

MERCURY COMPUTER SYSTEMS INC  
Form 8-K  
October 05, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

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**FORM 8-K**

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**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the**  
**Securities Exchange Act of 1934**

**Date of report (Date of earliest event reported): September 29, 2006**

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**Mercury Computer Systems, Inc.**

(Exact Name of Registrant as Specified in Charter)

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**Massachusetts**  
(State or Other Jurisdiction  
  
of Incorporation)

**000-23599**  
(Commission File Number)

**04-2741391**  
(IRS Employer  
  
Identification No.)

**199 Riverneck Road, Chelmsford, Massachusetts**  
(Address of Principal Executive Offices)

**01824**  
(Zip Code)

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

**N/A**

(Former Name or Former Address, if Changed Since Last Report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  
  - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  
  - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  
  - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 1.01. Entry into a Material Definitive Agreement.**

On September 29, 2006, the Board of Directors of Mercury Computer Systems, Inc. (the Company) adopted a new compensation policy for non-employee directors.

Effective on October 1, 2006, each non-employee director will receive an annual retainer of \$55,000. In addition, the lead director and the chairman of the Audit Committee will each receive an additional annual retainer of \$15,000, the chairman of the Compensation Committee will receive an additional annual retainer of \$12,000, and the chairman of the Nominating and Governance Committee will receive an additional annual retainer of \$6,000. All of these retainers will be paid in cash in quarterly installments. Directors will continue to be reimbursed for their reasonable expenses incurred in connection with attendance at Board and committee meetings, but additional amounts formerly paid to non-employee directors for attendance at Board meetings and for membership on a committee will be discontinued for service after October 1, 2006 (other than the additional annual retainers for committee chairmen described above).

Quarterly retainer payments will be paid in arrears within 30 days following the end of each quarter, with the first payments under this policy to be made in January 2007 with respect to service during the quarter ended December 31, 2006.

New non-employee directors will be granted stock options to purchase 30,000 shares of common stock in connection with their election to the Board. These awards will vest as to 50% of the covered shares on each of the first two anniversaries of the date of grant, and will expire on the tenth anniversary of the date of grant.

Non-employee directors may also receive annual stock option awards at the discretion of the Compensation Committee. Beginning with fiscal year 2007, non-employee directors will receive annual stock option awards covering 16,000 shares. These awards will vest as to 50% of the covered shares on the date of grant and as to the remaining covered shares on the first anniversary of the date of grant, and will expire on the tenth anniversary of the date of grant. Non-employee directors will not be eligible to receive the annual stock option award for the fiscal year in which they are first elected. Non-employee directors who are first elected to the Board during the first half of Company's fiscal year will be eligible to receive the annual stock option award for the next fiscal year; otherwise, non-employee directors will not be eligible to receive their first annual stock option award until the second fiscal year following the fiscal year in which they are first elected to the Board.

The above-described stock options will be granted under the Company's 2005 Stock Incentive Plan (the 2005 Plan). The form of Stock Option Agreement with respect to the above-described awards provides that the stock options shall terminate and no portion will be exercisable on the earliest of the following:

the expiration date;

12 months following the date of the grantee's death if the grantee dies while serving as a director; and

five years following the date the grantee ceases to be a director if such cessation is for any reason other than death. The stock option will be exercisable as described above after the grantee's death or after the grantee otherwise ceases to be a director only to the extent it was vested and exercisable immediately prior to the grantee's death or cessation of service as a director. All or a portion of such awards will immediately vest upon the occurrence of a change in control of the Company (as defined in the 2005 Plan).

The form of Stock Option Agreement under the 2005 Plan was filed as Exhibit 10.1 to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2006 and is incorporated herein by reference.

**Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.**

(a) (c) Not applicable.

(d) On September 29, 2006, the Company's Board of Directors voted to expand the size of the Board from eight to nine members, and elected Vincent Vitto to fill the newly-created vacancy as a Class III director. At the same time the Board nominated Mr. Vitto for re-election as a Class III director at the Special Meeting in Lieu of the 2006 Annual Meeting of Shareholders to be held on November 13, 2006.

Mr. Vitto recently retired after serving as President and Chief Executive Officer of The Charles Stark Draper Laboratory, Inc. since 1997. Prior to that he spent 32 years of increasing responsibility at MIT Lincoln Laboratory, rising to Assistant Director for Surface Surveillance and Communications. Mr. Vitto also serves as Vice Chairman of the Defense Science Board.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.

<b>Exhibit No.</b>	<b>Description</b>
10.1	Mercury Computer Systems, Inc. Compensation Policy for Non-Employee Directors.

**SIGNATURES**

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

MERCURY COMPUTER SYSTEMS, INC.  
(Registrant)

Date: October 5, 2006

By: /s/ Robert E. Hult  
Robert E. Hult  
Senior Vice President and  
Chief Financial Officer

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
10.1	Mercury Computer Systems, Inc. Compensation Policy for Non-Employee Directors.

Value

**CORPORATE BONDS & NOTES 89.1%**

**Airlines 1.1%**

\$

8,760

American Airlines, Inc., pass thru certificates, 8.608%, 10/1/12

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Baa3/BB+

\$

8,881,703

Continental Airlines, Inc., pass thru certificates,

13,004

6.92%, 4/2/13, 97-5A 9 (a) (b) (f)

NR/NR

13,140,835

4,105

7.373%, 6/15/17, Ser. 01-1

Ba1/BB+

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3,971,365

1,880

8.307%, 10/2/19, Ser. 00-2

Ba2/BB-

1,878,815

195

United Air Lines, Inc., pass thru certificates,

6.602%, 3/1/15, Ser. 01-1

Ba2/BBB

195,109



28,067,827

**Automotive 4.8%**

19,525

ArvinMeritor, Inc., 8.75%, 3/1/12

B2/B+

20,013,125

Ford Motor Co.,

23,250

7.45%, 7/16/31

Caa1/CCC+

18,367,500

3,000

9.215%, 9/15/21

Caa1/CCC+

2,610,000

General Motors Corp.,

4,000

8.10%, 6/15/24

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Caa1/B-

3,480,000

11,200

8.25%, 7/15/23

Caa1/B-

9,856,000

3,000

8.80%, 3/1/21

Caa1/B-

2,767,500

20,000

9.40%, 7/15/21

Caa1/B-

19,100,000

Goodyear Tire & Rubber Co.,

8,596

9.00%, 7/1/15

Ba3/B

9,219,210

7,000

11.00%, 3/1/11

Ba3/B+

7,533,750

Tenneco Automotive, Inc.,

		14,000
8.625%, 11/15/14		
	B3/B	
		14,175,000
		14,025
10.25%, 7/15/13, Ser. B		
	B1/BB-	
		15,111,937
		122,234,022

**Building/Construction 0.7%**

11,000

Ahern Rentals, Inc., 9.25%, 8/15/13

B3/B+

10,642,500

2,775

Edcon Ltd., 7.98%, 6/15/14 (d)

NR/NR

3,680,078

2,000

Grohe Holding GmbH, 8.625%, 10/1/14

B3/CCC+

2,645,198

16,967,776

**Chemicals 2.3%**

ARCO Chemical Co.,

\$

3,808

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9.80%, 2/1/20

B1/B+

3,788,960

2,000

10.25%, 11/1/10

B1/B+

2,150,000

21,925

Ineos Group Holdings PLC, 8.50%, 2/15/16 (d)

