
**UNITED STATES
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 QUARTERLY PERIOD ENDED MARCH 31, 2009

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
(State or other jurisdiction of
incorporation or organization)

201 RIVERNECK ROAD
CHELMSFORD, MA
(Address of principal executive offices)

04-2741391
(I.R.S. Employer
Identification No.)

01824
(Zip Code)

978-256-1300

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

Shares of Common Stock outstanding as of April 30, 2009: 22,650,615 shares

MERCURY COMPUTER SYSTEMS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCURY COMPUTER SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(unaudited)

	March 31, 2009	June 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 40,584	\$ 59,045
Marketable securities	—	60,205
Accounts receivable, net of allowance of \$531 and \$508 at March 31, 2009 and June 30, 2008, respectively	33,811	29,995
Inventory	18,890	24,202
Prepaid expenses and other current assets	3,261	7,862
Current assets of discontinued operations	1,742	4,534
Total current assets	98,288	185,843
Marketable securities	44,981	47,231
Put option to sell auction rate securities	5,194	—
Property and equipment, net	8,539	10,053
Goodwill	57,653	57,653
Acquired intangible assets, net	3,371	4,718
Other non-current assets	3,874	5,520
Non-current assets of discontinued operations	7,989	27,532
Total assets	\$ 229,889	\$ 338,550
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 13,607	\$ 13,647
Accrued expenses	6,391	8,674
Accrued compensation	8,581	8,249
Notes payable	5,312	125,000
Borrowings under line of credit and current capital lease obligations	33,426	277
Income taxes payable	1,020	580
Deferred revenues and customer advances	7,048	10,521
Current liabilities of discontinued operations	7,816	12,810
Total current liabilities	83,201	179,758
Notes payable and non-current portion of capital lease obligations	7	18
Accrued compensation	—	1,709
Deferred tax liabilities, net	83	285
Deferred gain on sale-leaseback	8,159	9,027
Other non-current liabilities	1,187	919
Non-current liabilities of discontinued operations	9	322
Total liabilities	92,646	192,038
Commitments and contingencies (Note J)		
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; 22,228,815 and 21,972,158 shares issued and outstanding at March 31, 2009 and June 30, 2008, respectively	222	220
Additional paid-in capital	104,906	100,268
Retained earnings	30,357	40,575
Accumulated other comprehensive income	1,758	5,449
Total shareholders' equity	137,243	146,512
Total liabilities and shareholders' equity	\$ 229,889	\$ 338,550

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		Nine months ended	
	March 31,		March 31,	
	2009	2008	2009	2008
Net revenues	\$50,563	\$50,674	\$140,497	\$140,572
Cost of revenues	21,380	22,308	60,983	57,611
Gross profit	29,183	28,366	79,514	82,961
Operating expenses:				
Selling, general and administrative	12,584	16,685	38,666	49,097
Research and development	11,118	11,992	33,001	34,548
Amortization of acquired intangible assets	498	1,291	1,955	3,871
Restructuring	239	1,054	713	1,253
Total operating expenses	24,439	31,022	74,335	88,769
Income (loss) from operations	4,744	(2,656)	5,179	(5,808)
Interest income	239	1,541	1,920	5,753
Interest expense	(497)	(839)	(2,280)	(2,522)
Other income, net	317	476	120	995
Income (loss) from continuing operations before income taxes	4,803	(1,478)	4,939	(1,582)
Income tax expense	101	732	101	1,916
Income (loss) from continuing operations	4,702	(2,210)	4,838	(3,498)
Loss from discontinued operations, net of income tax benefit of \$112 and \$758 for the three months ended March 31, 2009 and 2008, respectively, and income tax (benefit) expense of (\$112) and \$1,288 for the nine months ended March 31, 2009 and 2008, respectively	(704)	(3,429)	(19,696)	(11,536)
Gain on sale of discontinued operations, net of income tax expense of \$0	4,152	—	4,640	—
Net income (loss)	<u>\$ 8,150</u>	<u>\$ (5,639)</u>	<u>\$ (10,218)</u>	<u>\$ (15,034)</u>
Basic net earnings (loss) per share:				
Earnings (loss) from continuing operations	\$ 0.21	\$ (0.10)	\$ 0.22	\$ (0.16)
Loss from discontinued operations	(0.03)	(0.16)	(0.89)	(0.54)
Gain on sale of discontinued operations	0.19	—	0.21	—
Net earnings (loss)	<u>\$ 0.37</u>	<u>\$ (0.26)</u>	<u>\$ (0.46)</u>	<u>\$ (0.70)</u>
Diluted net earnings (loss) per share:				
Earnings (loss) from continuing operations	\$ 0.21	\$ (0.10)	\$ 0.22	\$ (0.16)
Loss from discontinued operations	(0.03)	(0.16)	(0.88)	(0.54)
Gain on sale of discontinued operations	0.18	—	0.20	—
Net earnings (loss)	<u>\$ 0.36</u>	<u>\$ (0.26)</u>	<u>\$ (0.46)</u>	<u>\$ (0.70)</u>
Weighted-average shares outstanding:				
Basic	22,208	21,689	22,113	21,590
Diluted	<u>22,486</u>	<u>21,689</u>	<u>22,374</u>	<u>21,590</u>

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,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (10,218)	\$ (15,034)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,493	12,132
Stock-based compensation	4,630	9,412
Impairment of goodwill and long-lived assets	14,555	—
Deferred income taxes	(176)	2,948
Non-cash interest	780	634
Gross tax windfall from stock-based compensation	(601)	(226)
Gain on sale of discontinued operations	(4,640)	—
Other non-cash income	(868)	(796)
Changes in operating assets and liabilities, net of effects of businesses acquired and disposed of:		
Accounts receivable	(4,334)	(830)
Inventory	5,305	(6,012)
Prepaid expenses and other current assets	5,141	3,767
Other assets	386	358
Accounts payable and accrued expenses	(4,267)	(1,991)
Deferred revenues and customer advances	(3,313)	5,860
Income taxes payable	(258)	780
Other long term liabilities	(1,759)	259
Net cash provided by operating activities	<u>7,856</u>	<u>11,261</u>
Cash flows from investing activities:		
Purchases of marketable securities	(138,583)	(122,776)
Sales and maturities of marketable securities	198,878	178,325
Purchases of property and equipment	(3,188)	(3,016)
Acquisition of businesses, net of cash acquired	—	(2,400)
Proceeds from life insurance policies redemption	831	324
Proceeds from sale of discontinued operations	819	—
Net cash provided by investing activities	<u>58,757</u>	<u>50,457</u>
Cash flows from financing activities:		
Proceeds from employee stock plans	413	1,146
Borrowings under line of credit	33,316	—
Gross tax windfall from stock-based compensation	601	226
Repurchases of common stock	(404)	(516)
Payments of principal under notes payable	(119,688)	—
Payments of capital lease obligations	(178)	(91)
Net cash (used in) provided by financing activities	<u>(85,940)</u>	<u>765</u>
Effect of exchange rate changes on cash and cash equivalents	866	218
Net (decrease) increase in cash and cash equivalents	(18,461)	62,701
Cash and cash equivalents at beginning of period	59,045	51,293
Cash and cash equivalents at end of period	<u>\$ 40,584</u>	<u>\$ 113,994</u>
Cash (received) paid during the period for:		
Interest	\$ 1,868	\$ 1,252
Income taxes, net	(3,911)	98
Supplemental disclosures—non-cash activities:		
Issuance of restricted stock awards to employees	\$ 51	\$ 3,155

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 SHARE AND PER SHARE DATA)

A. Description of Business

Mercury Computer Systems, Inc. (the “Company” or “Mercury”) designs, manufactures and markets high-performance computer signal and image processing systems and software for embedded and other specialized computing markets. The Company’s primary market segments are aerospace and defense—which includes systems for radar, electronic warfare, sonar, C4I (Command, Control, Communications, Computers, and Intelligence) and electro-optical; life sciences—which includes systems for medical diagnostic imaging & visualization; semiconductor—which includes systems for semiconductor wafer inspection, reticle inspection and mask writing; and telecommunications applications.

B. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to the Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures, normally included in annual consolidated financial statements have been condensed or omitted pursuant to those rules and regulations; however, in the opinion of management the financial information reflects all adjustments, consisting of adjustments of a normal recurring nature, necessary for fair presentation. These consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended June 30, 2008 which are contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”). The results for the three and nine months ended March 31, 2009 are not necessarily indicative of the results to be expected for the full fiscal year.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. For the three- and nine-month periods ending March 31, 2008, the consolidated financial statements, excluding the statement of cash flows, were reclassified to reflect the discontinuation and sale of the Biotech business (“Biotech”), the Embedded Systems and Professional Services (“ES/PS”) businesses and the Visage Imaging (“VI”) business, as well as the expected sale of the Visualization Sciences Group (“VSG”) business, in accordance with Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Asset* (see Note M).

Effective July 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”), for financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. As permitted by FASB Staff Position (“FSP”) No. SFAS 157-2, *Effective Date of FASB Statement No. 157*, the Company has elected to defer implementation of SFAS 157 as it relates to its non-financial assets and non-financial liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis until July 1, 2009. Such adoption did not have a material impact on the Company’s financial position or results of operations. See Note R for disclosures regarding the fair value of the Company’s financial instruments.

Effective July 1, 2008, the Company adopted the provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates (the “fair value option”) and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The Company chose not to elect the fair value option for its financial assets and liabilities existing on July 1, 2008, and did not elect the fair value option for any

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financial assets and liabilities transacted during the nine months ended March 31, 2009, except for a put option related to the Company's auction rate securities ("ARS") that was recorded in conjunction with a settlement agreement with UBS (see Note R).

Effective October 2008, the Company adopted the provisions of the FASB issued FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active* ("FSP 157-3"), which clarifies how an entity would determine fair value in an inactive market. The application of the provisions of FSP 157-3 did not materially impact the Company's financial position or results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets and goodwill acquired, liabilities assumed and noncontrolling interests. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R will be effective for the Company on July 1, 2009, and will be applied to any business combination with an acquisition date, as defined therein, that is subsequent to the effective date.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). The new standard requires enhanced disclosures to enable investors to better understand the effects of derivative instruments and hedging activities on an entity's financial position, results of operations and cash flows. SFAS 161 will be effective for the Company on July 1, 2009. The Company does not believe that the adoption of SFAS 161 will have a material effect on its financial position or results of operations.

In April 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). FSP 142-3 improves the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other applicable accounting literature. FSP 142-3 will be effective for the Company on July 1, 2009. The Company does not believe that the adoption of FSP 142-3 will have a material effect on its financial position or results of operations.

In April 2009, the FASB issued FSP SFAS 157-4, *Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly* ("FSP 157-4"). FSP 157-4 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The FSP provides guidance for estimating fair value when the volume and level of market activity for an asset or liability have significantly decreased and determining whether a transaction was orderly. This FSP applies to all fair value measurements when appropriate. FSP 157-4 is effective for the Company for the quarterly period beginning April 1, 2009. The Company does not expect that the adoption of FSP 157-4 will have a material impact on its financial position or results of operations.

In April 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP 115-2"). FSP 115-2 amends existing guidance for determining whether an other-than-temporary impairment of debt securities has occurred. Additionally, FSP 115-2 changes the amount of an other-than-temporary impairment that is recognized in earnings when there are credit losses on a debt security for which management does not intend to sell and for which it is more-likely-than-not that the entity will not have to sell prior to recovery of the noncredit impairment. FSP 115-2 is effective for the Company for the quarterly period beginning April 1, 2009. The Company does not expect the adoption of FSP 115-2 will have a material impact on its financial position or results of operations.

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C. 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 2,592,264 shares, which 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 or ten years. There were 1,379,878 shares available for future grant under the 2005 Plan at March 31, 2009.

The number of shares authorized for issuance under the 1997 Plan was 8,650,000 shares, of which 100,000 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 vest over periods of zero to six 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 directed 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

During 1997, the Company adopted the 1997 Employee Stock Purchase Plan (ESPP) and authorized 500,000 shares for future issuance. In November 2006, the Company's shareholders approved an increase in the number of authorized shares under the ESPP to 800,000 shares. Under the plan, rights are granted to purchase shares of common stock at 85% of the lesser of the market value of such shares at either the beginning or the end of each six-month offering period. The plan permits employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's compensation as defined in the plan. There were 46,220 and 40,882 shares issued under the ESPP during the nine months ended March 31, 2009 and 2008, respectively. Shares available for future purchase under the ESPP totaled 98,104 at March 31, 2009.

STOCK OPTION AND AWARD ACTIVITY

The following table summarizes activity of the Company's stock option plans since June 30, 2007:

	Options Outstanding		Weighted Average Remaining Contractual Term (Years)
	Number of Shares	Weighted Average Exercise Price	
Outstanding at June 30, 2007	2,984,211	\$ 19.39	6.26
Grants	1,154,400	10.05	
Exercises	(100,828)	7.73	
Cancellations	(305,112)	18.32	
Outstanding at June 30, 2008	3,732,671	\$ 16.88	6.20
Grants	612,464	6.44	
Exercises	(21,790)	7.68	
Cancellations	(877,371)	18.23	
Outstanding at March 31, 2009	3,445,974	\$ 14.73	5.73

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The following table summarizes the status of the Company's nonvested restricted stock awards since June 30, 2007:

	Nonvested Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at June 30, 2007	1,291,212	\$ 13.53
Granted	264,035	12.44
Vested	(464,381)	13.23
Forfeited	(224,743)	14.18
Outstanding at June 30, 2008	866,123	\$ 13.18
Granted	8,200	6.22
Vested	(246,908)	13.04
Forfeited	(173,680)	13.53
Outstanding at March 31, 2009	453,735	\$ 13.00

STOCK-BASED COMPENSATION ASSUMPTIONS AND EXPENSE

The Company recognized the full impact of its share-based payment plans in the consolidated statements of operations for the three and nine months ended March 31, 2009 and 2008 in accordance with SFAS No. 123R ("SFAS 123R"), *Share-Based Payment*, 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 SFAS 123R, 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 included in the Company's consolidated statements of operations:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Cost of revenues	\$ 69	\$ 228	\$ 278	\$ 475
Selling, general and administrative	877	1,919	3,391	5,999
Research and development	276	573	1,001	1,655
Share-based compensation expense before tax	1,222	2,720	4,670	8,129
Income tax benefit	—	—	—	—
Net compensation expense	<u>\$ 1,222</u>	<u>\$ 2,720</u>	<u>\$ 4,670</u>	<u>\$ 8,129</u>

The following table sets forth the weighted-average key assumptions and fair value results for stock options granted during the three and nine month periods ended March 31, 2009 and 2008:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Weighted-average fair value of options granted	\$ 3.67	\$ 2.80	\$ 3.68	\$ 4.53
Option life(1)	5.5 years	5.0 years	5.5 years	5.0 years
Risk-free interest rate(2)	1.5%	2.6%	2.4%	3.2%
Stock volatility(3)	77%	44%	64%	41%
Dividend rate	0%	0%	0%	0%

(1) The option life was determined based upon historical option activity.

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- (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.

The following table sets forth the weighted-average key assumptions and fair value results for employees' stock purchase rights during the three and nine month periods ended March 31, 2009 and 2008:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Weighted-average fair value of stock purchase rights granted	\$ 3.19	\$ 6.10	\$ 3.04	\$ 4.23
Option life	6 months	6 months	6 months	6 months
Risk-free interest rate	0.3%	1.5%	1.4%	3.3%
Stock volatility	122%	85%	105%	54%
Dividend rate	0%	0%	0%	0%

D. Net Earnings (Loss) Per Share

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Income (loss) from continuing operations—basic	\$ 4,702	\$ (2,210)	\$ 4,838	\$ (3,498)
Loss from discontinued operations	(704)	(3,429)	(19,696)	(11,536)
Gain on sale of discontinued operations	4,152	—	4,640	—
Net income (loss)	\$ 8,150	\$ (5,639)	\$ (10,218)	\$ (15,034)
Shares used in computation of net earnings (loss) per share—basic	22,208	21,689	22,113	21,590
Effect of dilutive stock options and restricted stock	278	—	261	—
Shares used in computation of net earnings (loss) per share—diluted	22,486	21,689	22,374	21,590
Net earnings (loss) per share—basic				
Continuing operations	\$ 0.21	\$ (0.10)	\$ 0.22	\$ (0.16)
Loss from discontinued operations	(0.03)	(0.16)	(0.89)	(0.54)
Gain on sale of discontinued operations	0.19	—	0.21	—
Net earnings (loss)	\$ 0.37	\$ (0.26)	\$ (0.46)	\$ (0.70)
Net earnings (loss) per share—diluted				
Continuing operations	\$ 0.21	\$ (0.10)	\$ 0.22	\$ (0.16)
Loss from discontinued operations	(0.03)	(0.16)	(0.88)	(0.54)
Gain on sale of discontinued operations	0.18	—	0.20	—
Net earnings (loss)	\$ 0.36	\$ (0.26)	\$ (0.46)	\$ (0.70)

Weighted average equity instruments to purchase 3,626,011 and 3,922,518 shares of common stock were not included in the calculation of diluted net loss per share for the three and nine months ended March 31, 2009,

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respectively, because the equity instruments were antidilutive. Weighted average equity instruments to purchase 4,242,879 and 4,141,780 shares of common stock were not included in the calculation of diluted net loss per share for the three and nine months ended March 31, 2008, respectively, because the equity instruments were antidilutive. Additionally, the 1,715,439 and 3,328,480 shares which represent the securities that were contingently issuable under the Company's outstanding Convertible Senior Notes were not included in the diluted net earnings (loss) per share for the three and nine months ended March 31, 2009, respectively, because the equity instruments were antidilutive. The 4,135,000 shares which represent the securities that were contingently issuable under the Company's outstanding Convertible Senior Notes were not included in the diluted net loss per share for the three and nine months ended March 31, 2008, because the equity instruments were antidilutive.

E. Marketable Securities

The Company's investments consist mainly of treasury bills and student loan auction rate securities ("ARS"). The ARS debt securities are all highly rated investments with AAA/Aaa ratings and are supported by the federal government as part of the Federal Family Education Loan Program (FFELP) and by private insurance companies. The ARS investments have contractual terms from 30 to 40 years, but generally have interest rate reset dates that occur every seven to 30 days. The auction mechanism generally allows existing investors to roll over their holdings and continue to own their securities or liquidate their holdings by selling their securities at par value.

Beginning in mid-February 2008, auctions held for the Company's auction rate securities failed. As a result, the Company was not able to access these funds, and therefore, the ARS investments were determined to lack short-term liquidity and were classified as non-current in the consolidated balance sheet. In October 2008, the Company received a rights offering from UBS (the "offering") in which the Company elected to participate. By electing to participate in the offering, the Company (1) received the right ("put option") to sell these ARS back to UBS at par plus interest, at its sole discretion, during a two-year period beginning on June 30, 2010, and (2) received an option to borrow up to 75% of the fair value of the ARS at no net cost. Upon borrowing against the ARS, the Company would forgo the interest income on the underlying ARS, while the borrowings are outstanding and in return would not be charged any interest expense. The ARS had a par value of approximately \$50,250 at March 31, 2009.

