay Base Rent for such right, but Tenant shall, at its sole cost and expense, maintain any Roof Equipment in good condition and repair, and comply with the terms and conditions set forth in this Lease with respect to the installation of the Roof Equipment, and the use of the roof and building structure. Any roof penetrations shall be subject to the approval of Landlord in its reasonable discretion. Any new Roof Equipment installed by Tenant after the Commencement Date shall be deemed a Minor Alteration unless such installation involves a roof penetration or adversely affects the proper functioning of the Building Systems. If the installation or use of any Roof Equipment shall invalidate any roof warranty, Tenant shall reimburse Landlord for the costs of any repairs to the roof which are not covered by such roof warranty solely due to the Tenant's installation of the Roof Equipment. Tenant hereby indemnifies and agrees to hold harmless Landlord, Landlord Responsible Parties and any Mortgagee providing financing with respect to any portion of the Premises from any claim, liability, loss, damage, expense, cause of action or proceeding arising from Tenant's use of the roofs of the Buildings. The foregoing indemnity shall survive the expiration or earlier termination of this Lease.

4.14 ERISA. Tenant covenants and agrees with Landlord that throughout the Term Tenant shall from time to time (but in no event more often than annually) execute all such reasonable documents and provide such reasonable information as Landlord may reasonably require to allow Landlord to determine that: (i) the transaction contemplated by this Lease is not a prohibited transaction under the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), (ii) the transaction contemplated by this Lease is otherwise in full compliance with ERISA, and (iii) Landlord is not in violation of ERISA by compliance with this Lease; provided that Tenant shall in no event be required to execute any document that in any way diminishes or has an adverse impact on any rights enjoyed by Tenant under the Lease, nor shall Tenant be required to execute any document that in any way increases any of the obligations that are imposed on Tenant under the Lease or that imposes any new or additional obligations, costs or liabilities on Tenant that are not imposed under the Lease. If there are actions that Tenant cannot take, or investments by the 401(k) plan established by Tenant that Tenant cannot make, without causing Landlord to violate ERISA, Landlord shall promptly advise Tenant about such matters. Thereafter, Tenant shall take reasonable and appropriate measures to prevent such actions or investments by Tenant.

4.15 Financial Statements. Upon Landlord's reasonable request, and subject to execution of a usual and customary confidentiality agreement, Tenant shall deliver to Landlord financial statements to the extent available and maintained by Tenant, provided that for so long as Tenant's stock is publicly traded on a national exchange that requires its financial statements to be publicly disclosed, Tenant shall have no obligation to deliver any financial statements to Landlord.

Article V CASUALTY OR TAKING

5.1 Casualty.

5.1.1 Termination Option.

(a) If the Premises or any portion thereof are damaged by fire or other casualty ("Casualty"), such that (i) the Premises cannot be repaired under the laws and regulations of the federal, state and local governmental authorities having jurisdiction to substantially the same condition as they existed prior to the Casualty, or (ii) the damage cannot be repaired within twelve (12) months after the date of such damage, or (iii) repairs cannot be completed before the 180th day before the end of the applicable Term, then either party may elect to terminate this Lease by written notice to the other party given within thirty (30) days after the date of such damage. The determination of the time required to restore shall be made by a contractor selected by Landlord with Tenant's consent, which consent shall not be unreasonably withheld. Landlord shall deliver the estimate of such contractor within 30 days after the date of such casualty. Rent shall abate to the extent hereinafter provided as of the date of such casualty or taking. If such a notice to terminate is given, this Lease shall terminate as of the date of such notice.

(b) Notwithstanding the foregoing, in the event Landlord notifies Tenant of its election to terminate this Lease in accordance with this **Subsection 5.1.1**, Tenant shall have the right, by notice to Landlord given by Tenant within thirty (30) days of Landlord's notice of termination, to elect to negate Landlord's termination notice and continue this Lease, provided that:

(i) at least five (5) years would remain in the Term after the projected completion date for the repair; provided, however, the foregoing condition would be deemed to be satisfied notwithstanding the fact that less than five (5) years would remain in the existing Term after the expected completion date, if (A) Tenant has an extension option remaining pursuant to **Section 2.3** that has not commenced as of the date of the Casualty, and (B) Tenant notifies Landlord in writing that it irrevocably and unconditionally elects to exercise its option to extend and irrevocably and unconditionally waives the right to rescind its election for any reason (including, without limitation, pursuant to **Section 2.3(b))**; and

(ii) the Premises can be repaired under the laws and regulations of the federal, state and local governmental authorities having jurisdiction to substantially the same condition as they existed prior to the Casualty; and

(iii) Tenant, at its own expense, agrees to pay any deficiency in the costs that would be incurred to repair the damage as provided in **Subsection 5.1.2(b)**; and

(iv) no Event of Default shall have occurred and be continuing either on the date of such notice by Tenant or on the date that construction shall be commenced.

5.1.2 Repair Obligation.

(a) If neither Landlord nor Tenant is entitled or elects to terminate this Lease as provided in **Subsection 5.1.1**, then Landlord promptly shall repair the same, but the repairs to be made by Landlord under this Article shall not include, and Landlord shall not be required to repair, any Casualty damage to Tenant's personal property or trade fixtures or Alterations that are the responsibility of Tenant to insure. Landlord shall commence such repair promptly and diligently prosecute the repair to completion. Tenant shall be responsible at its own expense for the repair and replacement of Tenant's personal property, trade fixtures and Alterations which Tenant is required to insure and elects to repair or replace.

(b) Landlord shall not be obligated to expend for any such repair and restoration any amount in excess of the insurance proceeds payable on account of such Casualty. If such insurance proceeds are insufficient for the restoration of the Premises, and if Landlord does not otherwise elect to spend the additional funds necessary to fully restore the Premises, then Landlord shall give notice ("Landlord's Proceeds Notice") to Tenant that Landlord does not elect to fund the amount of deficiency and stating the expected deficiency amount (the "Deficiency"). If Landlord sends the Landlord's Proceeds Notice, Tenant may elect to fund the Deficiency by providing written notice of such election to Landlord within thirty (30) days after receipt of Landlord's Proceeds Notice (the "Deficiency Funding Notice"). If Tenant fails to timely send a Deficiency Funding Notice, then this Lease shall be terminated as of the end of such 30-day period. If Tenant furnishes a Deficiency Funding Notice, Tenant shall, within thirty (30) days after the date of the Deficiency Funding Notice, provide security reasonably satisfactory to Landlord and its Mortgagee for Tenant's obligation to so fund the Deficiency (it being agreed that Landlord shall not be obligated to commence restoration until such reasonably satisfactory security is furnished), and Tenant's failure to furnish such security within such time shall constitute an Event of Default (without any additional notice requirements or cure rights) under this Lease. Tenant's furnishing of a Letter of Credit in the amount of the Deficiency, and which otherwise meets the requirements of a Letter of Credit specified in Article XII below, shall in all events be deemed to be satisfactory security to both Landlord and its Mortgagee.