B3/B-

21,102,813

Lyondell Chemical Co.,



		4,150
8.00%, 9/15/14		
	B1/B+	
		4,585,750
		3,825
8.25%, 9/15/16		
	B1/B+	
		4,331,812
		15,300
Nalco Co., 8.875%, 11/15/13		
	B3/B-	
		16,141,500
		6,500

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Rockwood Specialties Group, Inc., 7.50%, 11/15/14

B3/B-

6,516,250

58,617,085

**Commercial Products 1.1%**

22,200

Hertz Corp., 8.875%, 1/1/14

B1/B

22,977,000

5,000

Reynolds American, Inc., 7.75%, 6/1/18

Ba1/BBB

5,349,535

28,326,535

**Computer Services 1.5%**

SunGard Data Systems, Inc.,

		20,556
9.125%, 8/15/13		
	Caa1/B-	
		21,481,020
		17,000
10.25%, 8/15/15		
	Caa1/B-	
		17,850,000
		39,331,020



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**PIMCO High Income Fund Schedule of Investments**

September 30, 2007 (unaudited) (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
<b>Consumer Products 0.7%</b>			
\$ 500	Buhrmann U.S., Inc., 7.875%, 3/1/15	B2/B	\$ 470,000
6,875	8.25%, 7/1/14	B2/B	6,531,250
12,400	NPC International, Inc., 9.50%, 5/1/14	Caa1/B-	11,346,000
			18,347,250
<b>Containers &amp; Packaging 2.0%</b>			
7,500	Berry Plastics Holding Corp., 8.875%, 9/15/14	B3/B	7,706,250
14,200	Jefferson Smurfit Corp., 7.50%, 6/1/13	B3/CCC+	13,809,500
13,263	8.25%, 10/1/12	B3/CCC+	13,362,473
6,475	Smurfit-Stone Container, 8.00%, 3/15/17	B3/CCC+	6,394,062
9,000	8.375%, 7/1/12	B3/CCC+	9,045,000
			50,317,285
<b>Diversified Manufacturing 0.5%</b>			
13,000	Sally Holdings LLC, 9.25%, 11/15/14	CCC+/CCC+	13,195,000
<b>Electronics 1.7%</b>			
14,750	Sanmina-SCI Corp., 8.125%, 3/1/16	B2/B-	12,832,500
4,000	8.444%, 6/15/10, FRN (d)	Ba3/B+	3,980,000
19,625	Sensata Technologies BV, 8.00%, 5/1/14	B3/B-	19,232,500
6,400	Solectron Global Finance Ltd., 8.00%, 3/15/16	Ba2/B	6,960,000
			43,005,000
<b>Energy 0.3%</b>			
7,000	Reliant Energy, Inc., 7.875%, 6/15/17	B3/B-	7,078,750
<b>Financial Services 13.1%</b>			
29,928	AES Ironwood LLC, 8.857%, 11/30/25	B1/B+	32,771,392
7,803	AES Red Oak LLC, 8.54%, 11/30/19, Ser. A	B1/B+	8,349,726
700	Ajax Re Ltd., 11.944%, 5/8/09, FRN (b) (d)	NR/BB	702,800
5,000	Buffalo Thunder Development Authority, 9.375%, 12/15/14 (d)	B2/B	4,725,000
7,700	Chukchansi Economic Development Authority, 8.00%, 11/15/13 (d)	B2/BB-	7,815,500
9,977	Consolidated Communications Holdings, 9.75%, 4/1/12	B3/B	10,126,655
8,100	Ford Motor Credit Co., 7.80%, 6/1/12	B1/B	7,712,860
99,950	8.00%, 12/15/16	B1/B	93,651,251
10,000	8.11%, 1/13/12, FRN	B1/B	9,457,520
18,400	General Motors Acceptance Corp., 8.00%, 11/1/31	Ba1/BB+	18,099,381
15,800	Hexion U.S. Finance Corp., 9.75%, 11/15/14	B3/B	17,459,000
129	JET Equipment Trust (d) (e) (f), 7.63%, 8/15/12, Ser. 95-B	NR/NR	66,358
263	10.00%, 6/15/12, Ser. 94-A	NR/NR	252,295
18,445	KRATON Polymers LLC, 8.125%, 1/15/14	B3/CCC+	17,983,875
7,825	LVB Acquisition Merger Sub., Inc. (d), 10.00%, 10/15/17	NR/B-	7,864,125
10,375	10.375%, 10/15/17	NR/B-	10,076,719
14,050	11.625%, 10/15/17	NR/B-	13,698,750
£ 2,929	Royal Bank of Scotland PLC, 9.370%, 4/6/11, FRN (f)	NR/NR	5,809,813

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\$	9,480	Targeted Return Index Securities Trust, 7.140%, 5/1/16 (d) (g)	B1/B+	9,305,672
	19,203	Universal City Development Partners Ltd., 11.75%, 4/1/10	B1/B-	20,115,142
	8,030	Universal City Florida Holding Co., 8.375%, 5/1/10	B3/B-	8,130,375

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## PIMCO High Income Fund Schedule of Investments

September 30, 2007 (unaudited) (continued)

Principal Amount (000)		Credit Rating (Moody's/S&P)	Value
<b>Financial Services (continued)</b>			
	UPC Holding BV, 7.75%, 1/15/14	B3/CCC+	\$ 1,680,981
1,200	8.625%, 1/15/14	B3/CCC+	14,868,572
10,200	Yankee Acquisition Corp., Ser. B, 8.50%, 2/15/15	B3/CCC+	9,750,000
\$ 10,000	9.75%, 2/15/17	Caa1/CCC+	8,170,000
8,600			338,643,762
<b>Food 2.1%</b>			
1	Dole Foods Co., Inc., 8.875%, 3/15/11	Caa1/B-	797
24,925	Ingles Markets, Inc., 8.875%, 12/1/11	B3/B	25,548,125
28,000	Pilgrim's Pride Corp., 8.375%, 5/1/17	B2/B	28,700,000
			54,248,922
<b>Food Services 0.7%</b>			
16,850	ARAMARK Corp., 8.50%, 2/1/15	B3/B-	17,271,250
<b>Healthcare &amp; Hospitals 7.6%</b>			
30,125	Community Health Systems, Inc., 8.875%, 7/15/15 (d) HCA, Inc., 7.19%, 11/15/15	B3/B-	31,104,063
20,031	7.50%, 12/15/23	Caa1/B-	17,419,939
15,224	7.58%, 9/15/25	Caa1/B-	12,498,097
4,130	7.69%, 6/15/25	Caa1/B-	3,386,274
5,550	8.36%, 4/15/24	Caa1/B-	4,586,148
3,550	9.00%, 12/15/14	Caa1/B-	3,104,386
22,052	9.25%, 11/15/16 (d)	B2/BB-	21,559,314
13,000	9.625%, 11/15/16 (d)	B2/BB-	13,845,000
23,450	ReAble Therapeutics Finance LLC, 11.75%, 11/15/14	B2/BB-	25,091,500
4,950	Rotech Healthcare, Inc., 9.50%, 4/1/12	Caa1/CCC+	4,727,250
19,990	Tenet Healthcare Corp., 7.375%, 2/1/13	Caa3/CCC	13,893,050
15,206	9.25%, 2/1/15	Caa1/CCC+	12,963,115
9,300	9.875%, 7/1/14	Caa1/CCC+	8,253,750
25,925		Caa1/CCC+	23,851,000
			196,282,886
<b>Hotels/Gaming 1.0%</b>			
5,000	Herbst Gaming, Inc., 8.125%, 6/1/12	B3/B-	4,506,250
19,279	Mandalay Resort Group, 9.375%, 2/15/10	B1/B+	20,291,147
			24,797,397
<b>Machinery 0.1%</b>			
2,600	Chart Industries, Inc., 9.125%, 10/15/15	B3/B-	2,704,000
<b>Manufacturing 0.1%</b>			
1,705	Bombardier, Inc., 8.00%, 11/15/14 (d)	Ba2/BB	1,794,512
<b>Metals &amp; Mining 0.7%</b>			
3,575	Freeport-McMoRan Copper & Gold, Inc., 8.25%, 4/1/15	Ba3/BB	3,869,938
11,725	8.375%, 4/1/17	Ba3/BB	12,838,875
881	Novelis, Inc., 7.25%, 2/15/15	B3/B	854,570
			17,563,383
<b>Miscellaneous 2.9%</b>			
74,570	Dow Jones CDX U.S. High Yield, 8.375%, 12/29/11, Ser. 7-T1 (d) (g) (i)	B3/NR	75,502,125





