

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarter ended March 31, 1999

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 (I.R.S. Employer Identification No.)
Incorporation or organization)

199 RIVERNECK ROAD 01824
CHELMSFORD, MA (Zip Code)
(Address of principal executive offices)

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

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

YES X NO
--- ---

Number of shares outstanding of the issuer's classes of common stock as of April 30, 1999:

Class	Number of Shares Outstanding
-----	-----
Common Stock, par value \$.01 per share	10,290,366

Total number of pages 15

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	MARCH 31, 1999 ----- (UNAUDITED)	JUNE 30, 1998 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,955	\$ 6,054
Marketable securities	5,980	10,077
Trade accounts receivable, net of allowances of \$291 and \$218 at March 31, 1999 and June 30, 1998, respectively	18,509	17,143
Contracts in progress	668	--
Inventory	10,451	9,125
Deferred income taxes, net	1,669	1,669
Prepaid expenses and other current assets	983	1,255
	-----	-----
Total current assets	46,215	45,323
Marketable securities	18,577	18,889
Property and equipment, net	23,551	8,466
Capitalized software costs, net	449	104
Deferred income taxes, net	429	429
Other assets	266	358
	-----	-----
Total assets	\$89,487 =====	\$73,569 =====
LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities:		
Accounts payable	\$ 5,235	\$ 3,368
Accrued expenses	4,477	2,804
Accrued compensation	4,572	3,316
Billings in excess of revenues and customer advances	942	1,017
Income taxes payable	1,692	2,024
	-----	-----
Total current liabilities	16,918	12,529
Commitments and contingencies (Note E)	--	--
Stockholders' equity:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized and none issued and outstanding	--	--
Common stock, \$.01 par value; 25,000,000 shares authorized, 10,279,653 and 9,973,491 shares issued and outstanding at March 31, 1999 and June 30, 1998, respectively	103	100
Additional paid-in capital	28,075	25,961
Retained earnings	44,455	35,483
Accumulated other comprehensive income	(64)	(179)
Related parties notes receivable	--	(325)
	-----	-----
Total stockholders' equity	72,569	61,040
	-----	-----
Total liabilities and stockholders' equity	\$89,487 =====	\$73,569 =====

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

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

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	1999	1998	1999	1998
	-----	-----	-----	-----
Net revenue	\$27,225	\$22,364	\$76,885	\$62,027
Cost of revenue	8,229	7,832	25,295	21,776
	-----	-----	-----	-----
Gross profit	18,996	14,532	51,590	40,251
Operating expenses:				
Selling, general and administrative	8,668	7,104	24,330	20,595
Research and development	5,373	3,749	14,749	10,535
	-----	-----	-----	-----
Total operating expenses	14,041	10,853	39,079	31,130
Income from operations	4,955	3,679	12,511	9,121
Interest income, net	313	263	1,008	713
Other income (expenses), net	(24)	(7)	282	(50)
	-----	-----	-----	-----
Income before income taxes	5,244	3,935	13,801	9,784
Provision for income taxes	1,835	1,495	4,829	3,765
	-----	-----	-----	-----
Net income	\$ 3,409	\$ 2,440	\$ 8,972	\$ 6,019
	=====	=====	=====	=====
Net income per share:				
Basic	\$ 0.33	\$ 0.29	\$ 0.89	\$ 0.95
	=====	=====	=====	=====
Diluted	\$ 0.31	\$ 0.24	\$ 0.83	\$ 0.69
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic	10,236	8,476	10,127	6,333
	=====	=====	=====	=====
Diluted	10,888	9,991	10,765	8,778
	=====	=====	=====	=====