(c) If the Premises shall be damaged by Casualty as the result of a risk not covered by the forms of casualty insurance at the time maintained by Landlord and such Casualty cannot, in the ordinary course, reasonably be expected to be repaired within ninety (90) days from the time that repair work would commence, either party may, at its election, terminate the Lease by notice to the other party given within sixty (60) days after such loss; provided, however that Landlord may not terminate this Lease on account of an uninsured Casualty, and shall restore the Premises, if and to the extent such damage would have been covered by the insurance coverages required to be carried by Landlord under this Lease, subject to the terms of **Subsection 5.1.2(b)**.

5.1.3 Abatement. If all or any part of the Premises shall be rendered untenantable by reason of a Casualty, the Base Rent and the Additional Rent shall be abated in the proportion that the untenantable area of the Premises bears to the total area of the Premises, for the period from the date of the Casualty to the date such portion of the Premises is restored to a tenantable condition. Each party hereby waives the provisions of any statute or law that may be in effect at the time of a casualty under which a lease is automatically terminated or a tenant is given the right to terminate a lease due to a casualty other than as provided in **Subsection 5.1.1**.

5.2 Eminent Domain.

5.2.1 Taking - Lease Ends. If at any time during the Term the whole of the Premises shall be taken for any public or quasi-public use, under any statute or by right of eminent domain, this Lease shall terminate on the date of such taking, except as provided in **Subsection 5.2.3**. If less than all of the Premises shall be so taken and in Tenant's reasonable opinion the remaining part is insufficient for the conduct of Tenant's business, then Tenant may, by notice to Landlord within sixty (60) days after the date Tenant is notified of such taking, terminate this Lease. If Tenant exercises its option, this Lease and the Term shall end on the date specified in Tenant's notice and the Base Rent and Additional Rent shall be apportioned and paid to the date specified in Tenant's notice.

5.2.2 Taking - Lease Continues. If less than all of the Premises shall be taken and Tenant does not elect to terminate this Lease as provided in **Subsection 5.2.1**, this Lease shall remain unaffected, except that Tenant shall be entitled to a pro rata abatement of Base Rent and Additional Rent based upon the nature of the space taken (office space, storage, parking area) and upon the proportion which the area of the Premises or parking area, as case may be, so taken bears to the area of the Premises or parking area, as case may be, immediately prior to such taking.

5.2.3 Temporary Taking. If the use and occupancy of the whole or any part of the Premises is temporarily taken for a public or quasi-public use for a period less than the balance of the Term, then this Lease and the Term shall continue in full force and effect and Tenant shall be entitled to a pro rata abatement of Base Rent and Additional Rent in the manner and to the extent provided in **Subsection 5.2.2** or, at its option, receive that portion of the award for such taking which represents compensation for the value of Tenant's leasehold estate and the Term demised hereunder, in which case Tenant shall continue to pay the Base Rent and Additional Rent in full when due.

5.2.4 Landlord's Award. Landlord shall be entitled to receive the entire award or awards in any condemnation proceeding without deduction therefrom for any estate vested in Tenant and Tenant shall receive no part of such award or awards from Landlord or in the proceedings, except as otherwise expressly provided in this **Section 5.2**. Subject to the foregoing, Tenant hereby assigns to Landlord any and all of Tenant's right, title and interest in or to such award or awards or any part thereof.

5.2.5 Tenant's Award. If there is a taking of all or any portion of the Premises, then Tenant shall, if allowed by Applicable Laws, be entitled to appear, claim, prove and receive in the condemnation proceeding (a) the unamortized value over the Term of the Alterations and Improvements, provided the same shall have been paid for by Tenant; (b) the value of Tenant's personal property that is damaged, destroyed or taken hereunder; (c) the cost of relocation; and

(d) special awards or allowances paid to tenants when their rental space is taken by eminent domain.

5.2.6 Restoration By Landlord. If there is a taking of all or any portion of the Premises and this Lease is continued, then Landlord shall, to the extent of the available takings award, proceed with reasonable diligence to repair, replace and restore the Premises as a complete architectural unit of substantially the same proportionate usefulness, design and construction existing immediately prior to the date of taking.

5.2.7 Definitions. Taking by condemnation or eminent domain hereunder shall include the exercise of any similar governmental power and any sale, transfer or other disposition of the Premises in lieu or under threat of condemnation.

Article VI DEFAULTS

6.1 Default. The occurrence of any of the following shall constitute an "**Event of Default**" by Tenant under this Lease:

(a) if Tenant shall fail to pay any Rent when due; provided, however, that any such failure to pay any Rent shall not constitute a default under this Lease so long as such failure shall not continue for more than five (5) Business Days after written notice from Landlord to Tenant, except that if Landlord shall have sent to Tenant two (2) notices of default during the same calendar year due to Tenant's failure to make payments of Rent and Tenant thereafter shall default in any obligation to pay Rent during the same calendar year, the same shall be deemed to be an Event of Default upon Landlord giving Tenant written notice thereof without the five (5) Business Day grace period set forth above; or

(b) if Tenant shall violate or fail to perform any term, condition, covenant or agreement to be performed or observed by Tenant under this Lease other than those provided for in paragraph (a) above and such violation or failure shall continue for more than thirty (30) days after written notice thereof from Landlord plus such additional time, if any, as is reasonably necessary to cure the default if it is of such a nature that Tenant determines in its reasonable discretion that it is curable but cannot reasonably be cured in thirty (30) days, provided Tenant commences such cure within such thirty (30) days and thereafter diligently proceeds to cure such default; or

(c) if Tenant shall admit in writing its inability to pay its debts generally as they become due, commence any case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of Tenant or any of its debts under any law relating to bankruptcy, insolvency, reorganization, liquidation or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for Tenant or for all or any substantial part of the Premises;

(d) if any case, proceeding or other action against Tenant shall be commenced seeking to have an order for relief entered against Tenant as debtor, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of Tenant or any of its debts under any law relating to bankruptcy, insolvency, reorganization, liquidation or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for Tenant or for all or any substantial part of its property, and such case, proceeding or other action (i) results in the entry of an order for relief against Tenant or (ii) remains undismissed for a period of sixty (60) days;