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**PIMCO High Income Fund Schedule of Investments**

September 30, 2007 (unaudited) (continued)

	Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
<b>Multi-Media</b>	<b>5.5%</b>			
\$	3,000	Cablemas S.A. de C.V., 9.375%, 11/15/15 (d)	B1/BB-	\$ 3,240,000
	5,600	Cablevision Systems Corp., 8.00%, 4/15/12, Ser. B	B3/B+	5,460,000
	681	CanWest MediaWorks, Inc., 8.00%, 9/15/12	CCC+/CCC+	670,785
	7,700	CanWest MediaWorks L.P., 9.25%, 8/1/15 (d)	NR/CCC+	7,815,500
	5,925	CCH I Holdings LLC, 9.92%, 4/1/14	Caa3/CCC	5,125,125
	42,850	CCO Holdings LLC, 8.75%, 11/15/13	Caa1/CCC	43,278,500
	10,000	Charter Communications Holdings I LLC, 11.00%, 10/1/15	Caa2/CCC	10,175,000
	11,325	Charter Communications Operating LLC, 8.375%, 4/30/14 (d)	B2/B+	11,438,250
	4,650	CSC Holdings, Inc., 6.75%, 4/15/12	B2/B+	4,498,875
	6,300	7.625%, 7/15/18	B2/B+	6,048,000
	4,485	7.875%, 2/15/18	B2/B+	4,372,875
	2,000	8.125%, 7/15/09, Ser. B	B2/B+	2,040,000
	6,045	Lighthouse International Co. S.A., 8.00%, 4/30/14 (d)	B2/B	8,951,515
\$	7,000	Nielsen Finance LLC, 10.00%, 8/1/14	CCC+/CCC+	7,437,500
	9,250	Rogers Cable, Inc., 8.75%, 5/1/32	Baa3/BBB-	10,935,017
	307	Sinclair Broadcast Group, Inc., 8.00%, 3/15/12	Ba3/B	315,442
	3,735	Telenet Communications NV, 9.00%, 12/15/13 (d)	B3/B-	5,789,784
\$	4,750	Unity Media GmbH, 10.375%, 2/15/15 (d)	Caa2/CCC+	4,868,750
				142,460,918
<b>Oil &amp; Gas</b>	<b>7.8%</b>			
	3,147	Dynegy Holdings, Inc., 7.50%, 6/1/15 (d)	B2/B-	3,052,590
	18,000	8.375%, 5/1/16	B2/B-	18,180,000
	15,250	Dynergy-Roseton Danskammer, Inc., pass thru certificates, 7.67%, 11/8/16, Ser. B	Ba3/B	15,326,250
	29,150	El Paso Corp., 7.80%, 8/1/31	Ba3/BB-	29,741,279
	27,850	8.05%, 10/15/30	Ba3/BB-	28,763,591
	3,000	Enbridge Energy Partners L.P., 8.05%, 10/1/37, VRN	Baa3/BB+	3,054,861
	14,325	Ferrellgas L.P., 8.75%, 6/15/12	B2/B-	14,754,750
	20,000	8.87%, 8/1/09 (a) (b) (f)	NR/NR	21,110,881
	7,000	OPTI Canada, Inc., 8.25%, 12/15/14 (d)	B1/BB+	7,087,500
	17,125	SemGroup L.P., 8.75%, 11/15/15 (d)	B1/NR	16,825,312
	5,500	W&T Offshore, Inc., 8.25%, 6/15/14 (d)	B3/B-	5,321,250
	34,726	Williams Cos., Inc., 7.875%, 9/1/21	Ba2/BB	37,938,155
				201,156,419
<b>Paper/Paper Products</b>	<b>3.9%</b>			
	6,500	Abitibi-Consolidated, Inc., 8.375%, 4/1/15	B3/B	4,761,250
	13,025	8.55%, 8/1/10	B3/B	10,810,750
	8,750	Bowater Canada Finance, 7.95%, 11/15/11	B3/B	7,240,625
	2,200	Bowater, Inc., 9.375%, 12/15/21	B3/B	1,666,500
	8,750	Cascades, Inc., 7.25%, 2/15/13	Ba3/BB-	8,618,750
		Georgia-Pacific Corp.,		

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27,775	8.00%, 1/15/24	B2/B	27,219,500
16,585	8.875%, 5/15/31	B2/B	16,709,388
	Verso Paper Holdings LLC, Ser. B,		
11,800	9.125%, 8/1/14	B2/B+	12,213,000
10,000	11.375%, 8/1/16	B3/CCC+	10,575,000
			99,814,763

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**PIMCO High Income Fund Schedule of Investments**