The Company elected to measure the put option under the fair value option of SFAS No. 159, and recorded expense of \$2,809 and income of \$5,194 pre-tax in the three and nine months ended March 31, 2009, respectively. The Company also transferred these ARS from available-for-sale to trading investment securities. As a result of this transfer, the Company recognized an other-than-temporary impairment gain of \$2,882 and a loss of \$5,270 pre-tax in the three and nine months ended March 31, 2009, respectively. The recording of the put option and the recognition of the other-than-temporary impairment loss resulted in an immaterial impact to the consolidated statement of operations for the three and nine month periods ended March 31, 2009. The put option will continue to be measured at fair value utilizing Level 3 inputs until the earlier of its maturity or exercise.

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The following table summarizes the marketable securities of the Company as of March 31, 2009 and June 30, 2008:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Market Value</u>
Available-for-Sale Securities				
JUNE 30, 2008				
Short-term marketable securities:				
Government and agency securities	\$ 60,217	\$ —	\$ (12)	\$60,205
Long-term marketable securities:				
Auction rate securities	\$ 50,265	\$ —	\$ (3,034)	\$47,231
	<u>Amortized Cost</u>	<u>Gross Realized Gains</u>	<u>Gross Realized Losses</u>	<u>Fair Market Value</u>
Trading Securities				
MARCH 31, 2009				
Long-term marketable securities:				
Auction rate securities	\$ 50,282	\$ —	\$ (5,301)	\$44,981

The Company's investments in long-term marketable securities, which consist entirely of auction rate securities, had remaining maturities up to 40 years as of March 31, 2009 and June 30, 2008. For the year ended June 30, 2008, realized gains and losses from the sale of available-for-sale securities were immaterial.

F. Comprehensive Income (Loss)

Total comprehensive income (loss) was as follows:

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net income (loss)	\$ 8,150	\$ (5,639)	\$ (10,218)	\$ (15,034)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(525)	2,625	(2,906)	5,903
Recognition of foreign currency gain	(3,894)	—	(3,894)	—
Decrease (increase) in unrealized loss on marketable securities	41	(2,257)	3,109	(2,136)
Other comprehensive (loss) income	(4,378)	368	(3,691)	3,767
Total comprehensive income (loss)	\$ 3,772	\$ (5,271)	\$ (13,909)	\$ (11,267)

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G. 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. 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. Inventory was comprised of the following:

	<u>March 31,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
Raw materials	\$ 6,940	\$ 8,702
Work in process	8,460	9,488
Finished goods	3,490	6,012
Total	<u>\$ 18,890</u>	<u>\$ 24,202</u>

There are no amounts in inventory relating to contracts having production cycles longer than one year.

H. 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. 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 Computer Systems ("ACS")—This segment provides high-performance embedded computer systems as standard products to the defense, semiconductor, telecommunications and life sciences markets by using commercial off-the-shelf (COTS) and selected rugged components. This segment also provides simulation software (commercial and defense) and customized design services to meet the specified requirements of military and commercial applications.
- Emerging Businesses Unit ("EBU")—This segment focuses on cultivation of new business opportunities that benefit from the Company's capabilities across markets. Current areas of focus include services and support work with federal intelligence agencies and homeland security programs. This business unit previously included the Biotech business, which was disposed of in September 2008 (see Note M), and the Avionics and Unmanned Systems Group (AUSG) reporting unit, which has been shut down following the April 2008 licensing of certain intellectual property (see Note Q). This operating segment now consists primarily of the Company's wholly-owned subsidiary, Mercury Federal Systems, Inc. ("MFS").

Prior year results have been reclassified for the discontinuation of the Visage Imaging ("VI") and Visualization Sciences Group ("VSG") operating segments and for sale of the Biotech business. These operating segments were reclassified into the discontinued operations line items on the consolidated balance sheets and consolidated statements of operations (see Note M).

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The accounting policies of the reportable segments are the same as those described in “Note B: Summary of Significant Accounting Policies in the Company’s Annual Report filed on Form 10-K for the fiscal year ended June 30, 2008.” The profitability measure employed by the Company and its chief operating decision maker for making decisions about allocating resources to segments and assessing segment performance is income (loss) from operations prior to stock compensation expense. As such, stock compensation expense has been excluded from each operating segments’ income (loss) from operations below and reported separately to reconcile the reported segment income (loss) from operations to the consolidated operating income (loss) reported in the consolidated statements of operations. Additionally, asset information by reportable segment is not reported because the Company does not produce such information internally. The following is a summary of the performance of the Company’s operations by reportable segment:

	ACS	EBU	Stock Compensation Expense	Eliminations	Total
THREE MONTHS ENDED					
MARCH 31, 2009					
Net revenues to unaffiliated customers	\$ 48,599	\$ 1,964	\$ —	\$ —	\$ 50,563
Intersegment revenues	736	78	—	(814)	—
Net revenues	49,335	2,042	—	(814)	50,563
Income (loss) from operations	5,891	116	(1,222)	(41)	4,744
Depreciation and amortization expense	1,855	6	—	—	1,861
THREE MONTHS ENDED					
MARCH 31, 2008					
Net revenues to unaffiliated customers	\$ 50,313	\$ 361	\$ —	\$ —	\$ 50,674
Intersegment revenues	—	—	—	—	—
Net revenues	50,313	361	—	—	50,674
Income (loss) from operations	3,292	(3,228)	(2,720)	—	(2,656)
Depreciation and amortization expense	3,061	61	—	—	3,122
NINE MONTHS ENDED					
MARCH 31, 2009					
Net revenues to unaffiliated customers	\$ 137,028	\$ 3,469	\$ —	\$ —	\$ 140,497
Intersegment revenues	791	219	—	(1,010)	—
Net revenues	137,819	3,688	—	(1,010)	140,497
Income (loss) from operations	10,725	(817)	(4,670)	(59)	5,179
Depreciation and amortization expense	6,238	19	—	—	6,257
NINE MONTHS ENDED					
MARCH 31, 2008					
Net revenues to unaffiliated customers	\$ 139,178	\$ 1,394	\$ —	\$ —	\$ 140,572
Intersegment revenues	—	—	—	—	—
Net revenues	139,178	1,394	—	—	140,572
Income (loss) from operations	7,905	(5,584)	(8,129)	—	(5,808)
Depreciation and amortization expense	9,436	177	—	—	9,613

ACS results for the nine months ended March 31, 2009 and for the three and nine months ended March 31, 2008 have been adjusted to include the absorption of corporate costs that were previously allocated to the VI and VSG operating segments.

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The geographic distribution of the Company's revenues from continuing operations is summarized as follows:

	<u>US</u>	<u>Europe</u>	<u>Asia Pacific</u>	<u>Eliminations</u>	<u>Total</u>
THREE MONTHS ENDED MARCH 31, 2009					
Net revenues to unaffiliated customers	\$ 46,933	\$ 3,080	\$ 550	\$ —	\$ 50,563
Inter-geographic revenues	2,574	307	42	(2,923)	—
Net revenues	49,507	3,387	592	(2,923)	50,563
THREE MONTHS ENDED MARCH 31, 2008					
Net revenues to unaffiliated customers	\$ 43,847	\$ 2,961	\$ 3,866	\$ —	\$ 50,674
Inter-geographic revenues	4,369	171	153	(4,693)	—
Net revenues	48,216	3,132	4,019	(4,693)	50,674
NINE MONTHS ENDED MARCH 31, 2009					
Net revenues to unaffiliated customers	\$ 132,132	\$ 6,715	\$ 1,650	\$ —	\$ 140,497
Inter-geographic revenues	5,952	743	226	(6,921)	—
Net revenues	138,084	7,458	1,876	(6,921)	140,497
NINE MONTHS ENDED MARCH 31, 2008					
Net revenues to unaffiliated customers	\$ 127,703	\$ 5,569	\$ 7,300	\$ —	\$ 140,572
Inter-geographic revenues	9,123	558	311	(9,992)	—
Net revenues	136,826	6,127	7,611	(9,992)	140,572

Foreign revenue is based on the country in which the Company's legal subsidiary is domiciled.

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

	<u>US</u>	<u>Europe</u>	<u>Asia Pacific</u>	<u>Eliminations</u>	<u>Total</u>
March 31, 2009	\$ 11,479	\$ 44	\$ 590	—	\$ 12,113
June 30, 2008	14,994	55	524	—	15,573

Identifiable long-lived assets exclude deferred tax accounts, marketable securities, put option, goodwill, intangible assets and investments in subsidiaries.

Customers comprising 10% or more of the Company's revenues for the three and nine months ended March 31, 2009 and 2008 as shown in the tables below. Revenues from any significant customer may include revenues related to several different defense programs.

	<u>Three Months Ended</u> <u>March 31,</u>		<u>Nine Months Ended</u> <u>March 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Customer A	10.2%	*%	12.1%	*%
Customer B	17.2	26.3	13.8	15.4
Customer C	11.4	*	14.5	*
Customer D	11.5	*	*	*
	<u>50.3%</u>	<u>26.3%</u>	<u>40.4%</u>	<u>15.4%</u>

* Indicates that the amount is less than 10% of the Company's revenues for the respective period.

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I. Goodwill and Acquired Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended March 31, 2009 and the year ended June 30, 2008 were as follows:

	<u>ACS</u>	<u>EBU</u>	<u>Total</u>
JUNE 30, 2007 BALANCE	\$57,653	\$ 561	\$58,214
Goodwill impairment	—	(561)	(561)
JUNE 30, 2008 AND MARCH 31, 2009 BALANCE	<u>\$57,653</u>	<u>\$ —</u>	<u>\$57,653</u>

In April 2008, the Company determined that it was required to perform an interim evaluation for its AUSG reporting unit which was a component of the Emerging Business Unit. Based on this evaluation an impairment charge of \$561 was recorded. The Company also performed its fiscal 2008 annual impairment test as of May 31, 2008, which resulted in the identification of no additional goodwill impairment charges.

Acquired intangible assets consisted of the following:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Average Useful Life</u>
MARCH 31, 2009				
Completed technology	\$14,030	\$ (13,321)	\$ 709	3.2 years
Customer relationships	7,270	(5,238)	2,032	5.2 years
Licensing agreements, trademarks and patents	3,506	(3,311)	195	4.6 years
Non-compete agreements	500	(65)	435	5.0 years
	<u>\$25,306</u>	<u>\$ (21,935)</u>	<u>\$ 3,371</u>	
JUNE 30, 2008				
Completed technology	\$14,030	\$ (12,761)	\$ 1,269	3.2 years
Customer relationships	7,270	(4,195)	3,075	5.2 years
Licensing agreements, trademarks and patents	3,406	(3,032)	374	5.0 years
	<u>\$24,706</u>	<u>\$ (19,988)</u>	<u>\$ 4,718</u>	

Estimated future amortization expense for acquired intangible assets remaining at March 31, 2009 is \$460 for the remainder of fiscal 2009, \$1,736 for fiscal 2010, \$591 for fiscal 2011, \$256 for fiscal 2012, and \$328 for fiscal 2013 onward.

J. Commitments and Contingencies

LEGAL CLAIMS

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

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.

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PURCHASE COMMITMENTS

As of March 31, 2009, 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 approximately \$13,179.

K. Shareholders' Equity

The Company may reacquire shares in connection with the surrender of shares to cover the minimum taxes on vesting of restricted stock. During the three and nine months ended March 31, 2009, 16,526 and 58,261 shares were reacquired in such transactions, respectively, for a total cost of \$107 and \$404, respectively, while 23,481 and 53,147 shares were reacquired during the three and nine months ended March 31, 2008, respectively, for a total cost of \$167 and \$516, respectively.

L. Property and Equipment

Property and equipment consisted of the following:

	March 31, 2009	June 30, 2008
Computer equipment and software	\$ 64,636	\$ 62,519
Furniture and fixtures	6,796	6,789
Building and leasehold improvements	597	455
Machinery and equipment	2,304	1,837
	74,333	71,600
Less: accumulated depreciation and amortization	(65,794)	(61,547)
	<u>\$ 8,539</u>	<u>\$ 10,053</u>

Depreciation and amortization expense related to property and equipment for the three and nine months ended March 31, 2009 was \$1,363 and \$4,303, respectively. Depreciation and amortization expense related to property and equipment for the three and nine months ended March 31, 2008 was \$1,831 and \$5,742, 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, with the exception of the vacant parcel of land adjacent to the headquarters. The term of the lease is ten years and includes two five year options to renew. The Company's net proceeds from the sale, after transaction and other related costs, were \$26,365 resulting in a gain of \$11,569. Under the provisions of sale-leaseback accounting, the transaction was considered a normal leaseback; thus the realized gain was deferred and will be amortized to other income on a straight-line basis over the initial lease term. The Company recorded the current portion of the deferred gain in accrued expenses and the non-current portion in long-term deferred gain in the accompanying consolidated balance sheet.

M. Discontinued Operations

In March 2009, the Company reported the Visualization Sciences Group ("VSG") operating segment as discontinued operations, as the Company currently expects to sell the business by the end of the fourth quarter of fiscal 2009. As of March 31, 2009, the Company determined that the business met the criteria per SFAS 144 for classification as held-for-sale and for disclosure as discontinued operations.

In January 2009, the Company completed the sale of the Visage Imaging ("VI") operating segment to Australia-based Pro Medicus Limited for gross consideration of \$3,000 in cash. Of the proceeds, a total of \$1,100

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was held back or placed in escrow for general indemnification purposes and employee termination payments to be incurred by Pro Medicus Limited. The sale resulted in a gain of \$4,100 on disposal of the discontinued operation. The gain was primarily comprised of expected cash proceeds, net of transaction costs of \$990, and the recognition of a cumulative foreign currency translation gain of \$3,894, offset by net assets of approximately \$780. In December 2008, the Company recorded an impairment of the customer relationships intangible asset within the VI operating segment of \$1,539. Additionally, the carrying amount of goodwill in the VI operating segment exceeded the implied fair value, resulting in a goodwill impairment charge of \$13,016.

In September 2008, the Company completed an asset sale of the Biotech Group (“Biotech”) business for a \$130 future cash payment, which was received in the second quarter of fiscal 2009, and \$300 worth of preferred shares in the acquiring entity to be received. The Biotech business was previously reported in the results of the Emerging Business Unit operating segment. The sale resulted in a gain of \$328 on disposal of the discontinued operation.

In May 2008, the Company completed the sale of the Embedded Systems and Professional Services (“ES/PS”) business for \$367 plus future royalties, net of tax. The ES/PS businesses were previously reported in the results of the Visage Imaging operating segment. The sale resulted in a loss of \$1,005 on disposal of the discontinued operation. The Company may benefit from future royalty payments through December 2009, although the Company does not expect such payments to be material. These receipts will be recorded as gain on sale of discontinued operations, after deducting taxes, when reported to the Company or when the cash is received, whichever is earlier. As of March 31, 2009, the Company had received \$200 in royalty payments connected with the sale of the ES/PS business. The loss incurred as a result of the ES/PS business sale was primarily reflective of the Company’s perceived declining value of the underlying business and the potential employee severance obligation assumed by the buyer if the business does not perform. To compensate for the potential severance obligation, the Company had provided a guarantee to the buyer which would have covered a portion of the severance costs if the buyer had to sever any ES/PS employees before December 19, 2008. This guarantee was settled in the second quarter of fiscal 2009 with no material payments made against it.

In accordance with SFAS 144, VSG, VI, ES/PS and Biotech have been reflected as discontinued operations for all periods presented in the Company’s consolidated financial statements, except the consolidated statements of cash flows. Accordingly, the revenue, costs, expenses, assets and liabilities of VSG, VI, ES/PS and Biotech have been reported separately in the consolidated statements of operations and consolidated balance sheets for all periods presented. The results of discontinued operations do not reflect any interest expense or any allocation of corporate general and administrative expense.

The amounts reported in income (loss) from discontinued operations were as follows:

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2009	2008	2009	2008
VSG				
Revenue	\$ 2,737	\$ 2,921	\$ 8,142	\$ 7,884
(Loss) income from discontinued operations before income taxes	(98)	64	1,163	489
Visage				
Revenue	\$ 648	\$ 1,808	\$ 5,133	\$ 6,257
Loss from discontinued operations before income taxes	(718)	(3,889)	(20,228)	(9,670)
Biotech				
Loss from discontinued operations before income taxes	\$ —	\$ (613)	\$ (743)	\$ (1,903)
ES/PS				
Revenue	\$ —	\$ 1,110	\$ —	\$ (3,624)
Income from discontinued operations before income taxes	—	251	—	836

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The amounts reported as assets and liabilities of the discontinued operations were as follows:

	March 31, 2009	June 30, 2008
Accounts receivable, net	\$ 1,446	\$ 3,114
Inventory	—	492
Prepaid expenses and other current assets	296	928
Property and equipment, net	405	1,130
Goodwill	7,237	23,303
Acquired intangible assets, net	34	2,783
Other non-current assets	313	316
Assets of discontinued operations	<u>\$ 9,731</u>	<u>\$ 32,066</u>
Accounts payable	\$ 97	\$ 1,524
Accrued expenses, compensation and warranty	2,907	5,567
Deferred revenue	4,821	5,719
Other non-current liabilities	—	322
Liabilities of discontinued operations	<u>\$ 7,825</u>	<u>\$ 13,132</u>

N. Debt

Debt consisted of the following:

	March 31, 2009	June 30, 2008
Convertible senior notes payable	\$ 5,312	\$ 125,000
Borrowings under line of credit	33,316	—
Other notes payable and capital lease obligations	117	295
Less: current portion	(38,738)	(125,277)
Total non-current notes payable and capital lease obligations	<u>\$ 7</u>	<u>\$ 18</u>

Convertible Senior Notes Payable

On April 29, 2004, the Company completed a private offering of \$125,000 aggregate principal amount of Convertible Senior Notes (the “Notes”), which mature on May 1, 2024 and bear interest at 2% per year, payable semiannually in arrears in May and November. The Notes are unsecured, rank equally in right of payment to the Company’s existing and future unsecured senior debt, and do not subject the Company to any financial covenants.

Under certain circumstances, the Notes will be convertible into common stock at a conversion rate of 33.0797 shares per \$1,000 principal amount of the Notes, subject to adjustment in certain circumstances. The conversion rate is equal to an initial conversion price of approximately \$30.23 per share. At the option of the holder, the Notes may be converted if, on or prior to May 1, 2019, the closing price of the Company’s common stock exceeds \$36.28 for at least 20 trading days in a specified 30-day period of each fiscal quarter or on any date after May 1, 2019, the closing price of Mercury’s common stock exceeds \$36.28. The Notes may also be converted at the option of the holder if prior to May 1, 2019, the average trading price for the convertible senior notes is less than 98% of the average conversion value for the convertible senior notes during any five consecutive trading-day period. The holders may require the Company to repurchase the notes, in whole or in part, (a) on May 1, 2009, 2014 or 2019, (b) upon a change in control, or (c) if the Company’s common stock is neither listed nor approved for trading on specified markets. At the Company’s option, the Notes may be redeemed on or after May 1, 2009 at a price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest. As of March 31, 2009, no circumstances existed and no events had occurred that made the Notes convertible.

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Upon issuance of the Notes, the Company received net proceeds of \$120,889 after offering expenses of \$4,111, which were recorded as deferred financing costs in other long-term assets on the balance sheet and are being amortized over the five-year term to May 1, 2009, the first optional redemption date of the debt. For the three and nine months ended March 31, 2009, respectively, additional interest expense from the amortization of these deferred financing costs totaled \$281 and \$703. For the three and nine months ended March 31, 2008, respectively, additional interest expense from the amortization of these deferred financing costs totaled \$211 and \$634. The unamortized balance of deferred financing costs totaled approximately \$1 and \$705 as of March 31, 2009 and June 30, 2008, respectively.