(e) if Tenant shall admit in writing that it is insolvent or if Tenant shall make an assignment for the benefit of creditors;

(f) if a lien is filed against the Premises, or Landlord's estate therein, by reason of any work, labor, services or materials performed or furnished, or alleged to have been performed or furnished, to Tenant or anyone holding the Premises by, through or under Tenant, and Tenant fails to cause the same to be vacated and canceled of record, or bonded off, in accordance with the provisions of, and within the time period specified in, **Section 4.11** hereof, and such failure shall continue for more than five (5) Business Days after written notice thereof from Landlord to Tenant;

(g) if Tenant shall fail to return to Landlord a properly executed statement in accordance with the provisions of, and within the time period specified in, **Section 10.4** hereof, and such failure shall continue for more than ten (10) Business Days after written notice thereof from Landlord to Tenant; or

(h) if following an Event of Default any portion of the Deposit is applied in accordance with **Article XII** of this Lease and Tenant thereafter fails to replenish the Deposit as required and within the time period specified in said **Article XII,** and such failure shall continue for more than ten (10) Business Days after written notice thereof from Landlord to Tenant.

6.2 Landlord's Right to Terminate. Upon the occurrence of an Event of Default, Landlord and the agents and servants of Landlord may, in addition to and not in derogation of any remedies for any preceding breach of covenant, immediately or at any time thereafter and without demand or notice, at Landlord's election, do any one or more of the following: (i) give Tenant notice stating that this Lease is terminated, effective upon the giving of such notice or upon a date stated in such notice, as Landlord may elect, in which event this Lease shall be irrevocably extinguished and terminated as stated in such notice without any further action, or (ii) with or without process of law, in a lawful manner enter and repossess the Premises as of Landlord's former estate, and expel Tenant and those claiming through or under Tenant, and remove its and their effects, without being guilty of trespass, in which event this Lease shall be irrevocably extinguished and terminated at the time of such entry, or (iii) pursue any other rights or remedies permitted by law or equity. Any such termination of this Lease shall be without

prejudice to any remedies which might otherwise be used for arrears of rent or prior breach of covenant, and in the event of such termination Tenant shall remain liable under this Lease as hereinafter provided. Landlord, without notice to Tenant, may store Tenant's effects and those of any person claiming through or under Tenant, at the expense and risk of Tenant.

6.3 Remedies. In the event that this Lease is terminated under any of the provisions contained in **Section 6.2** or shall be otherwise terminated for breach of any obligation of Tenant, Tenant shall pay the Base Rent, Additional Rent and other sums payable hereunder up to the time of such termination, and thereafter Tenant, until the end of what would have been the Term of this Lease in the absence of such termination, and whether or not the Premises shall have been re-let, shall be liable to Landlord for, and shall pay to Landlord, as liquidated current damages the Base Rent, Additional Rent and other sums that would be payable hereunder if such termination had not occurred, less the net proceeds, if any, of any re-letting of the Premises, after deducting all expenses in connection with such re-letting, including, without limitation, all repossession costs, brokerage commissions, legal expenses, attorneys' fees, advertising, expenses of employees, alteration costs and expenses of preparation for such re-letting. Tenant shall pay such current damages to Landlord monthly on the days which the Base Rent would have been payable hereunder if this Lease had not been terminated.

At any time after such termination, whether or not Landlord shall have collected any such current damages, as liquidated final damages and in lieu of all such current damages beyond the date of such demand, at Landlord's election Tenant shall pay to Landlord an amount equal to the excess, if any, of the Base Rent, Additional Rent and other sums as hereinbefore provided which would be payable hereunder from the date of such demand (assuming that, for the purposes of this paragraph, Taxes would be increased by five percent (5%) per annum over Taxes for the immediately preceding Tax Year for what would be the then unexpired Term of this Lease if the same remained in effect), over the then fair net rental value of the Premises for the same period, in each case as discounted to present value, using as a discount rate the then-current yield on US Treasury Bonds with a ten year maturity, plus 300 basis points.

In case of any default by Tenant, re-entry, expiration and dispossession by summary proceedings or otherwise, Landlord may (i) re-let the applicable portion of the Premises or any part or parts thereof, either in the name of Landlord or otherwise, for a term or terms which may at Landlord's option be equal to or less than or exceed the period which would otherwise have constituted the balance of the applicable Term of this Lease and may grant concessions or free rent to the extent that Landlord considers advisable and necessary to re-let the same and (ii) may make such reasonable alterations, repairs and decorations in the applicable portion of the Premises as Landlord considers advisable and necessary for the purpose of re-letting the applicable portion of the Premises. No action of Landlord in accordance with the foregoing shall operate or be construed to release or reduce Tenant's liability hereunder as aforesaid. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed, or in the event of Landlord obtaining possession of the Premises, by reason of the violation by Tenant of any of the covenants and conditions of this Lease. Nothing contained in this Lease shall, however, limit or prejudice the right of Landlord to prove for and obtain in proceedings for bankruptcy or

insolvency by reason of the termination of this Lease, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater than, equal to, or less than the amount of the loss or damages referred to above.

6.4 Effect of Waivers of Default. Any consent or permission by either party to any act or omission which otherwise would be a breach of any covenant or condition herein, or any waiver by either party of the breach of any covenant or condition herein, shall not in any way be held or construed (unless expressly so declared) to operate so as to impair the continuing obligation of any covenant or condition herein, or otherwise, except as to the specific instance, operate to permit similar acts or omissions.

The failure of either party to seek redress for violation of, or to insist upon the strict performance of, any covenant or condition of this Lease shall not be deemed a waiver of such violation nor prevent a subsequent act, which would have originally constituted a violation, from having all the force and effect of an original violation. The receipt by Landlord of rent with knowledge of the breach of any covenant of this Lease shall not be deemed to have been a waiver of such breach by Landlord. No consent or waiver, express or implied, by either party to or of any breach of any agreement of duty shall be construed as a waiver or consent to or of any other breach of the same or any other agreement or duty.

6.5 No Accord and Satisfaction. No acceptance by Landlord of a lesser sum than the Base Rent, Additional Rent or any other charge then due shall be deemed to be other than on account of the earliest installment of such rent or charge due, unless Landlord elects by notice to Tenant to credit such sum against the most recent installment due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent or other charge be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord’s right to recover the balance of such installment or pursue any other remedy in this Lease provided.