September 30, 2007 (unaudited) (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
<b>Printing/Publishing 3.0%</b>			
\$ 17,631	Dex Media West LLC, 9.875%, 8/15/13, Ser. B	B1/B	\$ 18,843,131
1,000	Hollinger, Inc., 11.875%, 3/1/11 (d) (e) (f)	B3/NR	957,957
12,500	Idearc, Inc., 8.00%, 11/15/16	B2/B+	12,531,250
34,600	RH Donnelley Corp., 8.875%, 1/15/16, Ser. A-3	B3/B	35,421,750
2,246	RH Donnelley, Inc., 10.875%, 12/15/12	B2/B	2,397,605
6,100	TL Acquisitions, Inc., 10.50%, 1/15/15 (d)	Caa1/CCC+	6,054,250
			76,205,943
<b>Real Estate 0.3%</b>			
7,390	Delhaize America, Inc., 9.00%, 4/15/31	Baa3/BB+	8,840,487
<b>Retail 1.1%</b>			
29,975	Bon-Ton Stores, Inc., 10.25%, 3/15/14	B3/B-	28,176,500
<b>Semi-Conductors 1.6%</b>			
33,675	Freescale Semiconductor, Inc., 8.875%, 12/15/14	B1/B	32,664,750
2,300	9.125%, 12/15/14	B1/B	2,139,000
6,950	10.125%, 12/15/16	B2/B	6,498,250
			41,302,000
<b>Telecommunications 17.3%</b>			
2,317	American Cellular Corp., 10.00%, 8/1/11, Ser. B	B3/CCC	2,432,850
14,555	Centennial Communications Corp., 8.125%, 2/1/14	B2/CCC+	14,882,487
31,800	Cincinnati Bell, Inc., 8.375%, 1/15/14	B2/B-	31,879,500
15,500	Citizens Communications Co., 9.00%, 8/15/31	Ba2/BB+	15,810,000
16,550	Cricket Communications, Inc., 9.375%, 11/1/14	Caa1/CCC	16,881,000
24,800	Digicel Group Ltd. (d), 8.875%, 1/15/15	Caa2/CC	23,374,000
8,718	9.125%, 1/15/15	Caa2/CC	8,129,518
12,225	Hawaiian Telcom Communications, Inc., Ser. B, 9.75%, 5/1/13	Caa1/CCC	12,561,188
1,250	10.86%, 5/1/13, FRN	Caa1/CCC	1,271,875
20,000	Intelsat Bermuda Ltd., 9.25%, 6/15/16	B2/B	20,850,000
13,000	11.25%, 6/15/16	Caa1/B	13,991,250
18,250	Intelsat Subsidiary Holding Co., Ltd., 8.625%, 1/15/15	B2/B	18,706,250
25,500	MetroPCS Wireless, Inc., 9.25%, 11/1/14 (d)	Caa1/CCC	26,137,500
2,300	Nordic Telephone Co. Holdings ApS, 8.25%, 5/1/16 (d)	B2/B	3,442,668
5,000	8.25%, 5/1/16	B2/B	7,484,061
\$ 8,600	8.875%, 5/1/16 (d)	B2/B	9,116,000
15,500	Nortel Networks Ltd. (d), 10.125%, 7/15/13	B3/B-	16,023,125
18,875	10.75%, 7/15/16	B3/B-	19,818,750
14,625	PanAmSat Corp., 6.875%, 1/15/28	Ba2/BB	12,796,875
37,000	Qwest Capital Funding, Inc., 7.90%, 8/15/10	B1/B+	38,017,500
13,525	Qwest Communications International, Inc., 7.50%, 2/15/14	Ba3/B+	13,761,688
15,325	7.50%, 2/15/14, Ser. B	Ba3/B+	15,593,188
10,450	Qwest Corp., 8.875%, 3/15/12	Ba1/BBB-	11,455,812
18,020	Rural Cellular Corp., 9.875%, 2/1/10	B3/CCC	18,921,000
12,400	Superior Essex Communications LLC, 9.00%, 4/15/12	B3/B+	12,307,000

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4,500	TelCordia Technologies, Inc., 9.11%, 7/15/12, FRN (d)	B2/B	4,218,750
24,975	Time Warner Telecom Holdings, Inc., 9.25%, 2/15/14	B3/CCC+	26,036,438

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**PIMCO High Income Fund Schedule of Investments**

September 30, 2007 (unaudited) (continued)

Principal Amount (000)		Credit Rating (Moody's/S&P)	Value
<b>Telecommunications (continued)</b>			
\$ 1,250	West Corp., 9.50%, 10/15/14 (d)	Caa1/B-	\$ 1,296,875
6,500	11.00%, 10/15/16	Caa1/B-	6,857,500
13,000	Wind Acquisition Finance S.A., 10.75%, 12/1/15 (d)	B2/B-	14,462,500
5,000	Windstream Corp., 8.625%, 8/1/16	Ba3/BB-	5,356,250
			443,873,398
<b>Transportation 0.1%</b>			
2,400	Grupo Transportacion Ferroviaria Mexicana S.A. de C.V., 9.375%, 5/1/12	B2/B-	2,526,000
<b>Utilities 3.5%</b>			
15,175	AES Corp., 8.75%, 5/15/13 (d)	Ba3/BB-	15,952,719
2,000	Empresa Energetica de Sergipe and Sociedade Anonima de Eletrificacao da Paraiba, 10.50%, 7/19/13 (d)	NR/B+	2,264,641
19,450	Legrand Holding S.A., 8.50%, 2/15/25	Baa3/BBB	22,853,750
19,534	Midwest Generation LLC, pass thru certificates, 8.56%, 1/2/16, Ser. B	Ba2/BB+	20,901,729
21,500	PSE&G Energy Holdings LLC, 8.50%, 6/15/11	Ba3/BB-	22,736,852
6,554	South Point Energy Center LLC, 8.40%, 5/30/12 (b) (d) (e) (g)	NR/D	6,488,036
			91,197,727
	Total Corporate Bonds & Notes (cost-\$2,273,102,494)		2,289,849,942
<b>SENIOR LOANS (a) (c) 2.9%</b>			
<b>Chemicals 0.1%</b>			
1,561	INEOS Group Ltd., Term A, 7.580%, 10/7/12		1,521,264
93	7.591%, 10/7/12		92,257
			1,613,521
<b>Commercial Products 0.3%</b>			
7,000	Berry Plastics, 12.72%, 6/15/14 (b)		6,842,500
<b>Entertainment 0.6%</b>			
3,033	Tribune Co., 7.86%, 5/30/09, Term X		2,980,250
13,550	8.244%, 5/30/14, Term B		12,366,259
			15,346,509
<b>Financial Services 0.5%</b>			
13,600	Chrysler Financial Corp., 9.36%, 8/3/12		13,601,550
<b>Healthcare &amp; Hospitals 0.2%</b>			
43	HealthSouth Corp., 7.63%, 2/2/13		42,021
5,309	7.85%, 2/2/13		5,173,614
			5,215,635
<b>Recreation 0.4%</b>			
835	Amadeus Global Travel (b), 6.752%, 4/8/12, Term A		1,125,235
\$ 1,250	7.636%, 4/8/13, Term B2		1,200,651

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1,250	7.886%, 4/8/14, Term C2	1,205,860
7,000	Travelport, 7.35%, 8/23/13, Term DD	6,827,919
		10,359,665

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**PIMCO High Income Fund Schedule of Investments**

September 30, 2007 (unaudited) (continued)