On February 4, 2009, the Company repurchased \$119,688 (face value) aggregate principal amount from a holder of the Notes. The Company repurchased the Notes for aggregate consideration equal to the principal amount of the Notes, or par, plus accrued interest. The Company paid the consideration for the Notes from a combination of cash on hand and the proceeds from the sale of certain U.S. Treasury securities held by the Company.

Borrowings Under Line of Credit

In October 2008, the Company received a rights offering from UBS (the "offering") in which the Company has elected to participate. By electing to participate in the offering, the Company (1) received the right to sell these ARS back to UBS at par plus interest, at its sole discretion, during a two-year period beginning on June 30, 2010, and (2) received an option to borrow up to 75% of the fair value of the ARS at no cost. Upon borrowing against the ARS, the Company would forgo the interest income on the underlying ARS, while the borrowings are outstanding. The line of credit included in the offering replaced the Company's previous margin loan facility with UBS. As of March 31, 2009 the Company had \$33,316 outstanding against this line of credit, collateralized by the \$50,250 par value of the ARS.

O. Income Tax (Benefit) Provision

The tax effect of temporary differences, primarily asset reserves and accrued liabilities, gave rise to the Company's deferred tax assets in the accompanying consolidated balance sheets. As management has determined that it is more likely than not that the domestic deferred tax assets would not be realized due to uncertainties surrounding the timing and amounts of future taxable income, a valuation allowance has been recorded. Due to an overall decrease in deferred tax assets during the nine months ended March 31, 2009, primarily related to deferred financing costs and deferred compensation, the valuation allowance was reduced. During the nine months ended March 31, 2008, the valuation allowance increased, primarily related to increases in deferred tax assets for stock based compensation and amortization.

The Company recorded a tax expense for the three months ended March 31, 2009 of \$101 on income from continuing operations before taxes of \$4,803 as compared to a tax expense of \$732 on a loss from continuing operations before income taxes of \$1,478 for the three months ended March 31, 2008. The Company recorded a tax expense of \$101 during the nine months ended March 31, 2009 on income from continuing operations before taxes of \$4,939 as compared to a tax expense of \$1,916 on a loss from continuing operations before income taxes of \$1,582 for the nine months ended March 31, 2008. The income tax provision for the respective three and nine month periods differed from the federal statutory rate primarily due to research and development tax credits and a decrease in the valuation allowance on deferred tax assets primarily related to deferred financing costs and deferred compensation.

There were no material changes in the Company's unrecognized tax positions during the nine months ended March 31, 2009. The Company expects that there will not be any material changes in its reserves for unrecognized tax benefits within the next 12 months.

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P. Restructuring Provision

In fiscal 2008, the Company announced two restructuring plans, one within the ACS business unit (“ACS Plan”) and one within the Emerging Businesses Unit (“AUSG Plan”).

The ACS Plan, for which expense of \$2,258 was recorded in fiscal 2008, was enacted to reduce payroll and overhead costs to realign costs with the Company’s revenue base; particularly in regards to its commercial portfolio. In fiscal 2009, this plan was amended to include an increase in severance expense of \$713. This plan included severance costs associated with the elimination of certain executive level positions and to shut down one of the Company’s California sites.

The AUSG Plan, for which expense of \$1,507 was recorded in fiscal 2008, was enacted in March 2008 to reduce the financial losses of the AUSG reporting unit, which was a component of the Emerging Businesses Unit (EBU). In fiscal 2009, this plan was amended to include an immaterial increase to severance expense.

In response to lower than expected demand in certain sectors of the Company’s business, as well as the need to maintain a competitive cost structure and integrate the Company’s previous acquisitions, the Company incurred a series of restructuring charges totaling \$3,724 in fiscal 2007 (“the 2007 Plan”). The 2007 Plan primarily consisted of involuntary separation costs related to the reduction in force which eliminated approximately 110 positions. A gross incremental provision of \$540 was recorded during fiscal 2008 due primarily to the elimination of five additional positions and the accrual of various retention bonuses.

All of the restructuring charges are classified as operating expenses in the consolidated statements of operations and 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 operating segment for the Company’s restructuring plans:

	<u>Severance</u>	<u>Facilities</u>	<u>Other</u>	<u>Total</u>
Restructuring liability at June 30, 2007	\$ 2,365	\$ —	\$ —	\$ 2,365
ACS provision	2,795	—	3	2,798
EBU provision	763	43	701	1,507
Total provision	3,558	43	704	4,305
Cash paid	(3,230)	(2)	(704)	(3,936)
Reversals and currency exchange impact	(509)	—	—	(509)
Restructuring liability at June 30, 2008	\$ 2,184	\$ 41	\$ —	\$ 2,225
ACS provision	713	—	—	713
Cash paid	(2,398)	(34)	—	(2,432)
Reversals and currency exchange impact	(47)	—	—	(47)
Restructuring liability at March 31, 2009	\$ 452	\$ 7	\$ —	\$ 459

Q. Exclusive License

In April 2008, the Company exclusively licensed certain intellectual property (“IP”) associated with its Avionics and Unmanned Systems Group (“AUSG”) reporting unit (a component of the Emerging Businesses Unit) and sold certain capital equipment, patents and trademarks to a third-party for \$3,200 in cash, payable in May 2008. In connection with this IP license agreement, the Company separately licensed to the buyer additional related software, agreed to provide maintenance on this related software for 12 months, agreed to cover the first \$100 of warranty expense and provided the buyer a right to purchase the related AUSG inventory and capital equipment for an additional, mutually determinable fee. Through March 31, 2009, the buyer elected to purchase \$480 of AUSG inventory as allowed under the original agreement. The Company expects to have a continuing involvement in this business due, in part, to the support services offered on the software sold and an expectation of future fees earned on development and runtime software licenses.

R. Fair Value of Financial Instruments

The Company measures at fair value certain financial assets and liabilities, including cash equivalents, restricted cash and auction rate securities. SFAS No. 157 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.

In October 2008, the Company received a rights offering from UBS (the “offering”) in which the Company has elected to participate. By electing to participate in the offering, the Company (1) received the right (“put option”) to sell these ARS back to UBS at par plus interest, at its sole discretion, during a two-year period beginning on June 30, 2010, and (2) received an option to borrow up to 75% of the fair value of the ARS at no cost. Upon borrowing against the ARS, the Company would forgo the interest income on the underlying ARS, while the borrowings are outstanding and in return would not be charged any interest expense. The ARS had a par value of approximately \$50,250 at March 31, 2009.

The Company elected to measure the put option under the fair value option of SFAS No. 159, and recorded expense of \$2,809 and income of \$5,194 pre-tax in the three and nine months ended March 31, 2009, respectively. Simultaneously, the Company transferred these ARS from available-for-sale to trading investment securities. As a result of this transfer, the Company recognized a gain of \$2,882 and an other-than-temporary loss of \$5,270 pre-tax in the three and nine months ended March 31, 2009, respectively. The recording of the put option and the recognition of the gain and loss on the mark to market of the investment securities resulted in an immaterial impact to the consolidated statement of operations for the three and nine month periods ended March 31, 2009. The put option and the ARS will continue to be measured at fair value utilizing Level 3 inputs until the earlier of its maturity or exercise.

The following table summarizes the fair value measurements as of March 31, 2009, for the Company’s financial instruments, including its ARS:

	Fair Value Measurements			
	March 31, 2009	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market	\$ 175	\$ 175	\$ —	\$ —
Treasury	23,238	23,238	—	—
Restricted cash	3,000	3,000	—	—
Auction rate securities	44,981	—	—	44,981
Put option to sell auction rate securities	5,194	—	—	5,194
Total	<u>\$76,588</u>	<u>\$26,413</u>	<u>\$ —</u>	<u>\$50,175</u>

The fair values of the Company’s cash equivalents and restricted cash are determined through market, observable and corroborated sources.

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The following table is a roll forward of the fair value of the Company's auction rate securities and put option, whose fair values are determined by Level 3 inputs:

	<u>Fair Value</u>
Balance at June 30, 2008	\$ 47,231
Recognition of put option	5,194
Unrealized losses included in earnings	(5,270)
Change in temporary valuation adjustment included in comprehensive income	3,020
Balance at March 31, 2009	<u>\$ 50,175</u>

The carrying value of the ARS and related put option reflect changes in the fair value of the underlying securities, which is based on Level 3 unobservable inputs consisting of recommended fair values provided by the Company's broker combined with internal analysis of interest rate spreads, credit quality and other inputs that are current as of the measurement date, including during periods of market dislocation, such as the recent illiquidity in the ARS market.

S. Related Party Transactions

During the nine months ended March 31, 2009, the Company and the former CEO, James Bertelli, entered into an agreement for consulting services through June 30, 2010. The consideration for these services totaled \$190 and will be paid out over the service period. In the three and nine months ended March 31, 2009, the Company made payments of \$48 for consulting services under this agreement. Additionally, the Company entered into a 5 year non-compete agreement with Mr. Bertelli. This asset was valued at \$500 and is being amortized over the life of the agreement.

For the nine months ended March 31, 2008, the Company did not engage in any significant related party transactions.

T. Subsequent Events

On May 1, 2009, the Company repurchased the remaining aggregate principal amount outstanding of \$5,312 (face value) of its 2% Convertible Senior Notes due 2024 (the "Notes") from the holders of such Notes. The Company repurchased the Notes for aggregate consideration equal to the principal amount of the Notes, or par, plus accrued interest. The Company paid the consideration for the Notes from cash on hand. The Company originally sold \$125,000 principal amount of the Notes in April 2004. The Company has no further obligations under the Notes.

At a special meeting of shareholders held on May 8, 2009, the Company's shareholders approved a proposed stock option exchange program described in the proxy statement for the special meeting dated April 13, 2009.

ITEM 2. 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," "should," "plan," "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 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, sale of our VSG operating segment, 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, general economic and business conditions, including the current adverse economic conditions in the United States and other countries in which we operate, 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, continued funding of defense programs and the timing of such funding, 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 delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, inability to identify opportunities to rationalize our business portfolio in a timely manner or at all, timing and costs associated with disposing of businesses, difficulties in retaining key employees and customers, 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 our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, as supplemented by Part II Item 1A (Risk Factors) of this Quarterly Report on Form 10-Q. 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 high-performance embedded, real-time digital signal and image processing systems and software for embedded and other specialized computing markets. Our solutions play a critical role in a wide range of applications, transforming sensor data to information for analysis and interpretation. In military reconnaissance and surveillance platforms, our systems process real-time radar, sonar, and signals intelligence data. Our systems are also used in state-of-the-art medical diagnostic imaging devices including MRI and digital X-ray, and in semiconductor imaging applications including photomask generation and wafer inspection. We also provide radio frequency (RF) products for enhanced communications capabilities in military and commercial applications. Additionally, we entered the defense prime contracting market space in fiscal 2008 through the creation of a federal business group to focus on reaching the intelligence agencies and homeland security programs. Further, for the three- and nine-month periods ended March 31, 2008, the consolidated financial statements, excluding the statement of cash flows, were reclassified to reflect the discontinuation and sale of the Biotech business ("Biotech") and the Embedded Systems and Professional Services ("ES/PS") businesses, in accordance with Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

On January 27, 2009, we signed a definitive agreement and closed on the sale of the Visage Imaging ("VI") operating segment to Australia-based Pro Medicus Limited for gross consideration of \$3 million in cash. Of the proceeds, a total of \$1.1 million has been held back or placed in escrow for general indemnification purposes and employee termination payments to be incurred by Pro Medicus Limited. The accounting for this sale and the

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Visage operating segment's operating results were included in discontinued operations in the three and nine months ended March 31, 2009 and prior period results have been reclassified to reflect the discontinuation and sale (see Note M to the consolidated financial statements).

In March 2009, we determined that the Visualization Sciences Group ("VSG") operating segment met the criteria per SFAS 144 for classification as held-for-sale and for disclosure as discontinued operations. As such, the VSG operating segment's operating results were included in discontinued operations in the three and nine months ended March 31, 2009 and prior period results have been reclassified to reflect the discontinuation (see Note M to the consolidated financial statements).

Since we are an OEM supplier to our commercial markets and conduct business with our defense customers via commercial off-the-shelf (COTS) distribution, 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 product. 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. Additionally, order patterns of one customer do not necessarily correlate with the order patterns of another customer and, therefore, we generally cannot identify sequential quarterly trends, even within our business units.

RESULTS OF OPERATIONS:

The following tables set forth, for the periods indicated, certain financial data as a percentage of total revenues:

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2009	2008	2009	2008
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	42.3	44.0	43.4	41.0
Gross margin	57.7	56.0	56.6	59.0
Operating expenses:				
Selling, general and administrative	24.9	32.9	27.5	34.9
Research and development	22.0	23.7	23.5	24.6
Amortization of acquired intangible assets	1.0	2.5	1.4	2.7
Restructuring	0.4	2.1	0.5	0.9
Total operating expenses	48.3	61.2	52.9	63.1
Income (loss) from operations	9.4	(5.2)	3.7	(4.1)
Other income (expense), net	0.1	2.3	(0.2)	3.0
Income (loss) from continuing operations before income taxes	9.5	(2.9)	3.5	(1.1)
Income tax expense	(0.2)	(1.5)	(0.1)	(2.2)
Income (loss) from continuing operations	9.3	(4.4)	3.4	(3.3)
Loss from discontinued operations, net of taxes	(1.4)	(6.7)	(14.0)	(7.4)
Gain on sale of discontinued operations, net of taxes	8.2	—	3.3	—
Net income (loss)	16.1%	(11.1)%	(7.3)%	(10.7)%

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REVENUES

<u>(in thousands)</u>	<u>Three months ended March 31, 2009</u>	<u>As a % of Total Net Revenue</u>	<u>Three months ended March 31, 2008</u>	<u>As a % of Total Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
ACS	\$ 48,599	96%	\$ 50,313	99%	\$(1,714)	(3.4)%
EBU	1,964	4	361	1	1,603	444
Total revenues	<u>\$ 50,563</u>	<u>100%</u>	<u>\$ 50,674</u>	<u>100%</u>	<u>\$ (111)</u>	<u>0.2%</u>

Total revenues remained relatively flat at \$50.6 million during the three months ended March 31, 2009 as compared to the comparable period in fiscal 2008. International revenues represented approximately 7.9% and 14.1% of total revenues during the three months ended March 31, 2009 and 2008, respectively.

ACS revenues decreased \$1.7 million, or 3.4%, during the three months ended March 31, 2009 as compared to the same period in fiscal 2008. The decrease was primarily due to a decrease in commercial sales of \$1.9 million primarily driven by declines in sales of commercial communications products. This decrease was partially offset by an increase in defense sales, primarily driven by an increase in sales of radar application products.

EBU revenues increased \$1.6 million during the three months ended March 31, 2009 as compared to the same period in fiscal 2008. The increase in EBU revenues was due to increased revenue from Mercury's wholly-owned subsidiary, Mercury Federal Systems, Inc. ("MFS"). MFS began generating external revenues in the first quarter of fiscal 2009, and in the three months ended March 31, 2009, revenues were \$2.0 million. This increase was partially offset by a \$0.4 million decrease in revenues resulting from the shutdown of the AUSG reporting unit that began following the April 2008 exclusive license agreement of certain intellectual property ("IP") associated with AUSG.

<u>(in thousands)</u>	<u>Nine months ended March 31, 2009</u>	<u>As a % of Total Net Revenue</u>	<u>Nine months ended March 31, 2008</u>	<u>As a % of Total Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
ACS	\$ 137,028	98%	\$ 139,178	99%	\$(2,150)	(1.5)%
EBU	3,469	2	1,394	1	2,075	149
Total revenues	<u>\$ 140,497</u>	<u>100%</u>	<u>\$ 140,572</u>	<u>100%</u>	<u>\$ (75)</u>	<u>(0.1)%</u>

Total revenues remained relatively flat at \$140.5 million during the nine months ended March 31, 2009 as compared to the comparable period in fiscal 2008. International revenues represented approximately 6.6% and 9.8% of total revenues during the nine months ended March 31, 2009 and 2008, respectively.

ACS revenue decreased \$2.2 million, or 1.5%, to \$137.0 million for the nine months ended March 31, 2009 as compared to the same period in fiscal year 2008. The decrease was primarily due to a decrease in commercial sales of \$9.9 million driven by declines in commercial communications, electronic design and automation and legacy medical products. This decrease was largely offset by an increase in defense sales of \$7.7 million, which was led by increases in sales relating to radar applications.

EBU revenues increased \$2.1 million during the nine months ended March 31, 2009 as compared to the same period in fiscal 2008. The increase in EBU revenues was due to increased MFS revenue. MFS began generating external revenues in the first quarter of fiscal 2009, and in the nine months ended March 31, 2009, revenues were \$3.3 million. The increase in MFS revenue was partially offset by a \$1.2 million decrease in revenues resulting from the shutdown of the AUSG reporting unit that began following the April 2008 exclusive license agreement of IP associated with AUSG.

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GROSS PROFIT

Gross profit was 57.7% for the three months ended March 31, 2009, an increase of 170 basis points from the 56.0% gross profit achieved during the same period in fiscal 2008. The increase in gross profit was largely due to a shift in customer mix between commercial and defense customers. This increase was partially offset by an increase in service revenue, which tends to carry a lower gross margin, and a \$0.5 million increase in reserves for excess and obsolete inventory, largely due to the decline in commercial revenue.

Gross profit was 56.6% for the nine months ended March 31, 2009, a decrease of 240 basis points from the 59.0% gross profit achieved during the same period in fiscal 2008. The decrease in gross profit was primarily due to a shift from legacy products, which carry higher gross margins, to new products and increases in service revenue, both of which tend to carry lower gross margins. The decrease was also due to an increase in reserves for excess and obsolete inventory of \$2.7 million, largely due to the decline in commercial revenue.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses decreased \$4.1 million, or 24.6%, to \$12.6 million during the three months ended March 31, 2009 as compared to \$16.7 million during the same period in fiscal 2008. The decrease was primarily due to a \$3.3 million decrease in employee compensation expense, including stock based compensation expense, driven by our restructuring and cost saving measures, which include a \$0.6 million decrease attributable to the shutdown of our AUSG reporting unit. Additionally, in the three months ended March 31, 2009, there was a \$0.3 million decrease in legal expense and a \$0.2 million decrease in depreciation expense due to assets becoming fully depreciated.

Selling, general and administrative expenses decreased \$10.4 million, or 21.2%, to \$38.7 million during the nine months ended March 31, 2009 as compared to \$49.1 million during the same period in fiscal 2008. The decrease was primarily due to a \$7.7 million decrease in employee compensation expense, including stock based compensation expense, driven by our restructuring and cost saving measures, which included a \$1.8 million decrease attributable to the shutdown of our AUSG reporting unit. Additionally, in the nine months ended March 31, 2009, there was a \$0.7 million decrease in depreciation expense due to assets becoming fully depreciated, \$0.5 million decrease in legal expense and a \$0.4 million decrease in travel expense.