6.6 Cumulative Remedies. All rights and remedies of Landlord and Tenant set forth herein are in addition to all other rights and remedies available at law or in equity. All rights and remedies available hereunder or at law or in equity are expressly declared to be cumulative. The exercise by Landlord or Tenant of any such right or remedy shall not prevent the concurrent exercise of any other right or remedy hereunder or subsequent exercise of the same or any other right or remedy. No delay in the enforcement or exercise of any such right or remedy shall constitute a waiver of any default hereunder or of any of Landlord’s or Tenant’s rights or remedies in connection therewith. Landlord or Tenant shall not be deemed to have waived any default hereunder unless such waiver is set forth in a written instrument. If Landlord or Tenant waives in writing any default, such waiver shall not be construed as a waiver of any covenant, condition or agreement set forth in this Lease except as to the specific circumstances described in such written waiver.

6.7 Landlord's Right to Self-Help. If Tenant defaults in the making of any payment or in the doing of any act herein required to be made or done by Tenant, then, unless Tenant shall have cured such default within the period set forth in **Section 6.1** or such shorter period set forth in Section **4.11.2(b)** (or such shorter period as may be necessary in the event of an emergency), Landlord may, but shall not be required to, make such payment or do such act. If Landlord elects to make such payment or do such act, all costs and expenses incurred by Landlord, plus interest thereon at the Default Rate, from the date paid by Landlord to the date of payment thereof by Tenant, shall be immediately paid by Tenant to Landlord as Additional Rent; provided however, that nothing contained herein shall be construed as permitting Landlord to charge or receive interest in excess of the maximum legal rate then allowed by law.

Article VII HOLDING OVER

In the event that Tenant shall not immediately surrender the applicable portion of the Premises on the date of the expiration of the applicable portion of the Term or the sooner termination of the Term, Landlord may forthwith re-enter and take possession of the Premises. Until Tenant shall have been evicted from or quit the Premises, Tenant shall be a tenant-at-sufferance, subject to all the terms, conditions, covenants and agreements of this Lease, except that (i) Tenant's Rent obligation shall be One Hundred Fifty Percent (150%) of the Base Rent and Additional Rent for the Premises immediately prior to the expiration of the Term with respect thereto, and (ii) any right to renew this Lease or to expand the Premises or any right to additional services shall be of no force or effect during such tenancy-at-sufferance. Tenant shall also be liable to Landlord for all damage Landlord suffers because of any holding over by Tenant that prevents Landlord from delivering possession of the Premises to a prospective tenant, and Tenant shall indemnify Landlord against all claims made by any such other prospective tenant against Landlord resulting from delay by Landlord, caused by Tenant's holdover, in delivering possession of any portion of the Premises to such prospective tenant.

Article VIII RIGHTS OF MORTGAGEE

8.1 Definition of Mortgage. The term "**Mortgage**" shall mean any one or more mortgages, deeds of trust or ground leases which may now or hereafter exist on Landlord's interest in the Premises (or the interest of any ground lessor in the Premises) and all renewals, extensions, supplements, amendments, modifications, consolidations, and replacements thereof or thereto, substitutions therefor, and advances made thereunder. The term "**Mortgagee**" shall mean the holder of or landlord under any Mortgage.

8.2 Lease Subordinate. This Lease shall be subject and subordinate to any Mortgage now or hereafter encumbering the Premises or any portion thereof and to all advances thereunder, provided the Tenant and the Mortgagee shall have entered into a subordination, nondisturbance and attornment agreement in such form and containing such terms and conditions reasonably acceptable to Tenant, pursuant to which a Mortgagee agrees to recognize Tenant's rights under this Lease and that Tenant shall not be disturbed in its possession of the Premises upon exercise of any rights under the Mortgage (including, but not limited to, foreclosure or conveyance by a deed in lieu of foreclosure), provided no Event of Default is then outstanding. In the event that the Mortgagee or any purchaser at a foreclosure sale or otherwise (a "**Successor**") shall succeed to the interest of Landlord, then Tenant shall and does hereby agree

to attorn to such Successor and to recognize such Successor as its Landlord. Landlord shall obtain and deliver to Tenant on the Commencement Date, as a condition to the effectiveness of the subordination of this Lease, a duly executed, acknowledged and recordable subordination, nondisturbance and attornment agreement from Landlord's mortgagee in the form attached hereto as **Exhibit E**.

Notwithstanding the foregoing, a Mortgagee may at its election subordinate its Mortgage to this Lease without the consent or approval of Tenant. Any such Mortgage to which this Lease shall be subordinate may contain such terms, provisions and conditions as the Mortgagee reasonably deems usual or customary.

8.3 Tenant Claims. If any act or omission by Landlord would give Tenant the right to sue for damages from Landlord or to claim any rights with respect to this Lease, Tenant will not sue for such damages or exercise any such rights until (i) it shall have given written notice of the act or omission to Landlord and to the Mortgagee, if the name and address of such holder(s) have been furnished to Tenant, and (ii) the period of time allowed under this Lease for Landlord to remedy the act or omission (plus an additional ten (10) Business Days with respect to Mortgagee's cure rights) has elapsed following the giving of the notice, during which time Landlord and the Mortgagee, or either of them, their agents or employees, will be entitled, subject to Section 4.6, to enter upon the Premises and do therein whatever may be necessary to remedy the act or omission.

Article IX LIMITATIONS OF LANDLORD'S LIABILITY

9.1 Limitation. Landlord shall not be responsible or liable to Tenant for and Tenant hereby releases Landlord from, waives all claims against Landlord arising out of and assumes the risk of, any injury, loss or damage to any person or property in or about the Premises by or from any cause whatsoever, including, without limitation, (a) acts or omissions of persons occupying adjoining premises, (b) theft or vandalism, (c) burst, stopped or leaking water, gas, sewer or steam pipes, (d) loss of utility service, (e) accident, fire or casualty, (f) nuisance, and (g) work done by Landlord in or on the Premises; except, in any case, any such injury, loss or damage arising from the gross negligence or willful misconduct of Landlord or any Landlord Responsible Parties. Notwithstanding the foregoing, Landlord shall remain liable for compliance with its express obligations hereunder.