Principal Amount (000)		Credit Rating (Moody's/S&P)	Value
<b>Telecommunications 0.4%</b>			
\$	1,210	Integra Telecom, Inc., Term T, 9.379%, 8/31/13	\$ 1,234,286
	2,790	9.379%, 8/31/13 (b)	2,817,815
	1,434	Nordic Telephone Co. Holdings ApS, 6.33%, 11/30/13, Term B	2,002,489
	1,485	6.58%, 11/30/14, Term C	2,085,165
\$	2,000	NTL Investment, 7.36%, 1/6/13, Term B	1,939,220
			10,078,975
<b>Utilities 0.2%</b>			
	6,000	Sandridge Energy, Inc., 8.625%, 4/1/15, Term CD (b)	5,940,000
<b>Wholesale 0.2%</b>			
	4,913	Roundy's, Inc., Term B, 8.46%, 11/1/11	4,869,887
	12	8.56%, 10/27/11 (b)	12,267
			4,882,154
Total Senior Loans (cost-\$74,093,180)			73,880,509
<b>MUNICIPAL BONDS &amp; NOTES 0.6%</b>			
<b>California 0.6%</b>			
	725	Los Angeles Community Redevel. Agcy. Rev., Ser. H, 9.00%, 9/1/12	NR/NR 744,162
	1,160	9.75%, 9/1/17	NR/NR 1,220,506
	1,375	9.75%, 9/1/22	NR/NR 1,445,606
	2,170	9.75%, 9/1/27	NR/NR 2,277,003
	3,480	9.75%, 9/1/32	NR/NR 3,645,927
	1,785	San Diego Redevel. Agcy., Tax Allocation, 6.59%, 11/1/13	Baa3/NR 1,796,388
	1,435	7.49%, 11/1/18	Baa3/NR 1,492,902
	1,885	7.74%, 11/1/21	Baa3/NR 1,962,379
Total Municipal Bonds & Notes (cost-\$14,345,558)			14,584,873
<b>ASSET-BACKED SECURITIES 0.0%</b>			
	688	Reliant Energy Mid-Atlantic Power Holdings LLC, 9.237%, 7/2/17, Ser. B (cost-\$724,964)	Ba2/B+ 739,620
<b>PREFERRED STOCK 1.0%</b>			
<u>Shares</u>			
<b>Financial Services 1.0%</b>			
	24,700	Fresenius Medical Care Capital Trust II, 7.875%, UNIT	B1/B+ 24,823,500
<b>Telecommunications 0.0%</b>			
	155,565	Superior Essex Holding Corp., 9.50%, 1/1/01, Ser. A	NR/NR 124,452
Total Preferred Stock (cost-\$26,157,273)			24,947,952





**PIMCO High Income Fund Schedule of Investments**

September 30, 2007 (unaudited) (continued)

Principal Amount (000)		Credit Rating (Moody's/S&P)	Value
<b>SHORT-TERM INVESTMENTS 6.4%</b>			
<b>U.S. Government Agency Securities 3.1%</b>			
\$ 80,000	Federal Home Loan Bank, 4.00%, 10/1/07 (cost-\$80,000,000)	Aaa/AAA	\$ 80,000,000
<b>U.S. Treasury Bills (h) 2.4%</b>			
63,250	3.775%-4.62%, 11/29/07-12/13/07 (cost-\$62,786,355)		62,666,515
<b>Corporate Notes 0.4%</b>			
<b>Chemicals 0.4%</b>			
9,127	Equistar Chemicals L.P., 10.125%, 9/1/08 (cost-\$9,384,749)	B1/BB-	9,469,263
<b>Repurchase Agreement 0.5%</b>			
13,924	State Street Bank & Trust Co., dated 9/28/07, 4.40%, 10/1/07, proceeds \$13,929,105; collateralized by Farmer Mac Discount note, 4.451%, due 12/28/07, valued at \$14,203,394 including accrued interest (cost-\$13,924,000)		13,924,000
Total Short-Term Investments (cost-\$166,095,104)			166,059,778
<b>Total Investments</b> (cost-\$2,554,518,573) <b>100.0%</b>			<b>\$ 2,570,062,674</b>

**Notes to Schedule of Investments:**

- (a) Private Placement. Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$108,132,225, representing 4.21% of total investments.
- (b) Illiquid security.
- (c) These securities generally pay interest at rates which are periodically pre-determined by reference to a base lending rate plus a premium. These base lending rates are generally either the lending rate offered by one or more major European banks, such as the LIBOR or the prime rate offered by one or more major United States banks, or the certificate of deposit rate. These securities are generally considered to be restricted as the Fund is ordinarily contractually obligated to receive approval from the Agent bank and/or borrower prior to disposition. Remaining maturities of senior loans may be less than the stated maturities shown as a result of contractual or optional payments by the borrower. Such prepayments cannot be predicted with certainty.
- (d) 144A Security Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (e) Security in default.
- (f) Fair-valued security. Securities with an aggregate value of \$41,338,139, representing 1.61% of total investments, have been fair-valued.
- (g) Credit-linked trust certificate.
- (h) All or partial amount segregated as collateral for futures contracts and/or swaps.
- (i) All or partial amount segregated as collateral for reverse repurchase agreements.

**Glossary:**

£	-	British Pound Sterling
	-	Euro
FRN	-	Floating Rate Note. The interest rate disclosed reflects the rate in effect on September 30, 2007.
LIBOR	-	London Inter-Bank Offered Rate
NR	-	Not Rated
UNIT	-	More than one class of securities traded together.
VRN	-	Variable Rate Note. The interest rate disclosed reflects the rate in effect on September 30, 2007.

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**PIMCO High Income Fund Statement of Assets and Liabilities**

September 30, 2007 (unaudited)

**Assets:**

Investments, at value (cost-\$2,554,518,573)	\$ 2,570,062,674
Cash (including foreign currency of \$2,664,514 with a cost of \$2,583,697)	2,665,437
Premium for swaps purchased	150,833,281
Interest receivable	54,566,071
Unrealized appreciation on swaps	31,610,793
Receivable for investments sold	26,302,707
Unrealized appreciation of forward foreign currency contracts	1,184,504
Receivable for terminated swaps	267,169
Unrealized appreciation on unfunded loan commitments	123,885
Prepaid expenses	61,973
<b>Total Assets</b>	<b>2,837,678,494</b>

**Liabilities:**

Unrealized depreciation on swaps	156,115,070
Payable for reverse repurchase agreements	39,690,000
Payable for investments purchased	31,382,651
Premium for swaps sold	29,267,697
Dividends payable to common and preferred shareholders	14,881,356
Unrealized depreciation of forward foreign currency contracts	2,686,434
Investment management fees payable	1,448,140
Payable for terminated swaps	925,675
Interest payable on reverse repurchase agreements	59,425
Accrued expenses	557,958
<b>Total Liabilities</b>	<b>277,014,406</b>

**Preferred Shares (\$25,000 net asset and liquidation value per share applicable to an aggregate of 36,000 shares issued and outstanding)**

900,000,000

**Net Assets Applicable to Common Shareholders**

\$ 1,660,664,088

**Composition of Net Assets Applicable to Common Shareholders:**

<b>Common Stock:</b>	
Par value (\$0.00001 per share, applicable to 116,037,687 shares issued and outstanding)	\$ 1,160
Paid-in-capital in excess of par	1,651,947,048
Dividends in excess of net investment income	(15,585,682)
Accumulated net realized gain	134,511,672
Net unrealized depreciation of investments, swaps, unfunded loan commitments and foreign currency transactions	(110,210,110)
<b>Net Assets Applicable to Common Shareholders</b>	<b>\$ 1,660,664,088</b>
<b>Net Asset Value Per Common Share</b>	<b>\$14.31</b>

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**PIMCO High Income Fund Statement of Operations**

For the six months ended September 30, 2007 (unaudited)

**Investment Income:**

Interest	\$ 110,026,678
Facility and other fee income	4,073,698
Dividends	979,952
Total Investment Income	115,080,328

**Expenses:**

Investment management fees	9,064,207
Interest expense on reverse repurchase agreements	2,624,921
Auction agent fees and commissions	1,135,406
Custodian and accounting agent fees	352,114
Shareholder communications	142,374
Trustees' fees and expenses	96,736
Audit and tax services	54,900
New York Stock Exchange listing fees	53,969
Legal fees	37,881
Insurance expense	22,067
Transfer agent fees	20,130
Miscellaneous	25,614
Total expenses	13,630,319
Less: custody credits earned on cash balances	(89,875)
Net expenses	13,540,444