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

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

	NINE MONTHS ENDED MARCH 31,	
	1999	1998
Cash flows provided from operating activities:		
Net income	\$ 8,972	\$ 6,019
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,978	2,438
Deferred income taxes	--	(332)
Provision for doubtful accounts	116	--
Changes in assets and liabilities:		
Trade accounts receivable	(1,326)	(4,686)
Contracts in progress	(668)	1,096
Inventory	(1,415)	(1,671)
Prepaid expenses and other current assets	308	(586)
Other assets	70	(31)
Accounts payable	1,866	72
Accrued expenses and compensation	2,926	2,580
Billings in excess of revenues and customer advances	(67)	(1,349)
Income taxes payable	(338)	(610)
	13,422	2,940
Net cash provided by operating activities		
Cash flows from investing activities:		
Sale of marketable securities	76,609	--
Purchases of marketable securities	(72,204)	(15,858)
Purchases of property and equipment	(17,618)	(4,172)
Capitalized software development costs	(775)	(65)
Notes receivable from related parties	325	--
	(13,663)	(20,095)
Net cash used in investing activities		
Cash flows from financing activities:		
Net proceeds from issuance of common stock	--	18,578
Proceeds from exercise of stock options and warrants	2,117	363
	2,117	18,941
Net cash provided by financing activities		
Effect of exchange rate change on cash and cash equivalents	25	209
Net change in cash and cash equivalents	1,901	1,995
Cash and cash equivalents at beginning of period	6,054	15,193
Cash and cash equivalents at end of period	\$ 7,955	\$ 17,188
Cash paid during the period for:		
Interest	--	--
Income taxes	\$ 4,361	\$ 4,720

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

MERCURY COMPUTER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. BASIS OF PRESENTATION

These consolidated financial statements should be read in conjunction with the Company's financial statements and footnotes included in the Company's Form 10K for fiscal year 1998 filed with the Securities and Exchange Commission. The interim financial data as of March 31, 1999 and for the three and nine months ended March 31, 1999 and March 31, 1998 are unaudited; however, in the opinion of Mercury Computer Systems Inc, (the "Company"), the interim data includes all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the results for the interim periods.

B. INVENTORY

	MARCH 31, 1999 (IN THOUSANDS)	JUNE 30, 1998 (IN THOUSANDS)
	-----	-----
Raw materials	\$ 3,499	\$4,707
Work in process	4,013	2,814
Finished goods	2,939	1,604
	-----	-----
Total	\$10,451	\$9,125
	=====	=====

C. NET INCOME PER COMMON SHARE

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

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	1999	1998	1999	1998
	-----	-----	-----	-----
Net income	\$ 3,409	\$2,440	\$ 8,972	\$6,019
Shares used in computation:				
Weighted average common shares				
outstanding used in computation of basic net income per share	10,236	8,476	10,127	6,333
Dilutive effect of convertible preferred stock	--	852	--	1,989
Dilutive effect of stock options	652	663	638	456
	-----	-----	-----	-----
Shares used in computation of diluted net income per share	10,888	9,991	10,765	8,778
	=====	=====	=====	=====
Basic net income per share	\$ 0.33	\$ 0.29	\$ 0.89	\$ 0.95
	=====	=====	=====	=====
Diluted net income per share	\$ 0.31	\$ 0.24	\$ 0.83	\$ 0.69
	=====	=====	=====	=====

Options to purchase 78,667 and 0 shares of common stock outstanding during the three months ended March 31, 1999 and March 31, 1998, respectively, were not included in the calculation of diluted net income per common share because the option price was greater than the average market price of the common shares during the period. Options to purchase 56,016 and 5,980 shares of common stock were outstanding during the nine months ended March 31, 1999 and March 31, 1998, respectively, but were not included in the calculation of diluted net income per common share because the option price was greater than the average market price of the common shares during the period.

D. COMPREHENSIVE INCOME

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

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	1999	1998	1999	1998
	-----	-----	-----	-----
Net income	\$3,409	\$2,440	\$8,972	\$6,019
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(38)	(40)	77	(41)
Unrealized gains/(losses) on securities	(15)	--	(2)	--

Other comprehensive income	----- (53)	----- (40)	----- 75	----- (41)
Total comprehensive income	=====	=====	=====	=====

E. INTERNAL REVENUE SERVICE AUDIT

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

F. NEW ACCOUNTING PRONOUNCEMENTS

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

In March 1998, the American Institute of Certified Public Accountants issued SOP 98-1, "Internal Use Software," which provides guidance on the accounting for the costs of software developed or obtained for internal use. SOP 98-1 is effective for fiscal years beginning after December 15, 1998. The Company will adopt this statement's provisions for its 2000 fiscal year which commences on July 1, 1999. Management does not expect the statement to have a material impact on its financial position or results of operations.