9.2 Sale of Property. It is agreed that Landlord may at any time sell, assign or transfer its interest in and to the Premises and sell, assign or transfer its interest as landlord in and to this Lease to the purchaser, assignee or transferee in connection with any such sale, assignment or transfer. In the event of any transfer of Landlord's interest in the Premises, the transferor shall be automatically relieved of any and all of Landlord's obligations and liabilities accruing from and after the date of such transfer; provided that the transferee assumes all of Landlord's obligations under this Lease from and after the date of such assignment. Tenant hereby agrees to attorn to Landlord's assignee, transferee, or purchaser from and after the date of notice to Tenant of such assignment, transfer or sale, in the same manner and with the same force and effect as though this Lease were made in the first instance by and between Tenant and the assignee, transferee or purchaser.

9.3 No Personal Liability. In the event of any default by Landlord hereunder, Tenant shall look only to Landlord's interest in the Premises and rents therefrom and any available insurance proceeds for the satisfaction of Tenant's remedies, and no other property or assets of Landlord or any trustee, partner, member, officer or director thereof, disclosed or undisclosed, shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease.

9.4 Limitation on Damages. In no event shall Tenant have the right to seek or recover from Landlord any indirect or consequential damages on account of any claim or matter arising out of or relating to this Lease of the Premises, and Tenant hereby irrevocably waives any right which it might otherwise have to seek or receive any such indirect or consequential damages. In no event shall Landlord have the right to seek or recover from Tenant any indirect or consequential damages on account of any claim or matter arising out of or relating to this Lease of the Premises, and Landlord hereby irrevocably waives any right which it might otherwise have to seek or receive any such indirect or consequential damages.

Article X GENERAL PROVISIONS

10.1 Landlord's Covenant of Quiet Enjoyment; Title. Landlord covenants that Tenant, upon paying the Base Rent and Additional Rent provided for hereunder and performing and observing all of the other covenants and provisions hereof, may peaceably and quietly hold and enjoy the Premises for the applicable Term as aforesaid, free from any party claiming by, under or through Landlord, subject, however, to all of the terms and provisions of this Lease.

10.2 No Partnership or Joint Venture. Nothing contained in this Lease shall be construed as creating a partnership or joint venture of or between Landlord and Tenant, or to create any other relationship between the parties hereto other than that of landlord and tenant.

10.3 Brokerage. Landlord and Tenant each represents and warrants to the other that it has not dealt with any broker in connection with this transaction other than Richards Barry Joyce & Partners, and each agrees to hold harmless the other and indemnify the other from and against any and all damages, costs or expenses (including, but not limited to, reasonable attorneys' fees and disbursements) suffered by the indemnified party as a result of acts of the indemnifying party that would constitute a breach of its covenant or representation and warranty in this **Section 10.3.**

10.4 Estoppel Certificate. Tenant shall, at any time and from time to time, upon not less than ten (10) Business Days' prior written notice from Landlord, execute and deliver to Landlord an estoppel certificate in a form generally consistent with the requirements of institutional lenders and prudent purchasers containing such statements of fact as Landlord may reasonably request including, but not limited to, the following: (a) that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect); (b) the date to which the Base Rent and other charges are paid in advance and the amounts then payable; (c) that there are not, to

Tenant's knowledge, any uncured defaults or unfulfilled obligations on the part of Landlord, or specifying such defaults or unfulfilled obligations, if any are claimed; and (d) that Tenant has taken possession of the Premises. Any such certificate may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises.

Landlord shall, at any time and from time to time, upon not less than ten (10) Business Days' prior written notice from Tenant, execute and deliver to Tenant an estoppel certificate containing such statements of fact as Tenant may reasonably request including, but not limited to, the following: (a) that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect); (b) the date to which the Base Rent and other charges are paid in advance and the amounts then payable; and (c) that there are not, to Landlord's knowledge, any uncured defaults or unfulfilled obligations on the part of Tenant, or specifying such defaults or unfulfilled obligations, if any are claimed. Any such certificate may be conclusively relied upon by any prospective assignee or any purchaser or encumbrancer of Tenant or its assets.

10.5 Prevailing Party. Landlord and Tenant each shall pay all reasonable costs and counsel and other fees incurred by the other party in connection with the successful enforcement by other party from time to time of any obligation under this Lease.

10.6 Notice. Except as otherwise expressly provided herein, all notices given under this Lease shall be in writing and shall be addressed to parties at the addresses indicated below:

Notices to Landlord shall be addressed to:

BTI 199-201 Riverneck, L.P.
c/o Prudential Real Estate Investors
Two Ravinia Drive, Suite 400
Atlanta, Georgia 30346
Attention: Director Asset Management

With a copy to:

Prudential Real Estate Investors
8 Campus Circle Drive, 4th Floor
Parsippany, New Jersey 07054-4493
Attention: Legal Department
Facsimile: (973) 683-1788

Sonnenschein Nath & Rosenthal LLP
7800 Sears Tower
233 South Wacker Drive
Chicago, Illinois 60606-6404
Attention: Robert F. Messerly, Esq.
Facsimile: (312) 876-7934

Notices to Tenant shall be addressed to:

Mercury Computer Systems, Inc.
199 Riverneck Road
Chelmsford, MA 01824
Attn: Craig Barrows, General Counsel
Facsimile: 978-967-3302

Any notice may be mailed, delivered by hand or messenger or transmitted by facsimile and shall be deemed to have been delivered if and when received by the addressee, except that any notice given by facsimile, if not given on a Business Day, shall not be deemed to have been delivered until the next Business Day. Any party may, by giving written notice to the other party, change the addresses to which notices shall be given to such party. A certified or registered mail receipt or receipt from a generally recognized commercial delivery service evidencing receipt by the addressee or refusal at the address of the addressee stated above or as changed pursuant to this Section shall be deemed conclusive evidence of receipt. Counsel designated for a party under this Lease may give notice on behalf of such party in the manner provided herein, and any such notice shall be effective as if given by the party.

10.7 Recording. Neither party shall record this Lease. Landlord and Tenant shall each execute and deliver the Notice of Lease in the form attached hereto as **Exhibit F** simultaneously with the execution of this Lease.

10.8 Partial Invalidity. If any provision of this Lease or the application thereof to any person or circumstances shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Lease shall be valid and enforced to the fullest extent permitted by law.

10.9 Gender. Feminine or neuter pronouns shall be substituted for those of the masculine form, and the plural shall be substituted for the singular number, in any place or places herein in which the context may require such substitution.

10.10 Bind and Inure. The provisions of this Lease shall be binding upon, and shall inure to the benefit of, the parties hereto and each of their respective successors and assigns, subject to the provisions hereof restricting assignment or subletting by Tenant.