**Net Investment Income** 101,539,884

**Realized and Change in Unrealized Gain (Loss):**

Net realized gain (loss) on:	
Investments	11,863,018
Futures contracts	(2,656,292)
Swaps	132,695,409
Foreign currency transactions	(1,267,105)
Net change in unrealized appreciation/depreciation of:	
Investments	(98,531,483)
Futures contracts	1,150,844
Swaps	(137,070,705)
Unfunded loan commitments	123,885
Foreign currency transactions	(1,216,694)
Net realized and change in unrealized loss on investments, futures contracts, swaps, unfunded loan commitments and foreign currency transactions	(94,909,123)
<b>Net Increase in Net Assets Resulting from Investment Operations</b>	<b>6,630,761</b>

**Dividends and Distributions on Preferred Shares from Net investment income** (24,100,634)  
**Net Decrease in Net Assets Applicable to Common Shareholders Resulting from Investment Operations** **\$ (17,469,873)**

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**PIMCO High Income Fund Statement of Changes in Net Assets  
Applicable to Common Shareholders**

	Six Months ended September 30, 2007 (unaudited)	Year ended March 31, 2007
<b>Investment Operations:</b>		
Net investment income	\$ 101,539,884	\$ 193,219,352
Net realized gain on investments, futures contracts, swaps and foreign currency transactions	140,635,030	17,630,470
Net change in unrealized appreciation/depreciation of investments, futures contracts, swaps, unfunded loan commitments and foreign currency transactions	(235,544,153)	59,953,003
Net increase in net assets resulting from investment operations	6,630,761	270,802,825
<b>Dividends and Distributions on Preferred Shares from:</b>		
Net investment income	(24,100,634)	(41,072,292)
Net realized gains		(3,925,740)
Total dividends and distributions to preferred shareholders	(24,100,634)	(44,998,032)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(17,469,873)	225,804,793
<b>Dividends and Distributions to Common Shareholders from:</b>		
Net investment income	(84,712,687)	(168,270,342)
Net realized gains		(37,751,236)
Total dividends and distributions to common shareholders	(84,712,687)	(206,021,578)
<b>Capital Share Transactions:</b>		
Reinvestment of dividends and distributions	6,573,846	16,386,960
Total increase (decrease) in net assets applicable to common shareholders	(95,608,714)	36,170,175
<b>Net Assets Applicable to Common Shareholders:</b>		
Beginning of period	1,756,272,802	1,720,102,627
End of period (including dividends in excess of net investment income of \$(15,585,682) and \$(8,312,245), respectively)	\$1,660,664,088	\$ 1,756,272,802
<b>Common Shares Issued in Reinvestment of Dividends and Distributions:</b>	448,120	1,094,235

See accompanying Notes to Financial Statements | 9.30.07 | PIMCO High Income Fund Semi-Annual Report 13

## **PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

### **1. Organization and Significant Accounting Policies**

PIMCO High Income Fund (the Fund), was organized as a Massachusetts business trust on February 18, 2003. Prior to commencing operations on April 30, 2003, the Fund had no operations other than matters relating to its organization and registration as a diversified, closed-end management investment company registered under the Investment Company Act of 1940 and the rules and regulations there under, as amended. Allianz Global Investors Fund Management LLC (the Investment Manager) serves as the Fund's Investment Manager and is an indirect wholly-owned subsidiary of Allianz Global Investors of America L.P. (Allianz Global). Allianz Global is an indirect, majority-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. The Fund has an unlimited amount of \$0.00001 par value common stock authorized.

The Fund's primary investment objective is to seek high current income. Capital appreciation is a secondary objective. The Fund attempts to achieve these objectives by investing in a diversified portfolio of U.S. dollar-denominated debt obligations and other income-producing securities that are primarily rated below investment grade.

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

In the normal course of business, the Fund enters into contracts that contain a variety of representations which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet been asserted. However, the Fund expects the risk of any loss to be remote.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (the Interpretation). The Interpretation establishes for all entities, including pass-through entities such as the Fund, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. Fund management has determined that its evaluation of the Interpretation has resulted in no impact to the Fund's financial statements at September 30, 2007.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of 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. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, the Fund is in the process of reviewing the Standard against its current valuation policies to determine future applicability.

The following is a summary of significant accounting policies followed by the Fund:

**(a) Valuation of Investments**

Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Portfolio securities and other financial instruments for which market quotations are not readily available or if a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to guidelines established by the Board of Trustees, including certain fixed income securities which may be valued with reference to securities whose prices are more readily available. The Fund's investments, including over-the-counter options, are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the last quoted mean price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. The Fund's investments in senior floating rate loans ( Senior Loans ) for which a secondary market exists will be valued at the mean of the last available bid and asked prices in the market for such Senior Loans, as provided by an independent pricing service. Other Senior Loans are valued at fair value pursuant to procedures approved by the Fund's Board of Trustees, which include consideration and evaluation of: (1) the creditworthiness of the borrower and any intermediate participants; (2) the term of the Senior Loan; (3) recent prices in the market for similar loans, if any; (4) recent prices in the market for loans of similar quality, coupon rate, and period until next interest rate reset and maturity; and (5) general economic and market conditions affecting the fair value of the Senior Loan. Exchange traded options,



**PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

**1. Organization and Significant Accounting Policies (continued)**

futures and options on futures are valued at the settlement price determined by the relevant exchange. Securities purchased on a when-issued or delayed delivery basis are marked to market daily until settlement at the forward settlement value. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days. The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold and the differences could be material to the financial statements. The Fund's net asset value is determined daily as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange ( NYSE ) on each day the NYSE is open for business.

**(b) Investment Transactions and Investment Income**

Investment transactions are accounted for on the trade date. Securities purchased and sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date. Realized gains and losses on investments are determined on the identified cost basis. Interest income is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized to interest income over the lives of the respective securities using the effective interest method. Facility fees and other fees (such as origination fees) received by the Fund are amortized as income over the expected term of the senior loan. Commitment fees received by the Fund relating to unfunded purchase commitments are deferred and amortized to facility fee income over the period of the commitment.

**(c) Federal Income Taxes**

The Fund intends to distribute all of its taxable income and to comply with the other requirements of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

**(d) Dividends and Distributions – Common Stock**

The Fund declares dividends from net investment income monthly to common shareholders. Distributions of net realized capital gains, if any, are paid at least annually. The Fund records dividends and distributions to its shareholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their income tax treatment; temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes; they are reported as dividends and/or distributions of paid-in capital in excess of par.

**(e) Foreign Currency Translation**

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The Fund's accounting records are maintained in U.S. dollars as follows: (1) the foreign currency market value of investments and other assets and liabilities denominated in foreign currency are translated at the prevailing exchange rate at the end of the period; and (2) purchases and sales, income and expenses are translated at the prevailing exchange rate on the respective dates of such transactions. The resulting net foreign currency gain or loss is included in the Statement of Operations.

The Fund does not generally isolate that portion of the results of operations arising as a result of changes in the foreign currency exchange rates from the fluctuations arising from changes in the market prices of securities. Accordingly, such foreign currency gain (loss) is included in net realized and unrealized gain (loss) on investments. However, the Fund does isolate the effect of fluctuations in foreign currency exchange rates when determining the gain or loss upon the sale or maturity of foreign currency denominated debt obligations pursuant to U.S. federal income tax regulations; such amount is categorized as foreign currency gain or loss for both financial reporting and income tax reporting purposes.