RESEARCH AND DEVELOPMENT

Research and development expenses decreased \$0.9 million, or 7.5%, to \$11.1 million during the three months ended March 31, 2009 as compared to \$12.0 million during the same period in fiscal 2008. The decrease was primarily due to a \$1.2 million decrease in employee compensation expense driven by our restructuring and cost saving measures, which included a \$0.5 million decrease attributable to the shutdown of our AUSG business. Additionally, in the three months ended March 31, 2009, there was a \$0.2 million decrease in depreciation expense due to assets becoming fully depreciated. This decrease was partially offset by a \$1.2 million increase in outside development expenses related to new product development initiatives.

Research and development expenses decreased \$1.5 million, or 4.3%, to \$33.0 million during the nine months ended March 31, 2009 as compared to \$34.5 million during the same period in fiscal 2008. The decrease was primarily due to a \$2.9 million decrease in employee compensation expense driven by our restructuring and cost saving measures, which included a \$1.5 million decrease attributable to the shutdown of our AUSG business. Additionally, in the nine months ended March 31, 2009, there was a \$0.5 million decrease in depreciation expense due to those assets becoming fully depreciated and a \$0.2 million decrease in consultant expenses. This decrease was partially offset by a \$2.6 million increase in outside development expenses related to new product development initiatives.

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AMORTIZATION OF ACQUIRED INTANGIBLE ASSETS

Amortization of acquired intangible assets decreased \$0.8 million to \$0.5 million for the three months ended March 31, 2009 as compared to \$1.3 million during the comparable period in fiscal 2008. Amortization of acquired intangible assets decreased \$1.9 million to \$2.0 million for the nine months ended March 31, 2009 as compared to \$3.9 million during the comparable period in fiscal 2008. The decreases in both periods were primarily attributable to assets becoming fully amortized during the three months ended March 31, 2009.

RESTRUCTURING EXPENSE

Restructuring expense decreased \$0.9 million to \$0.2 million during the three months ended March 31, 2009 as compared to \$1.1 million during the comparable period in fiscal 2008. During the three months ended March 31, 2009, the restructuring charges primarily related to the elimination of four positions and additional severance accruals for our ACS Plan, which was enacted in fiscal 2008 to reduce payroll and overhead costs to realign costs with our revenue base. Restructuring charges incurred during the three months ended March 31, 2008 primarily related to the AUSG Restructuring Plan, including \$0.6 million for severance costs and other costs associated with the elimination of twelve positions and an accelerated depreciation and amortization charge of \$0.4 million.

Restructuring expense decreased \$0.5 million to \$0.7 million during the nine months ended March 31, 2009 as compared to \$1.3 million during the same period in fiscal 2008. During the nine months ended March 31, 2009, the restructuring charges primarily related to the elimination of fifteen positions and severance accruals for our ACS Plan, which was enacted in fiscal 2008 to reduce payroll and overhead costs and to realign expenses with our revenue base. Restructuring charges incurred during the nine months ended March 31, 2008 primarily related to the AUSG Restructuring Plan, including \$0.6 million for severance costs and other costs associated with the elimination of twelve positions and an accelerated depreciation and amortization charge of \$0.4 million.

INTEREST INCOME

Interest income decreased by \$1.3 million to \$0.2 million during the three months ended March 31, 2009 as compared to the same period in fiscal 2008. Interest income decreased by \$3.8 million to \$1.9 million during the nine months ended March 31, 2009 as compared to the same period in fiscal 2008. The decreases during both periods were primarily attributable to decreased rates of return on our marketable securities, as well as a decrease in the amount of cash invested in marketable securities as a result of the February 2009 repurchase of \$119.7 million of our Convertible Senior Notes.

INTEREST EXPENSE

Interest expense decreased \$0.3 million to \$0.5 million in the three months ended March 31, 2009 as compared to the same period in fiscal 2008. Interest expense decreased \$0.2 million to \$2.3 million during the nine months ended March 31, 2009 as compared to the same period in fiscal 2008. The decrease was primarily due to the decrease in notes payable following the February 2009 repurchase of \$119.7 million of our Convertible Senior Notes.

INCOME TAX PROVISION

We recorded a tax provision of \$101 during the three months ended March 31, 2009 as compared to a \$732 provision during the same period in fiscal 2008. We recorded a tax provision of \$101 during the nine months ended March 31, 2009 as compared to a \$1.9 million provision during the same period in fiscal 2008. Our effective tax rate for the three and nine months ended March 31, 2009 differed from the U.S. statutory tax rate of 35% primarily due to research and development tax credits and a decrease in the valuation allowance on deferred tax assets primarily related to deferred financing costs and deferred compensation.

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DISCONTINUED OPERATIONS

In March 2009, we reported the Visualization Sciences Group (“VSG”) operating segment as discontinued operations, as we currently expect to sell the business by the end of the fourth quarter of fiscal 2009. As of March 31, 2009, we determined that the business met the criteria per SFAS 144 for classification as held-for-sale and for disclosure as discontinued operations.

In January 2009, we completed the sale of our Visage Imagine (“VI”) operating segment to Australia-based Pro Medicus Limited for gross consideration of \$3.0 million in cash. Of the proceeds, a total of \$1.1 million was held back or placed in escrow for general indemnification purposes and employee termination payments to be incurred by Pro Medicus Limited. The sale resulted in a gain of \$4.1 million on disposal of the discontinued operation. The gain was primarily comprised of cash proceeds of \$1.0 million and recognition of a foreign currency translation gain of \$3.9 million associated with the VI business, offset by net assets of the business of \$0.8 million.

Loss from discontinued operations decreased \$2.7 million in the three months ended March 31, 2009 to a loss from discontinued operations of \$0.7 million as compared to the same period in fiscal 2008. As a result of the sale to Pro Medicus Limited in January 2009, only one month of the VI operating segment’s operations were included in loss from discontinued operations.

Loss from discontinued operations increased \$8.2 million in the nine months ended March 31, 2009 to a loss from discontinued operations of \$19.7 million as compared to the same period in fiscal 2008. The increase in loss from discontinued operations was primarily due to a \$13.1 million goodwill impairment charge related to VI that was recorded in the second quarter of fiscal 2009 due to the fact that the carrying amount of VI’s goodwill exceeded the implied fair value.

SEGMENT OPERATING RESULTS

Results from operations of the ACS segment improved \$2.6 million to income from operations of \$5.9 million for the three months ended March 31, 2009 as compared to income from operations of \$3.3 million in the three months ended March 31, 2008. The increase in income from operations was primarily driven by a decrease in operating expenses of \$2.9 million as compared to the same period in fiscal year 2008. This decrease was primarily due to a decrease in associate headcount as a result of organizational restructuring. These cost savings were partially offset by a decline in revenues and increased charges for excess and obsolete inventory of \$0.5 million. ACS results for the three months ended March 31, 2008 have been adjusted to include the absorption of corporate costs that were previously allocated to the VI and VSG operating segments.

Results from operations of the ACS segment improved \$2.8 million to income from operations of \$10.7 million for the nine months ended March 31, 2009 as compared to income from operations of \$7.9 million in the nine months ended March 31, 2008. The increase in income from operations was primarily driven by a decrease in operating expenses of \$6.7 million as compared to the same period in fiscal year 2008. This decrease was driven primarily by a decrease in associate headcount as the result of organizational restructuring. These cost savings were partially offset by a decline in revenues and increased charges for excess and obsolete inventory of \$2.7 million. ACS results for the nine months ended March 31, 2008 have been adjusted to include the absorption of corporate costs that were previously allocated to the VI and VSG operating segments.

Results from operations of the EBU segment improved \$3.3 million during the three months ended March 31, 2009 to operating income of \$0.1 million as compared to an operating loss of \$3.2 million in the three months ended March 31, 2008. The improvement in results from operations was primarily due to the shutdown of our AUSG reporting unit in the third quarter of fiscal 2008, which resulted in a \$2.2 million reduction in operating expenses. The improvement was also due to increased MFS profitability driven by a \$2.0 million increase in revenue.

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Results from operations of the EBU segment improved \$4.8 million during the nine months ended March 31, 2009 to an operating loss of \$0.8 million as compared to an operating loss of \$5.6 million in the nine months ended March 31, 2008. The improvement in results from operations was primarily due to the shutdown of our AUSG reporting unit in the third quarter of fiscal 2008. During the nine months ended March 31, 2009, AUSG recorded an immaterial amount of operating expenses as compared to \$4.4 million in the same period of fiscal 2008.

See Note H to our Consolidated Financial Statements included in this report for more information regarding our operating segments.

OFF-BALANCE SHEET ARRANGEMENTS

Other than lease commitments incurred in the normal course of business and certain indemnification provisions (see Note J to the Consolidated Financial Statements), 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.

LIQUIDITY AND CAPITAL RESOURCES

<u>As of and for the nine months ended</u>	<u>March 31,</u> <u>2009</u>	<u>March 31,</u> <u>2008</u>
Net cash provided by operating activities	\$ 7,856	\$ 11,261
Net cash provided by investing activities	58,757	50,457
Net cash (used in) provided by financing activities	(85,940)	765
Net (decrease) increase in cash and cash equivalents	(18,461)	62,701
Cash and cash equivalents at end of period	40,584	113,994

Cash and Cash Equivalents

Our cash and cash equivalents decreased by \$73.4 million from March 31, 2008 to March 31, 2009, primarily as the result of the repurchase of \$119.7 million of our Convertible Senior Notes ("Notes"), offset by a \$33.3 million borrowing against our auction rate securities and higher net sales of marketable securities.

During the nine months ended March 31, 2009, we generated \$7.9 million in cash from operations compared to \$11.3 million generated from operations during the same period in fiscal 2008. The \$3.4 million decrease in cash generation from operating activities was largely driven by a \$9.2 million decrease in deferred revenue and customer advances and a \$3.5 million increase in accounts receivable. This decrease was partially offset by improved comparable net income, a \$11.3 million improvement in inventory and a \$1.4 million improvement in prepaid expenses and other current assets activity. 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 the nine months ended March 31, 2009, we generated \$58.8 million in cash from investing activities compared to \$50.5 million generated from investing activities during the same period in fiscal 2008. In the nine months ended March 31, 2009, we invested \$138.6 million in marketable securities and received \$198.9 million in proceeds from the sales and maturities of such securities in the normal course of business.

During the nine months ended March 31, 2009, we used \$85.9 million in cash from financing activities compared to cash generated from financing activities of \$0.8 million during the same period in fiscal 2009. The decrease in cash generated from financing activities was primarily due to our February 4, 2009 repurchase of

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\$119.7 million (face value) aggregate principal amount of our 2% Notes from the holder of such Notes. We repurchased the Notes for aggregate consideration equal to the principal amount of the Notes, or par, plus accrued interest. We paid the consideration for the Notes from a combination of cash on hand and the proceeds from the sale of certain U.S. Treasury securities held by us. We originally sold \$125 million principal amount of the Convertible Senior Notes in April 2004. The balance of the notes were redeemed by us on May 1, 2009. See “*Debt*” below for further discussion of the Notes.

The decrease in cash used in financing activities was partially offset by a \$33.3 million borrowing under our ARS line of credit. In October 2008, we received a rights offering from UBS (the “offering”) in which we have elected to participate. By electing to participate in the offering, we (1) received the right to sell these ARS back to UBS at par plus interest, at our sole discretion, during a two-year period beginning on June 30, 2010, and (2) received an option to borrow up to 75% of the fair value of the ARS at no cost. Upon borrowing against the ARS, we forgo the interest income on the underlying ARS while the borrowings are outstanding and in return are not charged any interest expense. The line of credit included in the offering replaced our previous margin loan facility with UBS. As of March 31, 2009, we had \$33.3 million outstanding under this line of credit, collateralized by the \$50.3 million par value of auction rate securities.

During the nine months ended March 31, 2009, our prime source of liquidity came from existing cash and marketable securities, the cash generated from operations and the \$33.3 million borrowing under our line of credit. Our near-term fixed commitments for cash expenditures consist primarily of payments under operating leases, an alliance purchase agreement, a supply agreement and inventory purchase commitments, as well as interest payments on our long-term debt. We do not currently have any material commitments for capital expenditures.

Based on our current plans and business conditions, we believe that existing cash, cash equivalents and marketable securities will be sufficient to satisfy our anticipated cash requirements for at least the next twelve months.

Debt

On April 29, 2004, we completed a private offering of \$125 million aggregate principal amount of Convertible Senior Notes (the “Notes”), which mature on May 1, 2024 and bear interest at 2% per year, payable semiannually in arrears in May and November. The Notes are unsecured, rank equally in right of payment to our existing and future unsecured senior debt, and do not subject us to any financial covenants.

The terms of our convertible senior notes contain certain contingent conversion provisions. Under certain circumstances, the notes will be convertible into our common stock at a conversion rate of 33.0797 shares per \$1,000 principal amount of the notes, subject to adjustment in certain circumstances. The conversion rate is equal to an initial conversion price of approximately \$30.23 per share. At the option of the holder, the convertible notes may be converted on the final maturity date if, on or prior to May 1, 2019, the closing price of our common stock exceeds \$36.28 for at least 20 trading days in a specified 30-day period of each fiscal quarter or on any date after May 1, 2019, the closing price of our common stock exceeds \$36.28. The notes may also be converted at the option of the holder if prior to May 1, 2019, the average trading price for the convertible senior notes is less than 98% of the average conversion value for the convertible senior notes during any five consecutive trading-day period. The convertible notes mature on May 1, 2024 and bear interest at 2% per year, payable semiannually in arrears in May and November. The convertible notes are unsecured, rank equally in right of payment to our existing and future senior debt, and do not subject us to any financial covenants. The holders may require us to repurchase the notes, in whole or in part, (a) on May 1, 2009, 2014 or 2019, (b) upon a change in control, or (c) if our common stock is neither listed nor approved for trading on specified markets. At our option, we may redeem any of the convertible notes on or after May 1, 2009 at a price equal to 100% of the principal amount of the convertible notes to be redeemed plus accrued and unpaid interest.

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On February 4, 2009, we repurchased \$119.7 million (face value) aggregate principal amount of our Notes due 2024 from the holder of such Notes. We repurchased the Notes for aggregate consideration equal to the principal amount of the Notes, or par, plus accrued interest. We paid the consideration for the Notes from a combination of cash on hand and the proceeds from the sale of certain U.S. Treasury securities held by us. We originally sold \$125 million principal amount of the Convertible Senior Notes in April 2004.

On May 1, 2009, we repurchased the remaining aggregate principal amount outstanding of \$5.3 million (face value) of our 2% Convertible Senior Notes due 2024 (the "Notes") from the holders of such Notes. We repurchased the Notes for aggregate consideration equal to the principal amount of the Notes, or par, plus accrued interest. We paid the consideration for the Notes from cash on hand. We have no further obligations under the Notes.

Commitments and Contractual Obligations

The following is a schedule of our commitments and contractual obligations outstanding at March 31, 2009:

<u>(in thousands)</u>	<u>Total</u>	<u>Less Than 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>More Than 5 Years</u>
Notes payable and capital lease obligations	\$ 5,429	\$ 5,422	\$ 7	\$ —	\$ —
Borrowings under line of credit	33,316	—	33,316	—	—
Interest due on notes payable	54	54	—	—	—
Purchase obligations	13,179	13,179	—	—	—
Supply agreement	1,898	—	—	1,898	—
Operating leases	21,482	3,710	5,869	5,009	6,894
IP Agreement	100	100	—	—	—
	<u>\$75,458</u>	<u>\$ 22,465</u>	<u>\$39,192</u>	<u>\$6,907</u>	<u>\$ 6,894</u>

Notes payable, capital lease obligations and interest due on notes payable consists of various debt agreements and the interest due on such agreements. (See Note N to the Consolidated Financial Statements for further financial information regarding these agreements). Our pension obligation which is not included in the table above, is included in accrued expenses in our consolidated balance sheets.

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 generally for less than one year and aggregated approximately \$13.2 million at March 31, 2009.

In September 2006, we entered into a supply agreement with a third party vendor to purchase certain inventory parts that were "end of life." This supply agreement, as subsequently amended, commits the vendor to acquiring and storing approximately \$6.5 million of inventory until August 31, 2012 and allows us to place orders for the inventory four times a year. Upon the earlier of January 31, 2007 or completion of the wafer fabrication process, we were required to and paid approximately \$1.9 million of the \$6.5 million. Further, upon expiration of the agreement on August 31, 2012, if we do not purchase the full \$6.5 million in inventory, we may be required to pay a penalty equal to 35% of the remaining inventory balance. As of March 31, 2009, the remaining minimum commitment related to this agreement was \$1.9 million, which is the 35% "penalty" on the remaining inventory balance.

In September 2008, we entered into a new agreement ("License Agreement") with a third party to obtain an exclusive license to certain intellectual property ("IP"). This replaced a prior agreement that was terminated in August 2008. This License Agreement requires cumulative payments of \$0.3 million over the next three years, beginning October 1, 2008, for an exclusive license and maintenance. Running royalty payments ("Running Royalties") will be paid based on sales of products containing the IP. Beginning with the sooner of the agreement

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year beginning October 1, 2010 or the agreement year following a Production Win, as defined in the agreement, and for the following two agreement years, if the Running Royalty payments do not equal or exceed \$1.0 million (the “Minimum Royalty”) per agreement year, we must pay the shortfall between the two amounts unless the License Agreement is terminated prior to the start of the respective agreement year. We are also obligated to reimburse the third party for all patent-related costs incurred by the third party. We can terminate the License Agreement at any time and no un-accrued obligations would be owed under the agreement.

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.

RELATED PARTY TRANSACTIONS

During the nine months ended March 31, 2009, 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 will be paid out over the service period. In the three and nine months ended March 31, 2009, we made payments of less than \$0.1 million for consulting services under this agreement. Additionally, we entered into a 5 year non-compete agreement with Mr. Bertelli. We valued this asset at \$0.5 million and are amortizing it over the life of the agreement.

During the nine months ended March 31, 2008, we did not engage in any significant related party transactions.

RECENT ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2008, we adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (“SFAS 157”), for our financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. As permitted by FASB Staff Position (“FSP”) No. SFAS 157-2, *Effective Date of FASB Statement No. 157*, (“FSP 157-2”) we have elected to defer implementation of SFAS 157 as it relates to our non-financial assets and non-financial liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis until July 1, 2009. In October 2008, the FASB issued FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active* (“FSP 157-3”), to clarify how an entity would determine fair value in an inactive market. FSP 157-3 was effective immediately and applies to our March 31, 2009 financial statements. The adoption of SFAS 157, FSP 157-2 and FSP 157-3 did not have a material impact on our financial position or results of operations. See Note R to the Consolidated Financial Statements for a discussion of our adoption of SFAS No. 157.

Effective July 1, 2008, we adopted the provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates (the “fair value option”) and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. We chose not to elect the fair value option for our financial assets and liabilities existing on July 1, 2008, and did not elect the fair value option for any financial assets and liabilities transacted during the six months ended December 31, 2008, except for a put option related to our ARS that was recorded in conjunction with a settlement agreement with UBS.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (“SFAS 141R”). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets and goodwill acquired, liabilities assumed and noncontrolling interests.

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SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R will be effective for us on July 1, 2009, and will be applied to any business combination with an acquisition date, as defined therein, that is subsequent to the effective date.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (“SFAS 161”). The new standard requires enhanced disclosures to enable investors to better understand the effects of derivative instruments and hedging activities on an entity’s financial position, results of operations and cash flows. SFAS 161 will be effective for us on July 1, 2009. We do not believe that the adoption of SFAS 161 will have a material effect on our financial position or results of operations.