10.11 Entire Agreement. This Lease contains and embodies the entire agreement of the parties hereto with respect to Tenant's leasehold estate hereunder and supersedes all prior agreements, negotiations and discussions between the parties hereto with respect thereto. Any representation, inducement or agreement with respect thereto that is not contained in this Lease shall not be of any force or effect. This Lease may not be modified or changed in whole or in part in any manner other than by an instrument in writing duly signed by both parties hereto.

10.12 Applicable Law. This Lease shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

10.13 Headings. Headings are used herein for the convenience of reference and shall not be considered when construing or interpreting this Lease.

10.14 Not An Offer. The submission of an unsigned copy of this document to Tenant for Tenant's consideration does not constitute an offer to lease the Premises or an option to or for the Premises. This document shall become effective and binding only upon the execution and delivery of this Lease by both Landlord and Tenant.

10.15 Time Is of the Essence. Time is of the essence of each provision of this Lease.

10.16 Multiple Counterparts. This Lease may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document.

10.17 Waiver of Jury Trial. Landlord and Tenant hereby each waive trial by jury in any action, proceeding or counterclaim brought by either against the other, on or in respect of any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant or Tenant's use or occupancy of the Premises under this Lease.

10.18 Bankruptcy. Notwithstanding anything in this Lease to the contrary, all amounts payable by Tenant, to or on behalf of Landlord under this Lease, whether or not expressly denominated as rent, will constitute rent for the purposes of Section 502(b)(6) of the Bankruptcy Code.

10.19 Authority. Tenant represents and warrants that each individual executing this Lease on behalf of Tenant is duly authorized to execute and deliver this Lease on behalf of said corporation, in accordance with the bylaws and resolutions of said corporation, and that this Lease is binding upon said corporation. Landlord represents and warrants that each individual executing this Lease on behalf of Landlord is duly authorized to execute and deliver this Lease on behalf of the entity, and that this Lease is binding on the entity. Each of Landlord and Tenant agrees to furnish to the other, contemporaneously upon the execution and delivery of this Lease, a corporate resolution, proof of authorization by partners or members or other appropriate documentation evidencing the due authorization of the individual executing this Lease to enter into this Lease on behalf of such party.

10.20 No Easement for Light, Air or View. Any elimination or shutting off of light, air or view by any structure which may be erected on lands adjacent to the Buildings shall in no way affect this Lease and Landlord shall have no liability to Tenant with respect thereto.

10.21 Obligations Joint and Several. If there is more than one Tenant, the obligations imposed upon Tenant under this Lease shall be joint and several. The duties and obligations of Tenant shall run and extend not only to the benefit of Landlord, as named herein, but to the following, at the option of the following or any of them: (a) any person by, through or under which Landlord derives the right to lease the Premises; (b) the owner of the Premises; and (c) any Mortgagee or the holder of any rent assignment interests in the Premises, as their respective interests may appear; provided, however, nothing contained herein shall be construed to obligate Tenant to pay Rent to any person other than Landlord until such time as Tenant has been given written notice of either an exercise of a rent assignment or the succession of some other party to the interest of Landlord.

Article XI DEVELOPMENT PARCEL PROVISIONS

11.1 Right of First Offer.

11.1.1 Offer Notice. Subject to the terms and conditions contained herein, from and after the Commencement Date hereof until the expiration or earlier termination of this Lease, in the event that Landlord intends to develop the adjacent parcel of land commonly known as 191 Riverneck Road (the "**Development Parcel**") for lease to commercial tenants, before Landlord enters into a letter of intent for or a lease of any such new space, Landlord will first offer such space to Tenant for lease for the Permitted Uses hereunder by written notice to Tenant (the "**Offer Notice**") specifying the basic business and financial terms of the proposed lease as set forth in Subsection 11.1.2 below. As used herein "**Available Space**" shall mean and refer to space in the building to be constructed on the Development Parcel.

11.1.2 Offered Business Terms. The Offer Notice shall specify the proposed business and financial terms for a lease of the Available Space ("**Offered Business Terms**") which shall include the location and rentable area of the Available Space, the base rent for the Available Space (which shall be equal to the fair market rental value for the Available Space as of the proposed commencement date of the lease of such Available Space) and any additional rent, the initial term (which shall be coterminous with the remaining Term of this Lease), and any extension or renewal options, the amount of tenant improvement and other allowances (if any), and the other material terms and conditions on which Landlord is prepared to lease the Available Space. Tenant will notify Landlord, within thirty (30) days after receipt of the first Offer Notice given to Tenant pursuant to this **Section 11.1** that (i) Tenant accepts the offer to lease the Available Space on the Offered Business Terms, or (ii) Tenant accepts the offer to lease the Available Space, but rejects Landlord's estimate of the fair market rental value for the Available Space, or (iii) Tenant rejects the offer to lease the Available Space (the failure by Tenant to timely respond being deemed Tenant's rejection of Landlord's offer). In the event that the Offer Notice includes the entire rentable area of the building on the Development Parcel, Tenant's acceptance shall specify the amount of square feet which it desires to lease, which shall be contiguous space and not less than one full floor. If Tenant accepts the offer to lease the Available Space but rejects Landlord's estimate of the fair market rental value for the Available Space, the parties shall negotiate in good faith to resolve such disagreement within thirty (30) days after the date of Tenant's notice, failing which, such disagreement shall be resolved pursuant to the provisions of **Section 2.3(b)** of this Lease. If Tenant accepts the offer to lease the Available Space, then in confirmation thereof, Landlord and Tenant shall enter into a new lease on the Offered Business Terms, the agreed upon rental amounts and otherwise on such other terms and conditions as are substantially equivalent to those set forth in this Lease or are acceptable to the parties. In the event that the Tenant rejects such offer to lease Available Space, then Landlord shall thereafter be entitled to enter into a lease for the Available Space and Landlord shall be under no obligation to offer the same Available Space on the Development Parcel to Tenant.

11.1.3 Conditions. Notwithstanding any contrary provision contained herein, Landlord's obligation to offer any Available Space is conditioned upon (i) this Lease being then in full force and effect, (ii) no Event of Default having occurred under this Lease that is then continuing at the time of exercise and (iii) Tenant shall not have subleased or assigned more than fifty percent (50%) of the Rentable Area of the Premises other than pursuant to an assignment or sublease permitted in accordance with **Subsection 4.10.2** (any of which conditions shall be deemed waived by Landlord unless Landlord shall give Tenant written notice thereof within thirty (30) days after Tenant's exercise).