On June 15, 1998 the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 is effective for all fiscal years beginning after June 15, 1999. Accordingly, the Company will adopt this statement's provisions for its 2000 fiscal year which commences on July 1, 1999. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. Management of the Company anticipates that, due to its limited use of derivative instruments, the adoption of SFAS No. 133 will not have a material impact on its financial position or results of operations.

MERCURY COMPUTER SYSTEMS, INC.

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

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

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

RESULTS OF OPERATIONS:

REVENUES

The Company's total revenues increased 22% from \$22.4 million during the three months ended March 31, 1998 to \$27.2 million during the three months ended March 31, 1999. The Company's total revenues increased 24% from \$62.0 million during the nine months ended March 31, 1998 to \$76.9 million during the nine months ended March 31, 1999.

Defense electronics revenues increased 24% from \$17.6 million or 79% of total revenues during the three months ended March 31, 1998 to \$21.7 million or 80% of total revenues during the three months ended March 31, 1999. Defense electronics revenues increased 22% from \$48.4 million or 78% of total revenues during the nine months ended March 31, 1998 to \$58.7 million or 76% of total revenues during the nine months ended March 31, 1999. Increases in defense electronic revenues were due primarily to continued strong unit demand for defense electronics products, largely comprised of advanced military applications in radar, sonar and airborne surveillance.

Medical imaging revenues increased 45% from \$2.6 million or 11% of total revenues during the three months ended March 31, 1998 to \$3.8 million or 14% of total revenues during the three months ended March 31, 1999. Medical imaging revenues increased 46% from \$7.7 million or 12% of total revenues during the nine months ended March 31, 1998 to \$11.2 million or 15% of total revenues during the nine months ended March 31, 1999. Increases in medical imaging revenues are reflective of the Company's ongoing investment in this business, expansion into new modalities and the resulting increased unit demand.

Other revenues, which include the Shared Storage and other commercial businesses, decreased 23% from \$2.2 million or 10% of total revenues during the three months ended March 31, 1998 to \$1.7 million or 6% of total revenues during the three months ended March 31, 1999. Other revenues increased 17% from \$5.9 million or 10% of total revenues during the nine months ended March 31, 1998 to \$7.0 million or 9% of total revenues during the nine months ended March 31, 1999. The decrease in other revenues, third quarter versus third quarter, are due primarily to a decline in unit demand in the Company's other commercial businesses, offset in part by an increase in unit demand in the Shared Storage business. The increase in other revenues during the nine month period, year over year, are attributable to a sharp increase in the Shared Storage business while the Company's commercial business has decreased slightly over the same period.

COST OF REVENUES

Cost of revenues increased 5% from \$7.8 million or 35% of total revenues during the three months ended March 31, 1998 to \$8.2 million or 30% of total revenues during the three months ended March 31, 1999. Cost of revenues increased 16% from \$21.8 million or 35% of total revenues during the nine months ended March 31, 1998 to \$25.3 million or 33% of total revenues during the nine months ended March 31, 1999. Cost increases, in absolute terms, are the result of increased sales volume. Cost as a percent of revenues, particularly during the third quarter, reflects favorable product mix, component cost reductions and modest efficiency gains.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general, and administrative expenses increased 22% from \$7.1 million or 32% of total revenues during the three months ended March 31 1998 to \$8.7 million or 32% of total revenues during the three months ended March 31, 1999. Selling, general and administrative expenses increased 18% from \$20.6 million or 33% of total revenues during the nine months ended March 31, 1998 to \$24.3 million or 32% of total revenues during the nine months ended March 31, 1999. These increases reflect the hiring of additional sales and administrative personnel, information system investments, increased commissions and marketing related costs, all of which are associated with higher sales volume.