In April 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets* (“FSP SFAS 142-3”). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets” (SFAS 142). FSP SFAS 142-3 improves the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other applicable accounting literature. FSP SFAS 142-3 will be effective for us on July 1, 2009. We do not believe that the adoption of FSP SFAS 142-3 will have a material effect on our financial position or results of operations.

In April 2009, the FASB issued FSP SFAS 157-4, *Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly* (“FSP 157-4”). FSP 157-4 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The FSP provides guidance for estimating fair value when the volume and level of market activity for an asset or liability have significantly decreased and determining whether a transaction was orderly. This FSP applies to all fair value measurements when appropriate. FSP 157-4 will be effective for us for the quarterly period beginning April 1, 2009. We do not expect that the adoption of FSP 157-4 will have a material impact on our financial position or results of operations.

In April 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (“FSP 115-2”). FSP 115-2 amends existing guidance for determining whether an other-than-temporary impairment of debt securities has occurred. Additionally, FSP 115-2 changes the amount of an other-than-temporary impairment that is recognized in earnings when there are credit losses on a debt security for which management does not intend to sell and for which it is more-likely-than-not that the entity will not have to sell prior to recovery of the noncredit impairment. FSP 115-2 will be effective for us for the quarterly period beginning April 1, 2009. We do not expect the adoption of FSP 115-2 will have a material impact on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in our exposure to market risk from June 30, 2008 to March 31, 2009.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), regarding the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on

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this evaluation, management has concluded that our disclosure controls and procedures are effective. We continue to review our disclosure controls and procedures and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our Company's business. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

(b) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13c-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to legal proceedings, claims and tax audits that arise in the ordinary course of business and in the opinion of management the outcome of these matters will not have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under Part I—Item 1A (Risk Factors) in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008. There have been no material changes from the factors disclosed in our 2008 Annual Report on Form 10-K, except as disclosed below.

Current economic conditions, including the credit crisis affecting the financial markets and the possibility of a global recession, could adversely affect our business, results of operations and financial condition in the remainder of fiscal year 2009 and beyond.

The world's financial markets are currently experiencing turmoil, characterized by reductions in available credit, increased costs of credit, volatility in security prices, rating downgrades of investments and reduced valuations of securities generally. 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 industries and markets. These trends could have a material adverse impact on our business, our ability to achieve targeted results of operations and our financial condition as a result of:

- reduced and delayed demand for our products;
- increased risk of order cancellations or delays;
- increased 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 bank line of credit when needed.

We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the United States and other countries, but the longer the duration or greater the severity, the greater the risks we face in operating our business.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) The following table sets forth information about repurchases of our common stock for the three months ended March 31, 2009.

<u>Period of Repurchase</u>	<u>Total Number of Shares Purchased(1)</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased As Part of Publicly Announced Program</u>
January 1-31, 2009	1,378	\$ 5.66	—
February 1-28, 2009	14,578	6.62	—
March 1-31, 2009	570	5.42	—
Total	16,526		

(1) Represents shares reacquired in connection with the surrender of shares to cover the minimum taxes on vesting of restricted stock.

ITEM 6. EXHIBITS

The following Exhibits are filed or furnished, as applicable, herewith:

- 10.1 Credit Line Agreement and addendums between Mercury Computers Systems, Inc. and UBS Bank USA dated December 11, 2008.
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a).
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a).
- 32.1+ Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Furnished herewith. This certificate 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.

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



Credit Line Agreement

Borrower Agreement

BY SIGNING BELOW, THE BORROWER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT:

- A. The Borrower has received and read a copy of this Borrower Agreement, the attached Credit Line Account Application and Agreement (including the Credit Line Agreement following this Borrower Agreement) and the Loan Disclosure Statement explaining the risk factors that the Borrower should consider before obtaining a loan secured by the Borrower's securities account. The Borrower agrees to be bound by the terms and conditions contained in the Credit Line Account Application and Agreement (including the Credit Line Agreement following this Borrower Agreement) (which terms and conditions are incorporated by reference). Capitalized terms used in this Borrower Agreement have the meanings set forth in the Credit Line Agreement.
- B. THE BORROWER UNDERSTANDS AND AGREES THAT UBS BANK USA MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS, AT ITS SOLE OPTION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION. THE BORROWER UNDERSTANDS AND AGREES THAT ALL ADVANCES ARE SUBJECT TO COLLATERAL MAINTENANCE REQUIREMENTS, THE BORROWER UNDERSTANDS THAT UBS BANK USA MAY, AT ANY TIME, IN ITS DISCRETION, TERMINATE AND CANCEL THE CREDIT LINE REGARDLESS OF WHETHER OR NOT AN EVENT HAS OCCURRED.
- C. UNLESS DISCLOSED IN WRITING TO UBS BANK USA AT THE TIME OF THIS AGREEMENT, AND APPROVED BY UBS BANK USA, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE, CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF UBS BANK USA. THE BORROWER WILL BE DEEMED TO REPEAT THIS AGREEMENT EACH TIME THE BORROWER REQUESTS AN ADVANCE.
- D. THE BORROWER UNDERSTANDS THAT BORROWING USING SECURITIES AS COLLATERAL ENTAILS RISKS, SHOULD THE VALUE OF THE SECURITIES IN THE COLLATERAL ACCOUNT DECLINE BELOW THE REQUIRED COLLATERAL MAINTENANCE REQUIREMENTS, UBS BANK USA MAY REQUIRE THAT THE BORROWER POST ADDITIONAL COLLATERAL REPAY PART OR ALL OF THE BORROWER'S LOAN AND/OR SELL THE BORROWERS'S SECURITIES. ANY REQUIRED LIQUIDATIONS MAY INTERRUPT THE BORROWER'S LONG-TERM INVESTMENT STRATEGIES AND MAY RESULT IN ADVERSE TAX CONSEQUENCES.
- E. Neither UBS Bank USA nor UBS Financial Services Inc. provides legal or tax advice and nothing herein shall be construed as providing legal or tax advice.
Upon execution of this Credit Line Account Application and Agreement, the Borrower declares that all of the information requested in the Application and supplied by the Borrower is true and accurate and further agrees to promptly notify UBS Bank USA in writing of any material changes to any or all of the information contained in the Application including information relating to the Borrower's financial situation.
- G. Subject to any applicable financial privacy laws and regulations, data regarding the Borrower and the Borrower's securities accounts may be shared with UBS Bank USA affiliates. Subject to any applicable financial privacy laws and regulations, the Borrower requests that UBS Bank USA share such personal financial data with non-affiliates of UBS Bank USA as is necessary or advisable to effect, administer or enforce, or to service, process or maintain all transactions and accounts contemplated by this Agreement.
- H. The Borrower authorizes UBS Bank USA and UBS Financial Services Inc. to obtain a credit report or other credit references concerning the Borrower (including making verbal or written inquiries concerning credit history) or to otherwise verify or update credit information given to UBS Bank USA at any time. The Borrower authorizes the release of this credit report or other credit information to UBS Bank USA affiliates as it deems necessary or advisable to effect, administer or enforce, or to service, process or maintain all transactions and accounts contemplated by this Agreement and for the purpose of offering additional products, from time to time, to the Borrower. The Borrower authorizes UBS Bank USA to exchange Borrower information with any party it reasonably believes is conducting a legitimate credit inquiry in accordance with the Fair Credit Reporting Act. UBS Bank USA may also share credit or other transactional experience with the Borrower's designated UBS Financial Services Inc. Financial Advisor or other parties designated by the Borrower.
- I. UBS Bank USA is subject to examination by various federal, state and self-regulatory organizations and the books and records maintained by UBS Bank USA are subject to inspection and subpoena by these regulators and by federal, state, and local law enforcement officials. The Borrower also acknowledges that such regulators and officials may, pursuant to treaty or other arrangements, in turn disclose such information to the officials or regulators of other countries, and that U.S. courts may be required to compel UBS Bank USA to disclose such information to the officials or regulators of other countries. The Borrower agrees that UBS Bank USA may disclose to such regulators and officials information about the Borrower and transactions in the credit line account or other accounts at UBS Bank USA without notice to the Borrower. In addition, UBS Bank USA may in the context of a private dispute be required by subpoena or other judicial process to disclose information or produce documentation related to the Borrower, the credit line account or other accounts at UBS Bank USA. The Borrower acknowledges and agrees that UBS Bank USA reserves the right, in its sole discretion, to respond to subpoenas and judicial process as it deems appropriate.
- J. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When the Borrower opens an account with UBS Bank USA, UBS Bank USA will ask for the Borrower's name, address, and other information that will allow UBS Bank USA to identify the Borrower. UBS Bank USA may also ask to see other identifying document. UBS Financial Services Inc. and UBS Bank USA are firmly committed to compliance with all applicable laws, rules and regulations, including those related to combating money laundering. The Borrower understands and agrees that the Borrower must take all necessary steps to comply with the anti-money laundering laws, rules and regulations of the Borrower's country of origin, country of residence and the situs of the Borrower's transaction.
- K. UBS Bank USA and its affiliates will act as creditors and, accordingly, their interests may be inconsistent with, and potentially adverse to the Borrower's interests. As a lender and consistent with normal lending practice, UBS Bank USA may take any steps necessary to perfect its interest in the Credit Line, issue a call for additional collateral or force the sale of the Borrower's securities if the Borrower's actions or inactions call the Borrower's creditworthiness into question. Neither UBS Bank USA nor UBS Financial Services Inc. will act as Clients investment advisor with respect to any liquidation. In fact UBS Bank USA will act as a creditor and UBS Financial Services Inc. will act as a securities intermediary.

- L. The Borrower understands that, if the Collateral Account is a managed account with UBS Financial Services Inc., (i) In addition to any fees payable to UBS Financial Services Inc. in connection with the Borrower's managed account, interest will be payable to the Bank on an amount advanced to the Borrower in connection with the Credit Line Account and (ii) the performance of the managed account might not exceed the managed account fees and the interest expense payable to the Bank in which case the Borrower's overall rate of return will be less than the costs associated with the managed account.
- M. UBS Bank USA may provide copies of all credit line account statements to UBS Financial Services Inc. and to any Guarantor. The Borrower acknowledges and agrees that UBS Bank USA may share any and all information regarding the Borrower and the Borrower's accounts at UBS Bank USA with UBS Financial Services Inc. UBS Financial Services Inc. may provide copies of all statements and confirmations concerning each Collateral Account to UBS Bank USA at such times and in such manner as UBS Bank USA may request and may share with UBS Bank USA any and all information regarding the Borrower and the Borrower's accounts with UBS Financial Services Inc.

IN WITNESS WHEREOF, the undersigned ("Borrower") has signed this Agreement, or has caused this Agreement to be signed in its name by its duly authorized representatives, as of the date indicated below.

DATE: 12/11/08

Name of Borrower: Mercury Computer Systems, Inc. ARCS Security Account

By: <u>/s/ Mark Aslett</u> (Signature of Authorized Signatory of Borrower)* Mark Aslett	<u>Title: President and CEO</u> (Title of Authorized Signatory of Borrower)
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By: <u>/s/ Robert Hult</u> (Signature of Authorized Signatory of Borrower)* Robert Hult	<u>Title: Chief Financial Officer/CFO</u> (Title of Authorized Signatory of Borrower)
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The authorized signatory of the Borrower must be one of the Authorized Persons designated on the applicable UBS Bank USA supplemental form executed by the Borrower (e.g., the Supplemental Corporate Resolution Form (HP Form)).

Credit Line Agreement

Credit Line Agreement - Demand Facility

THIS CREDIT LINE AGREEMENT (as it may be amended, supplemented or otherwise modified from time to time, this “Agreement”) is made by and between the party or parties signing as the Borrower on the Application to which this Agreement is attached (together and individually, the “Borrower”) and UBS Bank USA (the “Bank”) and; together with the Application, establishes the terms and conditions that will govern the uncommitted demand loan facility made available to the Borrower by the Bank. This Agreement becomes effective upon the earlier of (i) notice from the Bank (which notice may be oral or written) to the Borrower that the Credit Line has been approved and (ii) the Bank making an Advance to the Borrower.

1) Definitions

- “Advance” means any Fixed Rate Advance or Variable Rate Advance made by the Bank pursuant to this Agreement.
- “Advance Advice” means a written or electronic notice by the Bank, sent to the Borrower, the Borrower’s financial advisor at UBS Financial Services Inc. or any other party designated by the Borrower to receive the notice, confirming that a requested Advance will be a Fixed Rate Advance and specifying the amount, fixed rate of interest and Interest Period for the Fixed Rate Advance.
- “Application” means the Credit Line Account Application and Agreement that the Borrower has completed and submitted to the Bank and into which this Agreement is incorporated by reference.
- “Approved Amount” means the maximum principal amount of Advances that is permitted to be outstanding under the Credit Line at any time, as specified in writing by the Bank.
- “Breakage Costs” and “Breakage Fee” have the meanings specified in Section 6(b).
- “Business Day” means a day on which both of the Bank and UBS Financial Services Inc. are open for business. For notices and determinations of LIBOR, Business Day must also be a day for trading by and between banks in U.S. dollar deposits in the London interbank market.
- “Collateral” has the meaning specified in Section 8(a).
- “Collateral Account” means, individually and collectively, each account of the Borrower or Pledgor at UBS Financial Services Inc. or UBS International Inc., as applicable, that is either identified as a Collateral Account on the Application to which this Agreement is attached or subsequently identified as a Collateral Account by the Borrower or Pledgor, either directly or indirectly through the Borrower’s or Pledgor’s UBS Financial Services Inc. financial advisor, together with all successors to those identified accounts, irrespective of whether the successor account bears a different name or account number.
- “Credit Line” has the meaning specified in Section 2(a).
- “Credit Line Account” means each Fixed Rate Account and each Variable Rate Account of the Borrower that is established by the Bank in connection with this Agreement and either identified on the Application or subsequently identified as a Credit Line Account by the Bank by notice to the Borrower, together with all successors to those identified accounts, irrespective of whether any successor account bears a different name or account number.
- “Credit Line Obligations” means, at any time of determination, the aggregate of the outstanding principal amounts of all Advance, together with all accrued but unpaid interest on the outstanding principal amounts, any and all fees or other charges payable in connection with the Advances and any Costs of collection (including reasonable attorneys’ fees) and other amounts payable by the Borrower under this Agreement, and any and all other present or future obligations of the Borrower and the other respective Loan Parties under this Agreement and the related agreements, whether absolute or contingent, whether or not due or mature.
- “Event” means any of the events listed in Section 10.
- “Fixed Rate Advance” means any advance made under the Credit Line that accrues interest at a fixed rate.
- “Guarantor” means any party who guaranties the payment and performance of the Credit Line Obligations.
- “Guaranty Agreement” means an agreement pursuant to which a Guarantor agrees to guaranty payment of the Credit Line Obligations.
- “Interest Period” means, for a Fixed Rate Advance, the number of days, weeks or months requested by the Borrower and confirmed in the Advance Advice relating to the Fixed Rate Advance, commencing on the date of (i) the extension of the Fixed Rate Advance or (ii) any renewal of the Fixed Rate Advance and, in each case, ending on the last day of the period. If the last day is not a Business Day, then the Interest Period will end on the immediately succeeding Business Day. If the last Business Day would fall in the next calendar month, the Interest Period will end on the immediately preceding Business Day. Each monthly or longer Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) will end on the last Business Day of the appropriate calendar month.

- “Joint Borrower” has the meaning specified in Section 7(a).
- “LIBOR” means, as of any date of determination for Variable Rate Advances, the prevailing London Interbank Offered Rate for deposits in U.S. dollars having a maturity of 30 days as published in The Wall Street Journal “Money Rates” Table on the date of the Advance.

If the rate ceases to be regularly published by The Wall Street Journal, LIBOR will be determined by the Bank in its sole and absolute discretion. For any day that is not a Business Day, LIBOR will be the applicable LIBOR in effect immediately prior to that day.

- “Loan Party” means each Borrower, Guarantor and Pledgor, each in their respective capacities under this Agreement or any related agreement.
- “Person” means any natural person, company, corporation, firm, partnership, joint venture, limited liability company or limited liability partnership, association, organization or any other legal entity.
- “Pledgor” means each Person who pledges to the Bank any Collateral to secure the Credit Line Obligations (or to secure the obligations of any Guarantor with respect to the guaranty of the Credit Line Obligations). Pledgors will include (i) each Borrower who pledges Collateral to secure the Credit Line Obligations, (ii) each Guarantor who has pledged collateral to secure the Credit Line Obligations or its obligations under a Guaranty Agreement, (iii) any spouse of a Borrower who executes a spouse’s pledge and consent agreement with respect to a jointly held collateral account, (iv) any other joint account holder who executes a joint account holder pledge and consent agreement with respect to a jointly held collateral account, and (v) any other Person who executes a pledge agreement with respect to the Credit Line.

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- “Premier Credit Line” means any Credit Line with an Approved Amount equal to or greater than \$100,000.
- “Prime Credit Line” means any Credit Line with an Approved Amount less than \$100,000.
- “Prime Rate” means the floating “Prime Rate” as published in The Wall Street Journal “Money Rates” Table from time to time. The Prime Rate will change as and when the Prime Rate as published in The Wall Street Journal changes. In the event that The Wall Street Journal does not publish a Prime Rate, the Prime Rate will be the rate as determined by the Bank in its sole and absolute discretion.
- “Securities Intermediary” has the meaning specified in Section 9.
- “UBS Bank USA Fixed Funding Rate” means, as of any date of determination for Fixed Rate Advances, an internally computed rate established from time-to-time by the Bank, in its sole discretion, based upon the LIBOR swap curve for a corresponding period as well as the Bank’s assessment of other lending rates charged in the financial markets.
- “UBS Financial Services Inc.” means UBS Financial Services Inc, and its successors.
- “UBS4” means UBS International Inc. and its successors.
- “Variable Rate Advance” means any advance made under the Credit Line that accrues interest at a variable rate.”

2) Establishment of Credit Line: Termination

- a) Upon the effectiveness of this Agreement, the Bank establishes an UNCOMMITTED, DEMAND revolving line of credit (the “Credit Line”) in an amount up to the Approved Amount. The Bank may, from time to time upon request of the Borrower, without obligation and in its sole and absolute discretion, authorize and make one or more Advances to the Borrower. The Borrower acknowledges that the Bank has no obligation to make any Advances to the Borrower. The Bank may carry each Variable Rate Advance in a Variable Rate Account and may carry each Fixed Rate Advance in a Fixed Rate Account, but all Advances will constitute extensions of credit pursuant to a single Credit Line. The Approved Amount will be determined, and may be adjusted from time to time, by the Bank in its sole and absolute discretion.
- b) THE BORROWER AND EACH OTHER LOAN PARTY UNDERSTAND AND AGREE THAT THE BANK MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS, AT ITS SOLE AND ABSOLUTE DISCRETION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION.
- c) UNLESS DISCLOSED IN WRITING TO THE BANK AT THE TIME OF THE APPLICATION, AND APPROVED BY THE BANK, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE , CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF THE BANK. THE BORROWER WILL BE DEEMED TO REPEAT THE AGREEMENT IN THIS SECTION 2(C) EACH TIME IT REQUESTS AN ADVANCE.
- d) Prior to the first Advance under the Credit Line, the Borrower must sign and deliver to the Bank a Federal Reserve Form U-1 and all other documentation as the Bank may require. The Borrower acknowledges that neither the Bank nor any of its affiliates has advised the Borrower in any manner regarding the purposes for which the Credit Line will be used.
- e) The Borrower consents and agrees that, in connection with establishing the Credit Line Account, approving any Advances to the Borrower or for any other purpose associated with the Credit Line, the Bank may obtain a consumer or other credit report from a credit reporting agency relating to the Borrower’s credit history. Upon request by the Borrower, the Bank will inform the Borrower: (i) whether or not a consumer or other credit report was requested, and (ii) if so, the name and address of the consumer or other credit reporting agency that furnished the report.
- f) The Borrower understands that the Bank will, directly or indirectly, pay a portion of the interest that it receives to the Borrower’s financial advisor at UBS Financial Services Inc, or one of its affiliates. To the extent permitted by applicable law, the Bank may also charge the Borrower fees for establishing and servicing the Credit Line Account.
- g) Following each month in which there is activity in the Borrower’s Credit Line Account in amounts greater than \$1, the Borrower will receive an account statement showing the new balance, the amount of any new Advances, year to date interest charges, payments and other charges and credits that have been registered or posted to the Credit Line Account.
- h) Each of the Loan Parties understands and agrees that the Bank may, at any time, in its sole and absolute discretion, terminate and cancel the Credit Line regardless of whether or not an Event has occurred. In the event the Bank terminates and cancels the Credit Line the Credit Line Obligations shall be immediately due and payable in full. If the Credit Line Obligations are not paid in full, the Bank shall have the right, at its option, to exercise any or all its remedies described in Section 10 of this Agreement.