11.1.4 Transferee Bound. Landlord hereby agrees that in the event that it intends to sell, assign, lease, convey or otherwise transfer all or any portion of the Development Parcel, such conveyance shall be made subject to and conditioned upon such successor agreeing with Tenant, in form reasonably acceptable to Tenant, to be bound by and recognize Tenant's rights under this **Section 11.1**.

11.2 Development Parcel Restrictions. Landlord agrees that during the Term of this Lease, Landlord shall not develop or permit the development or use of the Development Parcel for any use other than commercial general office and/or research and development use. Landlord further agrees Landlord shall not develop or permit the development or use of the Development

Parcel in any manner that would (a) reduce the parking spaces available on the Premises, (b) adversely affect Tenant's access to or use of the Premises, or (c) increase Tenant's costs and expenses under this Lease, including, without limitation, the Landlord's Operating Costs or Taxes.

Article XII DEPOSIT

Tenant has upon execution of this Lease deposited with Landlord a Letter of Credit (hereinafter defined) in the amount set forth in **Section 1.1** (the "**Deposit**"), which Letter of Credit may be drawn upon in whole or in part and applied by Landlord for the purpose of curing any Event of Default by Tenant under this Lease that remains outstanding. If any portion of the Deposit is applied to cure an Event of Default by Tenant, Tenant shall, within five (5) Business Days after written demand therefor, either deposit funds with Landlord equal to the amount applied (in which case such funds shall be held by Landlord hereunder as part of the Deposit) or reinstate the Letter of Credit in an amount sufficient to restore the Deposit to its original amount, and Tenant's failure to do so shall be a breach of this Lease. The unapplied balance of the Deposit, including the Letter of Credit with its remaining unapplied balance, shall be returned to Tenant within thirty (30) days after the expiration of the Term or sooner termination hereof, and after Tenant has vacated and delivered the Premises as required hereunder. Landlord may retain for sixty (60) days following the expiration of the Term or sooner termination of this Lease an amount reasonably calculated to be sufficient to pay any final amount of Taxes or Operating Expenses for the year in which the Term ends. The Deposit is not an advance payment of Rent or an account of Rent, or any part or settlement thereof, or a measure of Landlord's damages. The use or application of the Deposit or any portion thereof shall not prevent Landlord from exercising any other right or remedy provided hereunder or under any Legal Requirements and shall not be construed as liquidated damages. In the event Landlord transfers all or any part of its interest in the Buildings or this Lease, Landlord shall transfer the Deposit to the transferee. Upon such transfer, Landlord shall thereby be released by Tenant from all liability or obligation for the return of the Deposit. The term "**Letter of Credit**" as used herein shall mean an irrevocable, unconditional letter of credit, in the amount of the Deposit (or such lesser amount if part of the Deposit is cash) (i) issued by and drawn on a bank reasonably approved by Landlord (Landlord hereby approving Silicon Valley Bank) and at a minimum having a corporate credit rating from Standard and Poor's Professional Rating Service of BBB- or a comparable minimum rating from Moody's Professional Rating Service, (ii) in form and substance reasonably acceptable to Landlord and meeting the other requirements specified herein, (iii) permitting one or more draws thereunder to be made upon presentation, in one or more locations that include one or the other of New York, New York or Boston, Massachusetts, accompanied only by certification by Landlord or Landlord's managing agent that pursuant to the terms of this Lease, Landlord is entitled to draw upon such Letter of Credit, (iv) permitting transfers at any time without charge, and (v) providing that any notices to Landlord be sent to the notice address specified for Landlord in this Lease or such other address as designated by Landlord from time to time. If the credit rating for the issuer of such Letter of Credit falls below the standard set forth in (i) above, Landlord shall have the right to require that Tenant provide a substitute letter of credit that complies in all respects with the requirements of this Article, and Tenant's failure to provide the same within thirty (30) days following

Landlord's written demand therefor shall entitle Landlord to immediately draw upon the Letter of Credit and hold the proceeds as the Deposit under this Lease. The Letter of Credit shall be for a term of one (1) year and shall provide for automatic one (1) year renewals through the date which is sixty (60) days subsequent to the scheduled expiration of this Lease (as the same may be extended) or if the issuer will not grant automatic renewals, the Letter of Credit shall be renewed by Tenant each year and each such renewal shall be delivered to and received by Landlord not later than thirty (30) days before the expiration of the then current Letter of Credit (herein called a "Renewal Presentation Date"). In the event of a failure to so deliver any such renewal Letter of Credit on or before the applicable Renewal Presentation Date, Landlord shall be entitled to present the then existing Letter of Credit for payment and to receive the proceeds thereof, which proceeds shall be held as the Deposit subject to the terms of this Article XII. Landlord shall also be entitled to draw upon the Letter of Credit, and to hold the proceeds of such drawing as the Deposit subject to the terms of this Article XII, in the event that after such time as Landlord shall have rightfully given Tenant two (2) notices of default during a consecutive 12-month period due to Tenant's failure to make payments of Rent when due, Tenant shall again fail to pay any Rent when due within the same consecutive 12-month period. As a courtesy to Tenant, Landlord agrees to furnish contemporaneous notice to Tenant of any drawing on the Letter of Credit; provided that the failure to furnish such notice shall not give rise to any rights or remedies exercisable by Tenant.

[signatures on next page]

EXECUTED under seal as of the date first above written.

LANDLORD:

BTI 199-201 RIVERNECK, L.P., a Delaware limited partnership

By: 199-201 Riverneck LLC, a Delaware limited liability company, its general partner

By: /s/ Gregory M. Killeen
Name: Gregory Killeen
Title: Vice President

By: /s/ Valerie Tomlinson
Name: Valerie Tomlinson
Title: Vice President

[Signatures continue on following page]

TENANT:

MERCURY COMPUTER SYSTEMS INC.

By: /s/ Robert E. Hult

Name: Robert E. Hult

Title: Senior Vice President, Chief Financial Officer and Treasurer

DEFINITIONS

As used in this Lease, the following terms shall have the following meanings, applicable, as appropriate, to both the singular and plural form of the terms defined below:

"***ADA***" is defined in **Section 4.11.2**.

"***Additional Rent***" is defined in **Section 3.1**.

"***Affiliate Sublease***" is defined in **Section 4.10.2**.

"***Alterations***" is defined in **Section 4.11**.

"***Assignment***" is defined in **Section 4.10**.

"***Bankruptcy Code***" means Title 11 of the United States Code, as amended.

"***Base Rent***" means the amount stated in Article 1, to be adjusted and payable in accordance with **Article 3**.