RESEARCH AND DEVELOPMENT

Research and development expenses increased 43% from \$3.7 million or 17% of total revenues during the three months ended March 31, 1998 to \$5.4 million or 20% of total revenues during the three months ended March 31, 1999. Research and development expenses increased 40% from \$10.5 million or 17% of total revenues during the nine months ended March 31, 1998 to \$14.7 million or 19% of total revenues during the nine months ended March 31, 1999. The increase was primarily due to the hiring of additional engineers required to enhance the features and functionality of current products as well as to develop next generation products. Expenses are running higher than management's initial target levels as the Company is working on strategic development programs to deliver important new technologies in support of market requirements.

INCOME FROM OPERATIONS

Income from operations increased 35% from \$3.7 million or 16% of total revenues during the three months ended March 31, 1998 to \$5.0 million or 18% of total revenues during the three months ended March 31, 1999. Income from operations increased 37% from \$9.1 million or 15% of total revenues during the nine months ended March 31, 1998 to \$12.5 million or 16% of total revenues during the nine months ended March 31, 1999.

Included in income from operations during the three months ended March 31, 1998 were \$300,000 in hardware and software revenues and \$1.1 million in direct expenses related to the Shared Storage business. Included in income from operations during the three months ended March 31, 1999 were \$424,000 in hardware and software revenues and \$937,000 in direct expenses related to the Shared Storage business. Included in income from operations during the nine months ended March 31, 1998 were \$385,000 in hardware and software revenues and \$2.6 million in direct expenses related to the Shared Storage business. Included in income from operations during the nine months ended March 31, 1999 were \$1.7 million in hardware and software revenues and \$3.0 million in direct expenses related to the Shared Storage business. Direct expenses include product cost, selling and marketing, service and integration as well as development costs.

INTEREST INCOME, NET

Interest income, net, increased 19% from \$263,000 during the three months ended March 31, 1998 to \$313,000 during the three months ended March 31, 1999. Interest income, net, increased 41% from \$713,000 during the nine months ended March 31, 1998 to \$1.0 million during the nine months ended March 31, 1999. These increases reflect higher average cash balances attributable, primarily, to the Company's initial public offering. Lower yields achieved on investments offset these higher average balances. These lower yields reflect a shift in investment strategy from taxable instruments to non-taxable instruments.

PROVISION FOR INCOME TAX

The Company recorded a tax provision of \$1.5 million during the three months ended March 31, 1998 reflecting a 38% tax rate as compared to a \$1.8 million tax provision during the three months ended March 31, 1999, reflecting a 35% tax rate. The Company recorded a tax provision of \$3.8 million during the nine months ended March 31, 1998 reflecting a 38% tax rate as compared to a \$4.8 million tax provision during the nine months ended March 31, 1999 reflecting a 35% tax rate. The reduced tax rate was due, in part, to a one-time tax provision adjustment during the previous quarter to reflect Congressional extension of the research and experimentation tax credit through June, 1999. Additionally, the aforementioned shift in investment strategy from taxable money market instruments to non-taxable securities has contributed to the reduced tax rate.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 1999, the Company had cash and marketable investments of approximately \$32.5 million. During the nine months ended March 31, 1999, the Company generated \$13.4 million in cash from operations compared to \$2.9 million generated during the nine months ended March 31, 1998. The increase in cash generated from operations was due primarily to increased profitability and effective management of working capital. Days sales outstanding (DSO) decreased from 70 days at March 31, 1998 to 61 days at March 31, 1999.

During the nine months ended March 31, 1999, the Company's investing activities used cash of \$13.7 million which consisted of \$8.4 million for the purchase of an existing office building, \$6.2 million related to the development of additional office space, \$3.0 million for computers, furniture, equipment and leasehold improvements and \$775,000 for capitalized software. These outflows were offset by the sale of marketable securities of \$4.4 million and a reduction in notes receivable from related parties amounting to \$325,000. During the nine months ended March 31, 1998, the Company's investing activities used cash of \$20.1 million, consisting of \$15.9 for the purchase of marketable securities, \$2.9 million for computers, furniture, equipment and leasehold improvements and \$1.2 million related to the development of additional office space.

During the nine months ended March 31, 1999, the Company's financing activities provided \$2.1 million in cash, all related to the issuance of stock options. During the nine months ended March 31, 1998, the Company's financing activities generated proceeds of \$18.6 million from the Company's initial public offering and \$363,000 in cash from the issuance of stock options.