3) Terms of Advances

- a) Advances made under this Agreement will be available to the Borrower in the form, and pursuant to procedures, as are established from time to time by the Bank in its sole and absolute discretion. The Borrower and each Loan Party agree to promptly provide all documents, financial or other information in connection with any Advance as the Bank may request. Advances will be made by wire transfer of funds to an account as specified in writing by the Borrower or by any other method agreed upon by the Bank and the Borrower. The Borrower acknowledges and agrees that the Bank will not make any Advance to the Borrower unless the collateral maintenance requirements that are established by the Bank in its sole and absolute discretion have been satisfied.
- b) Each Advance made under a Premier Credit Line will be a Variable Rate Advance unless otherwise designated as a Fixed Rate Advance in an Advance Advice sent by the Bank to the Borrower. The Bank will not designate any Advance as a Fixed Rate Advance unless it has been requested to do so by the Borrower (acting directly or indirectly through the Borrower's UBS Financial Services Inc, financial advisor or other agent designated by the Borrower and acceptable to the Bank). Each Advance Advice will be conclusive and binding upon the Borrower, absent manifest error, unless the Borrower otherwise notifies the Bank in writing no later than the close of business, New York time, on the third Business Day after the Advance Advice is received by the Borrower.

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- c) Each Advance made under a Prime Credit Line will be a Variable Advance.
- d) Unless otherwise agreed by the Bank: (i) all Fixed Rate Advances must be in an amount of at least \$100,000; and (ii) all Variable Rate Advances taken by wire transfer must be in an amount of at least \$2,500. If the Borrower is a natural person, the Initial Variable Rate Advance under the Credit Line must be in an amount equal to at least \$25,001 (the "Initial Advance Requirement"). If the initial Advance requested by the Borrower is made in the form of a check drawn on the Credit Line that does not satisfy the Initial Advance Requirement, then, in addition to and not in limitation of the Bank's rights, remedies, powers or privileges under this Agreement or applicable law, the Bank may, in its sole and absolute discretion:
 - (i) pay the check drawn by the Borrower if, prior to paying that check, the Bank makes another Advance to the Borrower, which Advance shall be in an amount not less than \$25,001; or
 - (ii) pay the check drawn by the Borrower; or
 - (iii) decline to pay (bounce) the check.

If the Bank elects option (ii), no interest shall accrue on the amount of the Advance made by paying the check, and the amount of that Advance shall be due and payable to the Bank immediately (with or without demand by the Bank).

4) Interest

- a) Each Fixed Rate Advance will bear interest at a fixed rate and for the Interest Period each as specified in the related Advance Advice. The rate of interest payable on each Fixed Rate Advance will be determined by adding a percentage rate to the UBS Bank USA Fixed Funding Rate, as of the date that the fixed rate is determined.
- b) Each Variable Rate Advance under a Premier Credit Line will bear interest at a variable rate equal to LIBOR, adjusted daily, plus the percentage rate that (unless otherwise specified by the Bank in writing) is shown on Schedule I below for the Approved Amount of the Credit Line. For Premier Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in LIBOR and in the Approved Amount. On each day that LIBOR changes or the Approved Amount crosses one of the thresholds that is indicated on Schedule I (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rate Advances will change accordingly.
- c) Each Variable Rate Advance under a Prime Credit Line will bear interest at a variable rate equal to the Prime Rate, adjusted daily, plus the percentage rate that (unless otherwise specified by the Bank in writing) is shown on the attached Schedule II and that corresponds to the aggregate principal amount outstanding under the Prime Credit Line on that day. For Prime Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in the Prime Rate and in the aggregate amount outstanding under the Prime Credit Line. On each date that the Prime Rate changes or the aggregate principal amount outstanding under the Prime Credit Line crosses one of the thresholds that is indicated on Schedule II (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rate Advances will change accordingly.

5) Payments

- a) Each Fixed Rate Advance will be due and payable in full ON DEMAND or, if not earlier demanded by the Bank, on the last day of the applicable Interest Period. Any Fixed Rate Advance as to which the Bank has not made a demand for payment and that is not paid in full or renewed, which renewal is in the sole and absolute discretion of the Bank, (pursuant to procedures as may be established by the Bank) as another Fixed Rate Advance on or before the last day of its Interest Period, will be automatically renewed on that date as a U.S. dollar denominated, Variable Rate Advance in an amount (based, in the case of any conversion of a non-U.S. dollar denominated Fixed Rate Advance, upon the applicable, spot currency exchange rate as of the maturity date, as determined by the Bank) equal to the unpaid principal balance of the Fixed Rate Advance plus any accrued but unpaid interest on the Fixed Rate Advance, which Variable Rate Advance will then accrue additional interest at a variable rate as provided in this Agreement.
- b) Each Variable Rate Advance will be due and payable ON DEMAND.
- c) The Borrower promises to pay the outstanding principal amount of each Advance, together with all accrued but unpaid interest on each Advance, any and all fees or other charges payable in connection with each Advance, on the date the principal amount becomes due (whether by reason of demand, the occurrence of a stated maturity date, by reason of acceleration or otherwise). The Borrower further promises to pay interest in respect of the unpaid principal balance of each Advance from the date the Advance is made until it is paid in full. All interest will be computed on the basis of the number of days elapsed and a 360-day year. Interest on each Advance will be payable in arrears as follows:
 - (i) for Fixed Rate Advances - on the last day of the Interest Period (or if the Interest Period is longer than three months, on the last day of each three month period following the date of the Advance) and on each date that all or any portion of the principal amount of the Fixed Rate Advance becomes due or is paid; and
 - (ii) for Variable Rate Advances - on the twenty-second day of each month other than December, and on the thirty-first day of December, and on each date that all or any portion of the principal amount of the Variable Rate Advance becomes due or is paid.

To the extent permitted by law, and without limiting any of the Bank's other rights and remedies under the Agreement, interest charges on any Advance that are not paid when due will be treated as principal and will accrue interest at a variable rate from the date the payment of interest was

due until it is repaid in full.

- d) All payments of principal, interest or other amounts payable under this Agreement will be made in immediately available funds and in the same currency in which the Advance was made, which unless otherwise agreed by the Bank, will be U.S. dollars. UBS Financial Services Inc, or UBS International Inc, as applicable, may act as collecting and servicing agent for the Bank for the Advances. All payments will be made by wire transfer of funds to an account specified by the Bank or by another method agreed upon by the Bank and the Borrower. Upon receipt of all payments, the Bank will credit the same to the Credit Line Account. The Bank shall apply the proceeds of any payments in the following order, first to any Breakage Costs, Breakage Fee, other fees, costs of collection and expenses, second to the outstanding principal amount of the related Advance and third to accrued interest.
- e) All payments must be made to the Bank free and clear of any and all present and future taxes (including withholding taxes), levies, imposts, duties, deductions, fees, liabilities and similar charges other than those imposed on the overall net income of the Bank. If so requested by the Bank, the Borrower will deliver to the Bank the original or a certified copy of each receipt evidencing payment of any taxes or, if no taxes are payable in respect of any payment

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under this Agreement, a certificate from each appropriate taxing authority, or an opinion of counsel in form and substance and from counsel acceptable to the Bank in its sole and absolute discretion, in either case stating that the payment is exempt from or not subject to taxes. If any taxes or other charges are required to be withheld or deducted from any amount payable by the Borrower under this Agreement, the amount payable will be increased to the amount which, after deduction from the increased amount of all taxes and other charges required to be withheld or deducted from the amount payable, will yield to the Bank the amount stated to be payable under this Agreement. If any of the taxes or charges are paid by the Bank, the Borrower will reimburse the Bank on demand for the payments, together with all interest and penalties that may be imposed by any governmental agency. None of the Bank, UBS Financial Services Inc., UBS-I or their respective employees has provided or will provide legal advice to the Borrower or any Loan Party regarding compliance with (or the implications of the Credit Line and the related guaranties and pledges under) the laws (including tax laws) of the jurisdiction of the Borrower or any Loan Party or any other jurisdiction. The Borrower and each Loan Party are and shall be solely responsible for, and the Bank shall have no responsibility for, the compliance by the Loan Parties with any and all reporting and other requirements arising under any applicable laws.

- f) In no event will the total interest and fees, if any, charged under this Agreement exceed the maximum interest rate or total fees permitted by law. In the event any excess interest or fees are collected, the same will be refunded or credited to the Borrower. If the amount of interest payable by the Borrower for any period is reduced pursuant to this Section 5(f), the amount of interest payable for each succeeding period will be increased to the maximum rate permitted by law until the amount of the reduction has been received by the Bank.

6) Prepayments; Breakage Charges

- a) The Borrower may repay any Variable Rate Advance at any time, in whole or in part, without penalty.
- b) The Borrower may repay any Fixed Rate Advance, in whole or in part. The Borrower agrees to reimburse the Bank, immediately upon demand, for any loss or cost ("Breakage Costs") that the Bank notifies the Borrower has been incurred by the Bank as a result of (i) any payment of the principal of a Fixed Rate Advance before the expiration of the Interest Period for the Fixed Rate Advance (whether voluntarily, as a result of acceleration, demand or otherwise), or (ii) the Customer's failure to take any Fixed Rate Advance on the date agreed upon, including any loss or cost (including loss of profit or margin) connected with the Bank's re-employment of the amount so prepaid or of those funds acquired by the Bank to fund the Advance not taken on the agreed upon date.

Breakage Costs will be calculated by determining the differential between the stated rate of interest (as determined in accordance with Section 4(a) of the Agreement) for the Fixed Rate Advance and prevailing LIBOR and multiplying the differential by the sum of the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed Rate Advance not taken by the Borrower) multiplied by the actual number of days remaining in the Interest Period for the Fixed Rate Advance (based upon a 360-day year). The Borrower also agrees to promptly pay to the Bank an administrative fee ("Breakage Fee") in connection with any permitted or required prepayment. The Breakage Fee will be calculated by multiplying the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed Rate Advance not taken by the Borrower) by two basis points (0.02%) (with a minimum Breakage Fee of \$100.00). Any written notice from the Bank as to the amount of the loss or cost will be conclusive absent manifest error.

7) Joint Credit Line Account Agreement; Suspension and Cancellation

- a) If more than one Person is signing this Agreement as the "Borrower", each party (a "Joint Borrower") will be jointly and severally liable for the Credit Line Obligations, regardless of any change in business relations, divorce, legal separation, or other legal proceedings or in any agreement that may affect liabilities between the parties. Except as provided below for the reinstatement of a suspended or cancelled Credit Line, and unless otherwise agreed by the Bank in writing, the Bank may rely on, and each Joint Borrower will be responsible for, requests for Advances, directions, instructions and other information provided to the Bank by any Joint Borrower.
- b) Any Joint Borrower may request the Bank to suspend or cancel the Credit Line by sending the Bank a written notice of the request addressed to the Bank at the address shown on the Borrower's periodic Credit Line Account statements. Any notice will become effective three Business Days after the date that the Bank receives it, and each Joint Borrower will continue to be responsible for paying: (i) the Credit Line Obligations as of the effective date of the notice, and (ii) all Advances that any Joint Borrower has requested but that have not yet become part of the Credit Line Obligations as of the effective date of the notice. No notice will release or in any other way affect the Bank's interest in the Collateral. All subsequent requests to reinstate credit privileges must be signed by all Joint Borrowers comprising the Borrower, including the Joint Borrower requesting the suspension of credit privileges. Any reinstatement will be granted or denied in the sole and absolute discretion of the Bank.
- c) All Credit Line Obligations will become immediately due and payable in full as of the effective date of any suspension or cancellation of the Credit Line. The borrower will be responsible for the payment of all charges incurred on the Advances after the effective date. The Bank will not release any Loan Party from any of the obligations under this Agreement or any related agreement until the Credit Line Obligations have been paid in full and this Agreement has been terminated.

8) Collateral; Grant of Security Interest; Set-off

- a) To secure payment or performance of the Credit Line Obligations, the Borrower assigns, transfers and pledges to the Bank, and grants to the Bank a first priority lien and security interest in the following assets and rights of the Borrower, wherever located and whether owned now or acquired or arising in the future: (i) each Collateral Account; (ii) any and all money, credit balances, certificated and uncertificated securities, security

entitlements, commodity contracts, certificates of deposit, instruments, documents, partnership interests, general intangibles, financial assets and other investment property now or in the future credited to or carried, held or maintained in any Collateral Account, (iii) any and all over-the-counter options, futures, foreign exchange, swap or similar contracts between the Borrower and either UBS Financial Services Inc. or any of its affiliates, (iv) any and all accounts of the Borrower at the Bank or any of its affiliates; (v) any and all supporting obligations and other rights ancillary or attributable to, or arising in any way in connection with, any of the foregoing; and (vi) any and all interest, dividends, distributions and other proceeds of any of the foregoing, including proceeds of proceeds (collectively, the "Collateral").

- b) The Borrower and if applicable, any Pledgor on the Collateral Account, will take all actions reasonably requested by the Bank to evidence, maintain and perfect the Bank's first priority security interest in, and to enable the Bank to obtain control over, the Collateral and any additional collateral pledged by the Pledgors, including but not limited to making, executing, recording and delivering to the Bank (and authorizes the Bank to file without

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the signature of the Borrower and any Pledgor where permitted by applicable law) financing statements and amendments thereto, control agreements, notices, assignments, listings, powers, consents and other documents regarding the Collateral and the Bank's security interest in the Collateral in such jurisdiction and in a form as the Bank reasonably may require. Each Loan Party irrevocably authorizes and appoints each of the Bank and UBS Financial Services Inc., as collateral agent, to act as their agent and attorney-in-fact to file any documents or to execute any documents in their name, with or without designation of authority. Each Loan Party acknowledges that it will be obligated in respect of the documentation as if it had executed the documentation itself.

- c) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees to maintain in a Collateral Account, at all times, Collateral having an aggregate lending value as specified by the Bank from time to time.
- d) The Bank's sole duty for the custody, safe keeping and physical preservation of any Collateral in its possession will be to deal with the Collateral in the same manner as the Bank deals with similar property for its own account. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the Bank will have no responsibility to act on any notice of corporate actions or events provided to holders of securities or other investment property included in the Collateral. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees to (i) notify the Bank promptly upon receipt of any communication to holders of the investment property disclosing or proposing any stock split, stock dividend, extraordinary cash dividend, spin-off or other corporate action or event as a result of which the Borrower or Pledgor would receive securities, cash (other than ordinary cash dividends) or other assets in respect of the investment property, and (ii) immediately upon receipt by the Borrower or Pledgor of any of these assets, cause them to be credited to a Collateral Account or deliver them to or as directed by the Bank as additional Collateral.
- e) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that all principal, interest, dividends, distributions, premiums or other income and other payments received by the Bank or credited to the Collateral Account in respect of any Collateral may be held by the Bank as additional Collateral or applied by the Bank to the Credit Line Obligations. The Bank may create a security interest in any of the Collateral and may, at any time and at its option, transfer any securities or other investment property constituting Collateral to a securities account maintained in its name or cause any Collateral Account to be redesignated or renamed in the name of the Bank.
- f) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that if a Collateral Account has margin features, the margin features will be removed by UBS Financial Services Inc. or UBS International Inc., as applicable, so long as there no outstanding margin debit in the Collateral Account.
- g) If the Collateral Account permits cash withdrawals in the form of check writing, access card charges, bill payment and/or electronic funds transfer services (for example, Resource Management Account®, Business Services Account BSA®, certain Basic Investment Accounts and certain accounts enrolled in UBS Financial Services Inc. Investment Consulting Services programs), the Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the "Withdrawal Limit" for the Collateral Account, as described in the documentation governing the account will be reduced on an ongoing basis so that the aggregate lending value of the Collateral remaining in the Collateral Account following the withdrawal may not be less than the amount required pursuant to Section 8(c).
- h) In addition to the Bank's security interest, the Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the Bank will at all times have a right to set off any or all of the Credit Line Obligations at or after the time at which they become due, whether upon demand, at a stated maturity date, by acceleration or otherwise, against all securities, cash, deposits or other property in the possession of or at any time in any account maintained with the Bank or any of its affiliates by or for the benefit of the Borrower, whether carried individually or jointly with others. This right is in addition to, and not in limitation of, any right the Bank may have at law or otherwise.
- i) The Bank reserves the right to disapprove any Collateral and to require the Borrower at any time to deposit into the Borrower's Collateral Account additional Collateral in the amount as the Bank requests or to substitute new or additional Collateral for any Collateral that has previously been deposited in the Collateral Account.

9) Control

For the purpose of giving the Bank control over each Collateral Account and in order to perfect the Bank's security interests in the Collateral, the Borrower and each Pledgor on the applicable Collateral Account consents to compliance by UBS Financial Services Inc., UBS-I or any other securities intermediary (in any case, the "Securities Intermediary") maintaining a Collateral Account with entitlement orders and instructions from the Bank (or from any assignee or successor of the Bank) regarding the Collateral Account and any financial assets or other property held therein without the further consent of the Borrower or any other Pledgor on the applicable Collateral Account. Without limiting the foregoing, the Borrower and each Pledgor on the Collateral Account acknowledges, consents and agrees that, pursuant to a control agreement entered into between the Bank and the Securities Intermediary:

- a) The Securities Intermediary will comply with entitlement orders originated by the Bank regarding any Collateral Account without further consent from the Borrower or any Pledgor. The Securities Intermediary will treat all assets credited to a Collateral Account, including money and credit balances, as financial assets for purposes of Article 8 of the Uniform Commercial Code.
- b) In order to enable the Borrower and any Pledgor on the applicable Collateral Account to trade financial assets that are from time to time credited to a Collateral Account, the Securities Intermediary may comply with entitlement orders originated by the Borrower or any Pledgor on the applicable Collateral Account (or if so agreed by the Bank, by an investment adviser designated by the Borrower or any Pledgor on the applicable Collateral

Account and acceptable to the Bank and the Securities Intermediary) regarding the Collateral Account, but only until the time that the Bank notifies the Securities Intermediary, that the Bank is asserting exclusive control over the Collateral Account. After the Securities Intermediary has received a notice of exclusive control and has had a reasonable opportunity to comply. It will no longer comply with entitlement orders originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor) concerning the Collateral Account. Notwithstanding the foregoing, however, and irrespective of whether it has received any notice of exclusive control, the Securities Intermediary will not comply with any entitlement order originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor) to withdraw any financial assets from a Collateral Account or to pay any money, free credit balance or other amount owing on a Collateral Account (other than cash withdrawals and payment not exceeding the "Withdrawal Limit" as contemplated in Section 8 (g)) without the prior consent of the Bank.