"***Building Systems***" shall mean the mechanical, electrical, heating, ventilating, air conditioning, elevator, plumbing, sanitary, life-safety and related communications apparatus, lighting and other utility and service systems of the Buildings and all components thereof, as the same shall exist from time to time, and all alterations, renewals and replacements thereof, additions thereto and substitutions therefor.

"***Buildings***" is defined in **Article 1**.

"***Business Days***" means Monday through Friday, excluding Saturdays, Sundays and federal or state legal holidays.

"***Casualty***" is defined in **Section 5.1**.

"***CERCLA***" is defined in **Subsection 4.3.1.**

"***Commencement Date***" means the date specified in **Article 1**.

"***Default Rate***" is defined in **Section 3.2.**

"***Environmental Laws***" is defined in **Section 4.3**.

"***Event of Default***" is defined in **Section 6.1**.

"***Hazardous Materials***" is defined in **Section 4.3**.

" ***Indemnified Party***" is defined in **Section 4.5**.

"***Land***" is defined in **Article 1**.

"***Landlord***" is defined in **Article 1**.

"***Landlord Responsible Parties***" is defined in **Section 4.5**.

"***Legal Requirements***" means applicable laws, statutes, codes, ordinances, orders, rules, regulations, conditions of approval, and requirements, of all federal, state, county, municipal and other governmental authorities and the departments, commissions, boards, bureaus, instrumentalities, and officers thereof, and all administrative or judicial orders or decrees and all permits, licenses, approvals, and other entitlements issued by governmental entities, and rules of common law, relating to or affecting the Buildings or the use, operation or occupancy of the Premises, whether now existing or hereafter enacted.

"***Lien***" means any lien, mortgage, deed of trust, encumbrance, chattel mortgage, security agreement, or order for the payment of money filed against the Premises.

"***Mortgage***" is defined in **Section 8.1**.

"***Mortgagee***" is defined in **Section 8.1**.

"***Obligated Party***" is defined in **Section 4.5**.

"***Permitted Uses***" is defined in **Section 4.1**.

"***Premises***" is defined in **Article 1**.

"***RCRA***" is defined in **Subsection 4.3.1**.

"***Remedial Work Plan***" is defined in **Subsection 4.3.3**.

"***Rent***" is defined in **Article 3**.

"Sublease" is defined in **Section 4.10**.

"***Successor***" is defined in **Section 8.2**.

"***Successor Entity***" is defined in **Section 4.10**.

"***Tax Parcel***" is defined in **Subsection 3.3.1**.

"***Tax Year***" is defined in **Subsection 3.3.1**.

"***Taxes***" is defined in **Subsection 3.3.1**.

" ***Tenant***" is defined in **Article 1**.

"***Tenant Responsible Parties***" is defined in **Section 4.5**.

"***Tenant's Release***" is defined in **Subsection 4.3.3**.

"***Term***" is defined in **Article 1**.

"***Untenantable***" means that, in the reasonable judgment of Tenant, Tenant shall be unable to occupy, and shall not be occupying, the Premises or the applicable portion thereof for the ordinary conduct of Tenant's business.

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME	JURISDICTION OF ORGANIZATION
KOR Electronics	California
LNX Corporation	Massachusetts
Mercury Federal Systems, Inc.	Delaware
MICA Microwave Corporation	Delaware
Micronetics, Inc	Delaware
Microwave Concepts, Inc	Delaware
Microwave & Video Systems, Inc	Connecticut
Paragon Dynamics, Inc	Delaware
Riverneck Road, LLC	Delaware
Stealth Microwave, Inc.	Delaware
Nihon Mercury Computer Systems K.K.	Japan
Mercury Computer Systems N.V.	The Netherlands
Mercury Computer Systems Ltd.	United Kingdom

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Mercury Computer Systems, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-53291, 333-101993, 333-112990, 333-124294, 333-129929, 333-139019, 333-139020, 333-149046, 333-156364, 333-163705, 333-163707, 333-172775, 333-177770, 333-177771, and 333-183240) on Form S-8 and the registration statement (No. 333-175978) on Form S-3 of Mercury Computer Systems, Inc. of our report dated August 22, 2012, with respect to the consolidated balance sheets of Mercury Computer Systems, Inc. and subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows, for each of the years in the three-year period ended June 30, 2012, and the related consolidated financial statement Schedule II, and the effectiveness of internal control over financial reporting as of June 30, 2012, which report appears in the June 30, 2012 annual report on Form 10-K of Mercury Computer Systems, Inc.

Our report dated August 22, 2012, on the effectiveness of internal control over financial reporting as of June 30, 2012, contains an explanatory paragraph that states management excluded from its assessment of the effectiveness of Mercury Computer Systems, Inc.'s internal control over financial reporting as of June 30, 2012 KOR Electronics and its wholly-owned subsidiary, Paragon Dynamics, Inc.'s internal control over financial reporting associated with total assets of 22 percent (of which 17 percent represented goodwill and intangible assets included within the scope of the assessment) and total revenues of 8 percent included in the consolidated financial statements of Mercury Computer Systems, Inc. and subsidiaries as of and for the year ended June 30, 2012. Our audit of internal control over financial reporting of Mercury Computer Systems, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of KOR Electronics and its wholly-owned subsidiary, Paragon Dynamics, Inc.

/s/ KPMG LLP

Boston, Massachusetts
August 22, 2012

EXHIBIT 31.1

CERTIFICATION

I, Mark Aslett, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2012

/s/ MARK ASLETT

Mark Aslett
PRESIDENT AND CHIEF EXECUTIVE OFFICER
[PRINCIPAL EXECUTIVE OFFICER]

EXHIBIT 31.2

CERTIFICATION

I, Kevin M. Bisson, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2012

/s/ KEVIN M. BISSON

Kevin M. Bisson
SENIOR VICE PRESIDENT,
CHIEF FINANCIAL OFFICER, AND TREASURER
[PRINCIPAL FINANCIAL OFFICER]

EXHIBIT 32.1

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 fiscal year ended June 30, 2012 as filed with the Securities and Exchange Commission (the "Report"), we, Mark Aslett, President and Chief Executive Officer of the Company, and Kevin Bisson, 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 to our knowledge the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 22, 2012

/S/ MARK ASLETT
Mark Aslett
PRESIDENT AND CHIEF EXECUTIVE OFFICER

/S/ KEVIN M. BISSON
Kevin M. Bisson
SENIOR VICE PRESIDENT,
CHIEF FINANCIAL OFFICER, AND TREASURER