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

SHARED STORAGE BUSINESS UNIT

On March 1st, 1999, the company issued a Confidential Information Memorandum seeking alternative ways to fund the continuing development of the Shared Storage business unit. This business unit was created to exploit some of Mercury's innovative software developments. It has evolved into software for use in applications and market segments that, while exciting and potentially offer a large return, are outside of Mercury's core businesses and strengths. There can be no assurances that the Company will obtain such funding.

CORPORATE DEVELOPMENT

On April 13th, 1999, Mercury announced it had signed a Letter of Intent to form a new joint venture company with Sarnoff Corporation, the developer of color television and a pioneer in the creation of high-definition digital TV. Combining the intellectual property of both companies, this new venture will provide the broadcast and cable industries with products and solutions that will significantly increase the flexibility of a digital TV infrastructure. The new company will provide products and services that allow an economical entry point to DTV services, with the option of expanding performance and features to meet the demands of the evolving DTV audience. It is expected that the new corporation, to be owned 50% by each of the Company and Sarnoff, will be in place by June 30, 1999.

YEAR 2000 COMPLIANCE

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

Mercury's Y2K Initiative: In the Company's Annual Report on Form 10K for the fiscal year ended June 30, 1998, the Company made disclosures regarding the following matters: (i) the Company's state of Y2K readiness of the hardware and software products sold by the Company ("Products"), the information technology systems used in its operations ("IT Systems"), and its non-IT Systems, such as

building security, voice mail and other systems, (ii) the expenditures expected to be incurred in connection with identifying, evaluating and settling any Y2K compliance issues, (iii) the risks associated with identified Y2K issues, and (iv) the Company's intention to develop a contingency plan to address identified Y2K compliance issues.

State of Readiness: Since the Company's original Y2K disclosure, the Company has reprogrammed the source code underlying its current financial and accounting software to make it Y2K compliant. Testing of the reprogrammed software is on schedule and is expected to be completed by May 31, 1999. The Company also plans to upgrade certain other business systems supporting human resources and sales information data bases. These upgrades are expected to be completed by June 30, 1999. The Company has evaluated IT systems and has concluded that the majority of such systems are compliant. Plans are in place to upgrade the remaining IT system components with an objective of bringing the entire infrastructure into compliance by June 30, 1999.

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

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

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

MERCURY COMPUTER SYSTEMS, INC.
PART II. OTHER INFORMATION

(d) Use of Proceeds from Registered Securities.

During the three months of January, February and March 1999, the Company used approximately \$1.4 million of proceeds received from the sale of 2,000,000 shares in the Company's initial public offering which closed on February 4, 1998 for the construction of an additional facility as discussed in the Company's Form 10K for fiscal year 1998 filed with the Securities and Exchange Commission. The Company intends to own and occupy the majority of this newly constructed building, which consists of 91,000 square feet. A portion of the building will be leased to an unaffiliated third party. The Company has also purchased its current headquarters building for \$8.4 million which consists of 96,000 square feet. The Company is currently exploring financing alternatives for both of these properties.

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

(a) Exhibits. See as listed

Exhibit
Item #

27.1 Financial Data Schedule

(b) Reports on Form 8-K. None.

MERCURY COMPUTER SYSTEMS, INC.
SIGNATURE

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

MERCURY COMPUTER SYSTEMS, INC.

Date: May 12, 1999

By: /s/ G. MEAD WYMAN

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

MERCURY COMPUTER SYSTEMS, INC.
EXHIBIT INDEX

Exhibit
Item #
- - - - -

27.1 Financial Data Schedule

5
1,000
U.S. DOLLARS

3-MOS

JUN-30-1999	JUL-01-1998	MAR-31-1999
	1	7,955
	24,557	
	18,509	
	291	
	10,451	
46,215		38,278
	14,727	
	89,487	
16,918		0
0		0
		103
	72,466	
89,487		27,225
	27,225	
		8,229
	8,229	
	13,752	
	0	
	0	
	5,244	
	1,835	
3,409		
	0	
	0	
		0
	3,409	
	.33	
	.31	