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10) Remedies

- a) If any of the following events (each, an “Event”) occurs:
- (i) the Borrower fails to pay any amount due under this Agreement;
 - (ii) the Borrower and/or any other relevant Loan Party fails to maintain sufficient Collateral in a Collateral Account as required by the Bank or any Guarantor fails to maintain collateral as required by the Bank under its Guaranty Agreement;
 - (iii) the Borrower or any other Loan Party breaches or fails to perform any other covenant, agreement, term or condition that is applicable to it under this Agreement or any related agreement, or any representation or other statement of the Borrower (or any Loan Party) in this Agreement or in any related agreement is incorrect in any material respect when made or deemed made;
 - (iv) the Borrower or any other Loan Party dies or is declared (by appropriate authority) incompetent or of unsound mind or is indicted or convicted of any crime or, if not an individual, ceases to exist;
 - (v) any voluntary or involuntary proceeding for bankruptcy, reorganization, dissolution or liquidation or similar action is commenced by or against the Borrower or any other Loan Party, or a trustee in bankruptcy, receiver, conservator or rehabilitator is appointed, or an assignment for the benefit of creditors is made, with respect to the Borrower or any other Loan Party or its property;
 - (vi) the Borrower or any Loan Party is insolvent, unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, begins negotiations or takes any proceeding or other step with a view to readjustment, rescheduling or deferral of all or any part of its indebtedness, which it would or might otherwise be unable to pay when due, or proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors;
 - (vii) a Collateral Account (or any account in which collateral provided by a Loan Party is maintained) or any portion thereof is terminated, attached or subjected to a levy;
 - (viii) the Borrower or any Loan Party fails to provide promptly all financial and other information as the Bank may request from time to time;
 - (ix) any indebtedness of the Borrower or any other Loan Party in respect of borrowed money (including indebtedness guaranteed by the Borrower or any other Loan Party) or in respect of any swap, forward, cap, floor, collar, option or other derivative transaction, repurchase or similar transaction or any combination of these transactions is not paid when due, or any event or condition causes the indebtedness to become, or permits the holder to declare the indebtedness to be, due and payable prior to its stated maturity;
 - (x) final judgment for the payment of money is rendered against Borrower (or any Loan Party) and, within thirty days from the entry of judgment, has not been discharged or stayed pending appeal or has not been discharged within thirty days from the entry of a final order of affirmance on appeal;
 - (xi) any legal proceeding is instituted or any other event occurs or condition exists that in the Bank’s judgment calls into question (A) the validity or binding effect of this Agreement or any related agreement or any of the Borrower’s (or any other Loan Party’s) obligations under this Agreement or under any related agreement or (B) the ability of the Borrower (or any Loan Party) to perform its obligations under this Agreement, or under any related agreement; or
 - (xii) the Bank otherwise deems itself or its security interest in the Collateral insecure or the Bank believes in good faith that the prospect of payment or other performance by any Loan Party is impaired.

then, the Credit Line Obligations will become immediately due and payable (without demand) and the Bank may, in its sole and absolute discretion, liquidate, withdraw or sell all or any part of the Collateral and apply the same, as well as the proceeds of any liquidation or sale, to any amounts owed to the Bank, including any applicable Breakage Costs and Breakage Fee. The Bank will not be liable to any Loan Party in any way for any adverse consequences (for tax effect or otherwise) resulting from the liquidation of appreciated Collateral. Without limiting the generality of the foregoing, the sale may be made in the Bank’s sole and absolute discretion by public sale on any exchange or market where business is then usually transacted or by private sale, and the Bank may be the purchaser at any public or private sale. Any Collateral that may decline speedily in value or that customarily is sold on a recognized exchange or market may be sold without providing any Loan Party with prior notice of the sale. Each Loan Party agrees that, for all other Collateral, two calendar days notice to the Loan Party, sent to its last address shown in the Bank’s account records, will be deemed reasonable notice of the time and place of any public sale or time after which any private sale or other disposition of the Collateral may occur. Any amounts due and not paid on any Advance following an Event will bear interest from the day following the Event until fully paid at a rate per annum equal to the interest rate applicable to the Advance immediately prior to the Event plus 2.00%. In addition to the Bank’s rights under this Agreement, the Bank will have the right to exercise any one or more of the rights and remedies of a secured creditor under the Utah Uniform Commercial Code, as then in effect, or under any other applicable law.

- b) Nothing contained in this Section 10 will limit the right of the Bank to demand full or partial payment of the Credit Line Obligations, in its sole and absolute discretion and without cause, at any time, whether or not an Event has occurred and is continuing.
- c) All rights and remedies of the Bank under this Agreement are cumulative and are in addition to all other rights and remedies that the Bank may have at law or equity or under any other contract or other writing for the enforcement of the security interest herein or the collection of any amount due under this Agreement.

- d) Any non-exercise of rights, remedies and powers by the Bank under this Agreement and the other documents delivered in connection with this Agreement shall not be construed as a waiver of any rights, remedies and powers. The Bank fully reserves its rights to invoke any of its rights, remedies and powers at any time it may deem appropriate.

11) Representations, Warranties and Covenants by the Loan Parties

Each Borrower and each other Loan Party (if applicable) makes the following representations, warranties and covenants (and each Borrower will be deemed to have repeated each representation and warranty each time a Borrower requests an Advance) to the Bank:

Credit Line Agreement

- a) Except for the Bank's rights under this Agreement and the rights of the Securities Intermediary under any account agreement, the Borrower and each relevant Pledgor owns the Collateral, free of any interest, lien or security interest in favor of any third party and free of any impediment to transfer;
- b) Each Loan Party: (i) if a natural Person, is of the age of majority; (ii) is authorized to execute and deliver this Agreement and to perform its obligations under this Agreement and any related agreement; (iii) is not an employee benefit plan, as that term is defined by the Employee Retirement Income Security Act of 1974, or an Individual Retirement Credit Line Account (and none of the Collateral is an asset of a plan or account); and (iv) unless the Loan Party advises the Bank to the Contrary, in writing, and provides the Bank with a letter of approval, where required, from its employer, is not an employee or member of any exchange or of any corporation or firm engaged in the business of dealing, either as a broker or as principal, in securities, bills of exchange, acceptances or other forms of commercial paper;
- c) Neither the Borrower nor any Pledgor on the Collateral Account has pledged or will pledge the Collateral or grant a security interest in the Collateral to any party other than the Bank or the Securities Intermediary, or has permitted or will permit the Collateral to become subject to any liens or encumbrances (other than those of the Bank and the Securities Intermediary), during the term of this Agreement;
- d) No Loan Party is in default under any material contract, judgment, decree or order to which it is a party or by which it or its properties may be bound;
- e) Each Loan Party has duly filed all tax and information returns required to be filed and has paid all taxes, fees, assessments and other governmental charges or levies that have become due and payable, except to the extent such taxes or other charges are being contested in good faith and are adequately reserved against in accordance with GAAP.
- f) The Borrower and each relevant Pledgor (i) is and at all times will continue to be the legal and beneficial owner of all assets held in or credited to any Collateral Account or otherwise included in the Collateral, and (ii) does not hold any assets held in or credited to any Collateral Account or otherwise included in the Collateral in trust or subject to any contractual or other restrictions on use that would prevent the use of such assets to (a) repay the Bank or (b) be pledged as Collateral in favor of the Bank.

The provisions of this Section 11 will survive the termination of this Agreement or any related agreement and the repayment of the Credit Line Obligations.

12) Indemnification; Limitation on Liability of the Bank and the Securities Intermediary

Borrower agrees to indemnify and hold harmless the Bank and the Securities Intermediary, their affiliates and their respective directors, officers, agents and employees against any and all claims, causes of action, liabilities, lawsuits, demands and damages, for example, any and all court costs and reasonable attorneys fees, in any way relating to or arising out of or in connection with this Agreement, except to the extent caused by the Bank's or Securities Intermediary's breach of its obligations under this Agreement. Neither the Bank nor the Securities Intermediary will be liable to any party for any consequential damages arising out of any act or omission by either of them with respect to this Agreement or any Advance or Collateral Account. The provisions of this Section 12 will survive the termination of this Agreement or any related agreement and the repayment of the Credit Line Obligations.

13) Acceptance of Application and Agreement: Applicable Law

THIS APPLICATION AND AGREEMENT WILL BE RECEIVED AND ACCEPTED BY BANK IN THE STATE OF UTAH, OR IF THIS APPLICATION AND AGREEMENT IS DELIVERED TO BANK'S AGENT, UBS FINANCIAL SERVICES INC., IT WILL BE RECEIVED AND ACCEPTED WHEN RECEIVED BY UBS FINANCIAL SERVICES INC.'S UNDERWRITING DEPARTMENT. DELIVERY OF THE APPLICATION AND AGREEMENT TO THE BORROWER'S FINANCIAL ADVISOR AT UBS FINANCIAL SERVICES INC. WILL NOT BE CONSIDERED RECEIPT OR ACCEPTANCE BY BANK. ALL DECISIONS MADE BY BANK REGARDING THE CREDIT LINE WILL BE MADE IN UTAH.

THIS AGREEMENT WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF UTAH APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY IN THE STATE OF UTAH AND, IN CONNECTION WITH THE CHOICE OF LAW GOVERNING INTEREST, THE FEDERAL LAWS OF THE UNITED STATES, EXCEPT THAT WITH RESPECT TO THE COLLATERAL ACCOUNT AND THE BANK'S SECURITY INTEREST THEREIN, THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, INCLUDING, WITHOUT LIMITATION, THE NEW YORK UNIFORM COMMERCIAL CODE, AND FOR PURPOSES OF THIS AGREEMENT, THE COLLATERAL ACCOUNT AND THE BANK'S SECURITY INTEREST THEREIN, THE JURISDICTION OF UBS FINANCIAL SERVICES INC. AND UBS-I SHALL BE DEEMED TO BE THE STATE OF NEW YORK.

14) Assignment

This Agreement may not be assigned by the Borrower without the prior written consent of the Bank. This Agreement will be binding upon and inure to the benefit to the heirs, successors and permitted assigns of the Borrower. The Bank may assign this Agreement, and this Agreement will inure to the benefit of the Bank's successors and assigns.

15) Amendment

This Agreement may be amended only by the Bank, including, but not limited to, (i) the addition or deletion of any provision of this Agreement and (ii) the amendment of the (x) "Spread Over LIBOR/UBS Bank USA Fixed Funding Rate" in Schedule I or (y) "Spread Over Prime" in Schedule II to this Agreement, at any time by sending written notice, signed by an authorized officer of the Bank, of an amendment to the Borrower. The amendment shall be effective as of the date established by the Bank. This Agreement may not be amended orally. The Borrower or the Bank may waive compliance with any provision of this Agreement, but any waiver must be in writing and will not be deemed to be a waiver of any other provision of this Agreement. The

provisions of this Agreement constitute the entire agreement between the Bank and the Borrower with respect to the subject matter hereof and supersede all prior or contemporaneous agreements, proposals, understandings and representations, written or oral, between the parties with respect to the subject matter hereof.

16) Severability

If any provision of this Agreement is held to be invalid, illegal, void or unenforceable, by reason of any law, rule, administrative order or judicial or arbitral decision, the determination will not affect the validity of the remaining provisions of this Agreement.

17) Choice of Forum; Waiver of Jury Trial

- a) ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY JUDGMENT ENTERED BY ANY COURT REGARDING THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT WILL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE

Credit Line Agreement

THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH OR IN THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH. EACH OF THE LOAN PARTIES IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH AND OF THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH FOR THE PURPOSE OF ANY SUCH ACTION OR PROCEEDING AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH ACTION OR PROCEEDING. EACH OF THE LOAN PARTIES IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE NOW OR IN THE FUTURE TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

- b) EACH OF THE LOAN PARTIES (FOR ITSELF, ANYONE CLAIMING THROUGH IT OR IN ITS NAME, AND ON BEHALF OF ITS EQUITY HOLDERS) IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY REGARDING ANY CLAIM BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.
- c) Any arbitration proceeding between the Borrower (or any other Loan Party) and the Securities Intermediary, regardless of whether or not based on circumstances related to any court proceedings between the Bank and the Borrower (or the other Loan Party), will not provide a basis for any stay of the court proceedings.
- d) Nothing in this Section 17 will be deemed to alter any agreement to arbitrate any controversies which may arise between the Borrower (or any other Loan Party) and UBS Financial Services Inc. or its predecessors, and any claims between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc. or its employees (whether or not they have acted as agents of the Bank) will be arbitrated as provided in any agreement between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc.

18) State Specific Provisions and Disclosures

- a) For residents of Ohio:
The Ohio laws against discrimination require that all creditors make credit equally available to all creditworthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio civil rights commission administers compliance with this law.
- b) For residents of Oregon:
NOTICE TO BORROWER: DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT. THIS AGREEMENT PROVIDES FOR THE PAYMENT OF A PENALTY IF YOU WISH TO REPAY A FIXED RATE ADVANCE PRIOR TO THE DATE PROVIDED FOR REPAYMENT IN THE AGREEMENT.
- c) For residents of Vermont:
NOTICE TO BORROWER: THE ADVANCES MADE UNDER THIS AGREEMENT ARE DEMAND LOANS AND SO MAY BE COLLECTED BY THE LENDER AT ANY TIME. A NEW LOAN MUTUALLY AGREED UPON AND SUBSEQUENTLY ISSUED MAY CARRY A HIGHER OR LOWER RATE OF INTEREST.

NOTICE TO JOINT BORROWER: YOUR SIGNATURE ON THE AGREEMENT MEANS THAT YOU ARE EQUALLY LIABLE FOR REPAYMENT OF THIS LOAN. IF THE BORROWER DOES NOT PAY. THE LENDER HAS A LEGAL RIGHT TO COLLECT FROM YOU.

- d) For residents of California:
 - (i) Any person, whether married, unmarried, or separated, may apply for separate credit.
 - (ii) As required by law, you are notified that a negative credit report reflecting on your credit record may be submitted to a credit reporting agency if you fail to fulfill the terms of your credit obligations.
 - (iii) The Borrower will notify the Bank, within a reasonable time, of any change in the Borrower's name, address, or employment.
 - (iv) The Borrower will not attempt to obtain any Advance if the Borrower knows that the Borrower's credit privileges under the Credit Line have been terminated or suspended.
 - (v) The Borrower will notify the Bank by telephone, telegraph, letter, or any other reasonable means that an unauthorized use of the Credit Line has occurred or may occur as the result of the loss or theft of a credit card or other instrument identifying the Credit Line, within a reasonable time after the Borrower's discovery of the loss or theft, and will reasonably assist the Bank in determining the facts and circumstances relating to any unauthorized use of the Credit Line.

19) Account Agreement

Each Loan Party acknowledges and agrees that this Agreement supplements their account agreement(s) with the Securities Intermediary relating to the Collateral Account and, if applicable, any related account management agreement(s) between the Loan Party and the Securities Intermediary. In the event of a conflict between the terms of this Agreement and any other agreement between the Loan Party and the Securities Intermediary, the terms of this Agreement will prevail.

20) Notices

Unless otherwise required by law, all notices to a Loan Party may be oral or in writing, in the Bank's discretion, and if in writing, delivered or mailed by the United States mail, or by overnight carrier or by telecopy to the address of the Loan Party shown on the records of the Bank. Each Loan Party agrees to send notices to the Bank, in writing, at such address as provided by the Bank from time to time.



Credit Line Agreement

Schedule I to UBS Bank USA Credit Line Agreement

Schedule of Percentage Spreads Over LIBOR or the UBS Bank USA Fixed

Funding Rate, as applicable

Aggregate Approved Amount	Spread Over LIBOR/UBS Bank USA Fixed Funding Rate
\$100,000 to \$249,999	5.00%
\$250,000 to \$499,999	3.00%
\$500,000 to \$999,999	2.00%
\$1,000,000 to \$2,499,999	1.75%
\$2,500,000 to \$4,999,999	1.50%
\$5,000,000 and over	1.25%

Schedule II to UBS Bank USA Credit Line Agreement

Schedule of Percentage Spreads Over Prime

Outstanding Amount under Credit Line	Spread Over Prime
\$0 to \$49,999	3.50%
\$50,000 to \$99,999	3.00%

NOTICE TO CO-SIGNER (Traduccion en Ingles Se Requiere Por La Ley)

You are being asked to guarantee this debt. Think carefully before you do. If the borrower doesn't pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.

You may have to pay to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.

The creditor can collect this debt from you without first trying to collect from the borrower. The creditor can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing your wages, etc. If this debt is ever in default, that fact may become a part of your credit record.

This notice is not the contract that makes you liable for the debt.

AVISO PARA EL FIADOR (Spanish Translation Required By Law)

Se le esta pidiendo que garantice esta deuda. Pienselo con cuidado antes de ponerse de acuerdo. Si la persona que ha pedido este prestamo no paga la deuda, usted tendra que pagarla. Este seguro de que usted podra pagar si sea obligado a pagarla y de que usted desea aceptar la responsabilidad.

Si la persona que ha pedido el prestamo no paga la deuda, es posible que usted tenga que pagar la suma total de la deuda, mas los cargos por tardarse en el pago o el costo de cobranza, lo cual aumenta el total de esta suma.

El acreedor (financiero) puede cobrarle a usted sin, primeramente, tratar de cobrarle al deudor. Los mismos metodos de cobranza que pueden usarse contra el deudor, podran usarse contra usted, tales como presentar una demanda en corte, quitar parte de su sueldo, etc. Si alguna vez no se cumpla con la obligacion de pagar esta deuda, se puede incluir esa informacion en la historia de credito de usted.

Este aviso no es el contrato mismo en que se le echa a usted la responsabilidad de la deuda.

ADDENDUM TO CREDIT LINE ACCOUNT APPLICATION AND AGREEMENT**Credit Line Account****Account Number****Collateral Account****Account Number**

This Addendum (this "Addendum") is attached to, incorporated by reference into and is fully a part of the Credit Line Account Application and Agreement between UBS Bank USA (the "Bank") and the borrower named in the signature area below (the "Borrower"), dated as of the date hereof (as amended or otherwise modified from time to time, the "Agreement"). This Addendum and the Agreement shall not become effective and binding upon the Bank until this Addendum has been executed by the Borrower and accepted by the Bank at its home office. Any conflict between the terms of the Agreement and this Addendum shall be resolved in accordance with the terms of this Addendum. Defined terms used herein to have the respective meanings set forth in the Agreement unless otherwise defined in this Addendum.

A. The Bank, UBS Financial Services Inc. and the Borrower each acknowledge and agree that:

Definitions

1. The Agreement is amended by adding the following definitions in Section 1:

- "Additional Payments" has the meaning specified in Section 5 g).
- "ARS Collateral" means any and all Collateral consisting of Auction Rate Securities.
- "ARS Payments" has the meaning specified in Section 5 g).
- "Auction Rate Securities" means any and all securities determined by the Bank, in its sole and absolute discretion, as being commonly referred to as "Auction Rate Securities," which, for greater certainty, include, without limitation, debt securities on which the interest rate payable is periodically re-set by an auction process and/or equity securities on which any dividend payable is periodically re-set by an auction process.
- "Taxable SLARC Maximum Auction Rate" means the applicable "reset rate," "maximum auction rate" or other similar rate as may be specified in the prospectus or other documentation governing any applicable Taxable Student Loan Auction Rate Securities as representing the failed auction rate or similar rate payable on such Auction Rate Securities. In each case expressed as a per-annum rate and as calculated in the Bank's sole and absolute discretion.
- "Taxable Student Loan Auction Rate Securities" means any and all Auction Rate Securities Collateral consisting of securities determined by the Bank, in its sole and absolute discretion, as being commonly referred to as "Student Loan Auction Rate Securities" and on which the interest or dividend rate paid or payable to the Borrower by the issuer of such securities is taxable to the Borrower."

Terms of Advances

2. The Agreement is amended by adding the following as Section 3 e):

"The Borrower acknowledges that the Bank will not make an Advance against the ARS Collateral in amounts equal to the fair market or par value of the ARS Collateral unless the Borrower arranges for another person or entity to provide additional collateral or assurances on terms and conditions satisfactory to the Bank. In requesting an Approved Amount equal to the par value of the ARS Collateral, the Borrower has arranged for UBS Financial Services Inc. to provide, directly or through a third party, the pledge of additional collateral and/or assurances to the Bank so that the Bank will consider making Advances from time to time in accordance with the terms of this Agreement and in amounts equal to, in the aggregate, the par value of the ARS Collateral at the date of an Advance. In addition, the Borrower, the Bank and UBS Financial Services Inc. acknowledge and agree that if (a) the Bank is repaid all of the Credit Line Obligations due to the Bank under the Agreement and this Addendum and (b) as part of such repayment, the Bank realizes on the additional collateral and/or assurances pledged or otherwise provided by UBS Financial Services and/or any such third party to the Bank, then the Agreement shall not terminate and the Bank shall automatically assign to UBS Financial Services Inc. and any such third party, and UBS Financial Services Inc. and any such third party shall automatically assume and be subrogated to, all of the Bank's rights, claims and interest in and under the Agreement and this Addendum, including without limitation, the security interest in the Collateral, including without limitation the ARS Collateral, granted the Bank under the Agreement and this Addendum (further including, without limitation, interest, dividends, distributions, premiums, other income and payments received in respect of any and all such Collateral) to the extent of the amount that the Bank has realized on all or any part of the additional collateral and/or assurances pledged or otherwise provided by UBS Financial Services and/or any such third party to the Bank in order to effect the repayment of the Credit Line Obligations due to the Bank under the Agreement. Upon such automatic assignment and subrogation, UBS Financial Services Inc. and any such third party shall be entitled to directly exercise any and all rights and remedies afforded the Bank under the Agreement, this Addendum and any and all other documents and agreements entered into in connection with the Agreement and/or this Addendum."



Interest

3. The Agreement is amended by adding the following as a new Section 4 d), Section 4 e) and Section 4 f):

- “d) Notwithstanding anything to the contrary in this Agreement, and subject to the provisions of Sections 4 e) and f) of this Agreement, the interest rate charged on any and all outstanding Variable Rate Advances shall be the lesser of (i) the amount prescribed by Sections 4 a), b), or c) of this Agreement, as applicable, and (ii) the then applicable weighted average rate of interest or dividend rate paid to the Borrower by the issuer of the ARS Collateral.
- e) The Bank and the Borrower acknowledge and agree that the Bank shall be entitled to determine or adjust, at any time and from time to time, the interest rate payable by the Borrower to the Bank on all or any part of the outstanding Variable Rate Advances to reflect any changes in the composition of the ARS Collateral, to address any inability to determine interest rates, or for any other reason that, in the Bank’s sole and absolute discretion, is necessary to give effect to the intent of the provisions of this Agreement, including, without limitation, this Section 4 (it being acknowledged and agreed that the provisions of this Section 4 are intended to cause the interest payable by the Borrower under this Agreement to equal the interest or dividend rate payable to the Borrower by the issuer of any ARS Collateral) and any and all such adjustments by the Bank hereunder shall be conclusive and binding on the Bank and the Borrower absent manifest error.
- f) If and to the extent that any or all of the ARS Collateral consists of Taxable Student Loan Auction Rate Securities, then notwithstanding anything to the contrary in this Agreement, when calculating such weighted average interest rate, the interest rate paid to the Borrower with respect to such Taxable Student Loan Auction Rate Securities shall be deemed to be equal to (i) for the period from the date of this Addendum through and including January 21, 2009, the applicable coupon rate(s) and (ii) from January 22, 2009 and thereafter, the then applicable Taxable SLARC Maximum Auction Rate, for, and to the extent of, such Taxable Student Loan Auction Rate Securities. The Borrower will be charged interest on the Loan in months in which the Borrower does not receive interest on the Taxable Student Loan Auction Rate Securities.”

Payments

4. The Agreement is amended by adding the following as Section 5 g):

*The Borrower will make additional payments (“Additional Payments”) as follows:

- The proceeds of any liquidation, redemption, sale or other disposition of all or part of the ARS Collateral will be automatically transferred to the Bank as payments. The amount of these payments will be determined by the proceeds received in the Collateral Account, and may be as much as the total Credit Line Obligations.
- All other interest, dividends, distributions, premiums, other income and payments that are received in the Collateral Account in respect of any ARS Collateral will be automatically transferred to the Bank as payments. These are referred to as “ARS Payments.” The amount of each ARS Payment will vary, based on the proceeds received in the Collateral Account. The Bank estimates that the ARS Payments will range from zero to fifteen (\$15.00) dollars per month per \$1,000 in par value of Pledged ARS. The Bank will notify the Borrower at least ten (10) days in advance of any ARS Payment that falls outside of this range. If the Borrower would prefer to have advance notice of each payment to be made to Advances, the Borrower may cancel ARS Payments as described below.
- The Borrower agrees that any cash, check or other deposit (other than a deposit of securities) made to the Collateral Account is an individual authorization to have such amount transferred to the Bank as a payment. The amount of each payment is the amount of the deposit.

Each Additional Payment will be applied, as of the date received by the Bank, in the manner set forth in the last sentence of Section 5 d). The Borrower acknowledges that neither the Bank nor UBS Financial Services Inc. sets or arranges for any schedule of Additional Payments. Instead, Additional Payments will be transferred automatically from the Collateral Account whenever amounts are received in the Collateral Account, generally on the second Business Day after receipt.

The Borrower may elect to stop ARS Payments at any time, and this election will cancel all ARS Payments that would occur three (3) Business Days or more after the Bank receives such notice. If the Borrower stops ARS Payments, the Borrower will continue to be obligated to pay principal, interest, and other amounts pursuant to the Agreement. If the Borrower elects to cancel ARS Payments, all other Additional Payments will be cancelled. Cancelling ARS Payments and Additional Payments may result in higher interest charges by the Bank because amounts received in the Collateral Account will not be automatically transferred and credited. Any amounts received in the Collateral Account will remain in the Collateral Account unless the Bank permits you to withdraw all or part of such amounts. Your notice to cancel must be sent to Attention Head of Credit Risk Monitoring, UBS Bank USA, 299 South Main Street, Suite 2275, Salt Lake City, Utah 84111, or call (801)741-0310.

Important Disclosure About Required Payments. If Additional Payments are sufficient to pay all accrued interest on Advances on or before a due date, then the Borrower need not make an additional interest payment. Excess Additional Payments will be applied against principal. However, if Additional Payments are not sufficient to pay all accrued interest on Advances on or before a due date, then the Bank may, in its sole discretion (1) capitalize unpaid interest as an additional Advance, or (2) require the Borrower to make payment of all accrued and unpaid interest.*

Remedies

5. The Agreement is amended by adding the following as Section 10 e):

“The Borrower agrees that in the event the Bank determines to liquidate or sell any Collateral, the Bank shall, to the fullest extent permitted by applicable law, have the right to do so in any manner, including, without limitation, the sale of Collateral individually or in a block, for cash or for credit, in a public or private sale, with or without public notice, through the use of sealed bids or otherwise, with the aid of any advisor or agent who may be an affiliate of the Bank or in any other manner as the Bank in its sole discretion shall choose. The Borrower acknowledges that the price the Bank obtains for Collateral in the Bank’s chosen method of sale may be lower than might be otherwise obtained in another method of sale, and the Borrower hereby agrees that any such sale shall not be considered to be not commercially reasonable solely because of such lower price. The Borrower understands that there may not be a liquid market for the Collateral and that, as a result, the price received for the Collateral upon liquidation or sale by the Bank may be substantially less than the Borrower paid for such Collateral or than the last market value available for it, if any. The Borrower further agrees that any sale by the Bank shall not be considered to be not commercially reasonable solely because there are few (including only one) or no third parties who submit bids or otherwise offer to buy the Collateral. The Borrower understands that the Bank’s sale of any of the Collateral may be subject to various state and federal property and/or securities laws and regulations, and that compliance with such laws and regulations may result in delays and/or a lower price being obtained for the Collateral. The Borrower agrees that the Bank shall have the right to restrict any prospective purchasers to those who, in the Bank’s sole discretion, the Bank deems to be qualified. The Borrower acknowledges that the Bank shall have sole authority to determine, without limitation, the time, place, method of advertisement and manner of sale and that the Bank may delay or adjourn any such sale in its sole discretion. The Borrower expressly authorizes the Bank to take any action with respect to the Collateral as the Bank deems necessary or advisable to facilitate any liquidation or sale, and the Borrower agrees that the Bank shall not be held liable for taking or failing to take any such action, regardless if a greater price may have been obtained for the Collateral if such action was or was not taken, as applicable. The Borrower hereby waives, to the fullest extent permitted by law, any legal right of appraisal, notice, valuation, stay, extension, moratorium or redemption that the Borrower would otherwise have with respect to a sale of the Collateral.”

Representations, Warranties and Covenants by the Loan Parties

6. The Agreement is amended by adding the following as Section 11 g):

“g) If at any time there are Credit Line Obligations outstanding under the Credit Line, then in connection with any ARS Collateral, if at any time any such ARS Collateral may be sold, exchanged, redeemed, transferred or otherwise conveyed by the Borrower for gross proceeds that are, in the aggregate, not less than the par value of such Auction Rate Securities to any party, including, without limitation, to UBS Financial Services Inc. and/or any of its affiliates (any such sale, exchange, redemption, transfer or conveyance referred to herein as an “ARS Liquidation”), the Borrower agrees (i) to immediately effect such ARS Liquidation to the extent necessary to satisfy all Credit Line Obligations in full and (ii) that the proceeds of any such ARS Liquidation so effected shall be immediately and automatically used to pay down any and all such outstanding Credit Line Obligations to the extent of such proceeds. The Borrower hereby acknowledges and agrees with the Bank and directs UBS Financial Services Inc. that to the extent permitted by applicable law, this Section 11 g) shall constitute an irrevocable instruction, direction and standing sell order to UBS Financial Services Inc. to effect an ARS Liquidation to the extent it is possible to do so at any time during the term of this Agreement. The Borrower further agrees with the Bank and UBS Financial Services Inc. to execute and deliver to the Bank and/or UBS Financial Services Inc. such further documents and agreements as may be necessary in the sole and absolute discretion of the Bank and/or UBS Financial Services Inc. to effect the foregoing irrevocable instruction, direction and standing sell order.”

Waivers

7. The Agreement is amended by adding the following as Section 21:

“The Borrower hereby (i) acknowledges and admits its indebtedness and obligations to the Bank under the Agreement; and (ii) acknowledges, admits and agrees that it has no and shall assert no defenses, offsets, counterclaims or claims in respect of its obligations under the Agreement, in each case notwithstanding any claim or asserted claim that it may have, or purport to have, against any affiliate of the Bank.”

Schedules I and II

8. a) Schedule I of the Agreement is amended in its entirety to read as follows:
- | | |
|----------------------------|--------|
| \$25,001 to \$499,999 | 2.750% |
| \$500,000 to \$999,999 | 1.750% |
| \$1,000,000 to \$4,999,999 | 1.500% |
| \$5,000,000 and over | 1.250% |
- b) Schedule II of the Agreement is deleted in its entirety and replaced with “[Intentionally Deleted].”

No Fixed Rate Advances/Prime Credit Lines

9. The Bank and the Borrower acknowledge and agree that notwithstanding anything to the contrary in the Agreement: (a) the Borrower shall not request and the Bank shall not make a Fixed Rate Advance; and (b) there shall be no Prime Credit Line facilities available under the Agreement.

Alternative Financing

10. If at any time the Bank exercises its right of demand under Section 5 a), Section 5 b) and Section 10 b) of the Loan Agreement for any reason other than (i) the occurrence of an Event under Sections 10 a) (iv), (v), (vii), (ix) (if and to the extent any indebtedness specified thereunder is to the Bank or any of the Bank's affiliates), or (xi) of the Agreement; or (ii) in connection with any termination for cause by UBS Financial Services Inc. of the overall customer relationship between UBS Financial Services Inc. and the Borrower or its affiliates, then UBS Financial Services Inc. shall, or shall cause one or more of its affiliates, to provide as soon as reasonably possible, alternative financing on substantially the same terms and conditions as those under the Agreement and the Bank agrees that the Agreement shall remain in full force and effect until such time as such alternative financing has been established.

Margin Calls; Interest Payments

11. Notwithstanding anything to the contrary in the Agreement, the Bank and the Borrower acknowledge and agree that UBS Financial Services Inc. or any affiliate thereof may, in its sole and absolute discretion, elect to: (i) provide additional collateral to the Bank in the form of United States Treasury Securities if and to the extent that the Borrower does not maintain in a Collateral Account, Collateral having an aggregate lending value as specified by the Bank from time to time: and/or (ii) satisfy any and all amounts of accrued and unpaid interest that are otherwise due and payable by the Borrower to the Bank under the Agreement, to the extent that the amount of any Additional Payments under the Agreement are insufficient to satisfy any and all such amounts.

Collateral Account Features

12. Section 8 f) of the Agreement is deleted in its entirety and replaced with the following:

“If a Collateral Account has margin features, the margin features will be removed by UBS Financial Services Inc. or UBS International Inc., as applicable, so long as there is no outstanding margin debit in the Collateral Account. If a Collateral Account has Resource Management Account[®] or Business Services Account BSA[®] features, such as check writing, cards, bill payment, or electronic funds transfer services, all such features shall be removed by UBS Financial Services Inc. or UBS International Inc., as applicable.”

No Credit Line Checks

13. The Bank and the Borrower acknowledge and agree that notwithstanding anything to the contrary in the Agreement, the Credit Line shall not have Credit Line checks.

Headings

14. The headings of each of Section of this Addendum is for descriptive purposes only and shall not be deemed to modify or qualify the terms, conditions, rights or obligations described in such Section.
- B. This Addendum may be signed in multiple original counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

[Signature page(s) follows]



IN WITNESS WHEREOF, each of the parties has signed this Addendum pursuant to due and proper authority as of the date set forth below.

12/11/08	Mark Aslett, President and CEO	/s/ Mark Aslett
Date	Print Name and Title	Signature
12/11/08	Robert Hult, Chief Financial Officer/CFO	/s/ Robert Hult
Date	Print Name and Title	Signature

UBS BANK USA

By: _____
 Name: _____
 Title: _____

By: _____
 Name: _____
 Title: _____

UBS FINANCIAL SERVICES INC.

By: _____
 Name: _____
 Title: _____

By: _____
 Name: _____
 Title: _____

Date: _____, 2008

ADDENDUM TO CREDIT LINE AGREEMENT

The attached "Credit Line Agreement" sets forth certain terms related to the extension of credit by UBS Bank USA (the "Bank") with respect to certain assets held through the above-referenced discretionary corporate cash management Account with UBS Financial Services Inc. (the "Firm"). The party signing this Addendum as Client where indicated below (the "Client") understands and agrees that, notwithstanding anything to the contrary contained in either the Credit Line Agreement (including, without limitation, Section 19 of the Credit Line Agreement) or the existing Corporate Cash Management Account Agreement applicable to the Account (the "Account Agreement"), the terms of the Credit Line Agreement supplement, but do not replace, the existing Account Agreement as follows: (i) the terms of the Credit Line Agreement (as amended from time to time in accordance with its terms) shall govern with respect to any matters, issues or disputes related directly to, or arising directly from, the extension of credit and/or the status of Client as borrower and the Bank as lender pursuant to the Credit Line Agreement (e.g., matters relating to the loan account(s) established at the Bank pursuant to the Credit Line Agreement, the terms of any borrowing or extension of credit under the Credit Line Agreement, and/or the indemnification of the Bank as a lender); and (ii) the terms of the Account Agreement (as amended from time to time in accordance with its terms) shall govern with respect to all other matters (e.g., matters relating to the Account established at the Firm pursuant to the Account Agreement, the Firm's trading authority and activities and/or the indemnification of the Firm for the services it provides under the Account Agreement).

Without limiting the generality of the foregoing, Client further understands and agrees that:

- (A) The Account remains a discretionary account, as described in Section 5 of the Account Agreement, and the Firm will continue to exercise investment discretion over the assets in the Account as provided in the Account Agreement.
- (B) If applicable, Client may continue to receive Financial Advisor Reports with respect to the Account, as described in Section 8 of the Account Agreement, and Client's receipt of such reports remains subject to the provisions of Section 8 of the Account Agreement.
- (C) Solely with respect to disputes arising out of the extension of credit and/or the status of Client as borrower and the Bank as lender pursuant to the Credit Line Agreement, the choice of law provisions of Section 13 of the Credit Line Agreement and the dispute resolution provisions of Section 17 of the Credit Line Agreement shall govern. With respect to any other disputes relating to the Account, the choice of law provisions of Section 14 of the Account Agreement and the dispute resolution provisions of Section 15 of the Account Agreement shall continue to govern.

[Remainder of page intentionally left blank]

[Signature page follows]

Acknowledged and agreed this 11 day of December, 2008

Client's Name: Mercury Computer Systems, Inc.

By: /s/ Robert Hult

Name: ROBERT E. HULT

Title: SUP/CHIEF FINANCIAL OFFICER

CERTIFICATION

I, Mark Aslett, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 11, 2009

/s/ MARK ASLETT

Mark Aslett
PRESIDENT AND CHIEF EXECUTIVE OFFICER
[PRINCIPAL EXECUTIVE OFFICER]

CERTIFICATION

I, Robert E. Hult, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 11, 2009

/s/ ROBERT E. HULT

Robert E. Hult
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
[PRINCIPAL FINANCIAL OFFICER]

Mercury Computer Systems, Inc.

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

In connection with the Quarterly Report of Mercury Computer Systems, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2009 as filed with the Securities and Exchange Commission (the "Report"), we, Mark Aslett, President and Chief Executive Officer of the Company, and Robert E. Hult, Senior Vice President and Chief Financial Officer 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: May 11, 2009

/s/ MARK ASLETT

Mark Aslett
PRESIDENT AND CHIEF EXECUTIVE OFFICER

/s/ ROBERT E. HULT

Robert E. Hult
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.