### **(f) Futures Contracts**

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date. Upon entering into such a contract, the Fund is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange. Pursuant to the contracts, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in the value of the contracts. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized appreciation or depreciation. When the contracts are closed, the Fund records a realized gain or loss equal to the difference between the value of the contracts at the time they were opened and the value at the time they were closed. Any unrealized

**PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

**1. Organization and Significant Accounting Policies (continued)**

appreciation or depreciation recorded is simultaneously reversed. The use of futures transactions involves the risk of an imperfect correlation in the movements in the price of futures contracts, interest rates and the underlying hedged assets, and the possible inability of counterparties to meet the terms of their contracts.

**(g) Option Transactions**

The Fund may purchase and write (sell) put and call options, for hedging purposes, risk management purposes or as a part of its investment strategy. The risk associated with purchasing an option is that the Fund pays a premium whether or not the option is exercised. Additionally, the Fund bears the risk of loss of premium and change in market value should the counterparty not perform under the contract. Put and call options purchased are accounted for in the same manner as portfolio securities. The cost of securities acquired through the exercise of call options is increased by the premiums paid. The proceeds from the securities sold through the exercise of put options is decreased by the premiums paid.

When an option is written, the premium received is recorded as an asset with an equal liability and is subsequently marked to market to reflect the current market value of the option written. These liabilities are reflected as options written in the Statement of Assets and Liabilities. Premiums received from writing options which expire unexercised are recorded on the expiration date as a realized gain. The difference between the premium received and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or if the premium is less than the amount paid for the closing purchase transactions, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether there has been a realized gain or loss. If a put option is exercised, the premium reduces the cost basis of the security. In writing an option, the Fund bears the market risk of an unfavorable change in the price of the security underlying the written option. Exercise of a written option could result in the Fund purchasing a security at a price different from the current market value.

**(h) Interest Rate/Credit Default Swaps**

The Fund enters into interest rate and credit default swap contracts ( swaps ) for investment purposes, to manage its interest rate and credit risk or to add leverage.

As a seller in the credit default swap contract, the Fund would be required to pay the notional amount or other agreed-upon value of a referenced debt obligation to the counterparty in the event of a default by a third party, such as a U.S. or foreign corporate issuer, on the referenced debt obligation. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations. Such periodic payments are accrued daily and recorded as realized gain (loss).

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The Fund may also purchase credit default swap contracts in order to hedge against the risk of default of debt securities held, in which case the Fund would function as the counterparty referenced in the preceding paragraph. As a purchaser of a credit default swap contract, the Fund would receive the notional amount or other agreed upon value of a referenced debt obligation from the counterparty in the event of default by a third party, such as a U.S. or foreign corporate issuer on the referenced obligation. In return, the Fund would make periodic payments to the counterparty over the term of the contract provided no event of default has occurred. Such periodic payments are accrued daily and recorded as realized gain (loss).

Interest rate swap agreements involve the exchange by the Fund with a counterparty of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. Net periodic payments received by the Fund are included as part of realized gain (loss) and or change in unrealized appreciation/depreciation on the Statement of Operations.

Swaps are marked to market daily based upon quotations from brokers or market makers and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Fund's Statement of Operations. For a credit default swap sold by the Fund, payment of the agreed upon amount made by the Fund in the event of default of the referenced debt obligation is recorded as the cost of the referenced debt obligation purchased/received. For a credit default swap purchased by the Fund, the agreed upon amount received by the Fund in the event of default of the referenced debt obligation is recorded as proceeds from sale/ delivery of the referenced debt obligation and the resulting gain or loss realized on the referenced debt obligation is recorded as such by the Fund.

Entering into swaps involves, to varying degrees, elements of credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform

**PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

**1. Organization and Significant Accounting Policies (continued)**

or disagree as to the meaning of the contractual terms in the agreements, and that there may be unfavorable changes in net interest rates.

**(i) Senior Loans**

The Fund purchases assignments of Senior Loans originated, negotiated and structured by a U.S. or foreign commercial bank, insurance company, finance company or other financial institution (the Agent) for a lending syndicate of financial institutions (the Lender). When purchasing an assignment, the Fund succeeds all the rights and obligations under the loan agreement with the same rights and obligations as the assigning Lender. Assignments may, however, be arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the assigning Lender.

**(j) Forward Foreign Currency Contracts**

A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set exchange rate on a future date. The Fund may enter into forward foreign currency contracts for the purpose of hedging against foreign currency risk arising from the investment or anticipated investment in securities denominated in foreign currencies. The Fund may also enter into these contracts for purposes of increasing exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one country to another. The market value of a forward foreign currency contract fluctuates with changes in forward currency exchange rates. All commitments are marked to market daily at the applicable exchange rates and any resulting unrealized appreciation or depreciation is recorded. Realized gains or losses are recorded at the time the forward contract matures or by delivery of the currency. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

Credit-linked trust certificates are investments in a limited purpose trust or other vehicle formed under state law which, in turn, invests in a basket of derivative instruments, such as credit default swaps, interest rate swaps and other securities, in order to provide exposure to the high yield or another fixed income market.

Similar to an investment in a bond, investments in credit-linked trust certificates represent the right to receive periodic income payments (in the form of distributions) and payment of principal at the end of the term of the certificate. However, these payments are conditioned on the trust's receipt of payments from, and the trust's potential obligations to, the counterparties to the derivative instruments and other securities in which the trust invests.

**(l) Repurchase Agreements**

The Fund enters into transactions with its custodian bank or securities brokerage firms whereby it purchases securities under agreements to resell at an agreed upon price and date ( repurchase agreements ). Such agreements are carried at the contract amount in the financial statements. Collateral pledged (the securities received), which consists primarily of U.S. government obligations and asset-backed securities, are held by the custodian bank until maturity of the repurchase agreement. Provisions of the repurchase agreements and the procedures adopted by the Fund require that the market value of the collateral, including accrued interest thereon, is sufficient in the event of default by the counterparty. If the counterparty defaults and the value of the collateral declines or if the counterparty enters an insolvency proceeding, realization of the collateral by the Fund may be delayed or limited.

**(m) Reverse Repurchase Agreements**

The Fund enters into reverse repurchase agreements. In a reverse repurchase agreement, the Fund sells securities to a bank or broker-dealer and agrees to repurchase the securities at a mutually agreed upon date and price. Generally, the effect of such a transaction is that the Fund can recover and reinvest all or most of the cash invested in the portfolio securities involved during the term of the reverse repurchase agreement and still be entitled to the returns associated with those portfolio securities. Such transactions are advantageous if the interest cost to the Fund of the reverse repurchase transaction is less than the returns it obtains on investments purchased with the cash. Unless the Fund covers its positions in reverse repurchase agreements (by segregating liquid assets at least equal in amount to the forward purchase commitment), its obligations under the agreements will be subject to the Fund's limitations on borrowings. Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities that the Fund is obligated to repurchase under the agreement may decline below the repurchase price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the agreement may be restricted pending determination by the other party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities.

**PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

**1. Organization and Significant Accounting Policies (continued)**

**(n) When-Issued/Delayed-Delivery Transactions**

The Fund may purchase or sell securities on a when-issued or delayed-delivery basis. The transactions involve a commitment to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed-delivery purchases are outstanding, the Fund will set aside and maintain until the settlement date in a designated account, liquid assets in an amount sufficient to meet the purchase price. When purchasing a security on a delayed-delivery basis, the Fund assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its net asset value. The Fund may dispose of or renegotiate a delayed-delivery transaction after it is entered into, and may sell when-issued securities before they are delivered, which may result in a realized gain or loss. When a security on a delayed-delivery basis is sold, the Fund does not participate in future gains and losses with respect to the security.

**(o) Custody Credits on Cash Balances**

The Fund benefits from an expense offset arrangement with its custodian bank whereby uninvested cash balances earn credits which reduce monthly custodian and accounting agent expenses. Had these cash balances been invested in income producing securities, they would have generated income for the Fund.

**2. Investment Manager/Sub-Adviser**

The Fund has entered into an Investment Management Agreement (the Agreement) with the Investment Manager. Subject to the supervision of the Fund's Board of Trustees, the Investment Manager is responsible for managing, either directly or through others selected by it, the Fund's investment activities, business affairs and administrative matters. Pursuant to the Agreement, the Investment Manager receives an annual fee, payable monthly, at an annual rate of 0.70% of the Fund's average daily net assets, including assets attributable to any preferred shares that may be outstanding.

The Investment Manager has retained its affiliate, Pacific Investment Management Company LLC (the Sub-Adviser), to manage the Fund's investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Fund's investment decisions. The Investment Manager and not the Fund pays a portion of the fees it receives as Investment Manager to the Sub-Adviser in return for its services.

**3. Investment in Securities**

For the six months ended September 30, 2007, purchases and sales of investments, other than short-term securities and U.S. government obligations, were \$428,585,685 and \$295,722,084, respectively.

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(a) Credit default swaps contracts outstanding at September 30, 2007:

Swap Counterparty/ Referenced Debt Issuer	Notional Amount Payable on Default (000)	Termination Date	Payments Received by Fund	Unrealized Appreciation (Depreciation)
Bank of America AES	\$ 1,000	12/20/07	1.50%	\$ 3,205
Dow Jones CDX	900	6/20/12	2.75%	69,461
Williams Cos.	2,000	12/20/07	1.25%	5,791
Barclays Bank Federal Republic of Brazil	15,000	2/20/12	0.90%	175,131
Bear Stearns CSC Holdings	3,000	12/20/07	2.15%	12,442
Dow Jones CDX	12,325	12/20/12	3.75%	22,339
Forest Oil	1,000	9/20/12	2.42%	29,501
Georgia-Pacific	1,500	12/20/07	0.82%	2,764
MGM	3,500	9/20/09	1.92%	74,719

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**PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

**3. Investment in Securities (continued)**

Swap Counterparty/ Referenced Debt Issuer	Notional Amount Payable on Default (000)	Termination Date	Payments Received by Fund	Unrealized Appreciation (Depreciation)
<b>Citibank</b>				
Dow Jones CDX	\$ 2,000	6/20/12	2.09%	\$ 28,695
Dow Jones CDX	8,000	6/20/12	2.11%	120,533
Georgia-Pacific	4,500	9/20/12	2.22%	(129,059)
GMAC	10,000	3/20/12	1.12%	(716,253)
GMAC	10,000	3/20/12	1.88%	(464,426)
GMAC	10,000	6/20/12	2.00%	(445,300)
SunGard Data Systems	1,950	9/20/12	2.92%	(21,873)
<b>Credit Suisse First Boston</b>				
Forest Oil	5,000	9/20/12	3.06%	290,615
Forest Oil	4,000	9/20/12	1.93%	23,165
Sanmina	2,800	9/20/12	4.22%	(103,533)
Solectron	3,000	3/20/12	2.85%	258,933
Solectron	2,000	6/20/12	3.70%	248,660
<b>Deutsche Bank</b>				
Dow Jones CDX	1,000	6/20/12	3.30%	65,615
Dow Jones CDX	64,000	12/20/11	3.25%	613,350
<b>Goldman Sachs</b>				
ARAMARK	2,500	6/20/12	2.30%	(102,447)
Dow Jones CDX	14,800	6/20/12	0.99%	(475,047)
GMAC	15,000	3/20/12	1.05%	(1,109,172)
HCA	1,000	12/20/07	0.75%	818
Starwood Hotels & Resorts Worldwide	1,000	12/20/07	1.10%	2,231
<b>JPMorgan Chase</b>				
Electronic Data Systems	1,000	12/20/07	1.30%	3,163
Gazprom Capital	10,000	2/20/12	0.77%	(74,430)
GMAC	3,000	3/20/12	2.11%	(116,464)
Smurfit-Stone Container	4,700	12/20/09	2.30%	41,710
<b>Lehman Brothers</b>				
ARAMARK	5,000	9/20/08	2.25%	88,461
ArvinMeritor	3,000	12/20/09	2.35%	17,770
Celestica	6,400	9/20/12	4.25%	(39,750)
CSC Holdings	2,000	9/20/12	2.52%	(73,997)
Dow Jones CDX	6,750	6/20/12	1.20%	(226,979)
Dynegy	5,000	9/20/08	2.00%	53,972
Freescale	5,000	9/20/08	3.25%	85,326
Harrahs	5,000	9/20/08	3.75%	111,096

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HCA	2,000	9/20/12	3.04%	(35,114)
L-3 Communications	5,000	9/20/08	1.00%	30,004
NRG Energy	5,000	9/20/11	2.25%	(47,996)
Sanmina	5,000	9/20/08	3.25%	35,433
Merrill Lynch				
Dow Jones CDX	6,000	12/20/11	3.25%	110,135
Dow Jones CDX	13,500	6/20/12	2.37%	353,585
GMAC	2,700	9/20/08	6.40%	102,396

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**PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

**3. Investment in Securities (continued)**

Swap Counterparty/ Referenced Debt Issuer	Notional Amount Payable on Default (000)	Termination Date	Payments Received by Fund	Unrealized Appreciation (Depreciation)
Morgan Stanley ARAMARK	\$ 3,350	9/20/12	2.68%	\$ (113,861)
Gazprom Capital	13,000	4/20/11	1.05%	116,768
Georgia-Pacific	5,000	12/20/09	1.15%	(45,374)
Russian Federation	1,400	6/20/08	0.25%	(1,542)
Royal Bank of Scotland Republic of Indonesia	10,000	3/20/12	1.10%	(58,559) \$(1,203,389)

(b) Interest rate swap agreements outstanding at September 30, 2007:

Swap Counterparty	Notional Amount (000)	Termination Date	Rate Type	Payments Made by Fund	Payments Received by Fund	Unrealized Appreciation (Depreciation)
Barclays Bank	\$ 700,800	6/21/25		5.70%	3-Month USD-LIBOR	\$ (34,610,970)
Barclays Bank	1,840,000	6/21/26		6.00%	3-Month USD-LIBOR	(97,124,400)
Barclays Bank	1,800,000	6/21/26		3-Month USD- LIBOR	6.00%	(5,559,868)
Barclays Bank	BRL 141,000	1/2/12		BRL- CDI-Compounded	10.68%	(1,325,893)
Citibank	MXN 133,000	5/14/09		28-Day Mexico Interbank TIIE Banxico	7.91%	(10,347)
Citibank	\$ 240,000	7/20/16		3-Month USD-LIBOR	5.10%	(2,891,845)
Deutsche Bank	101,500	12/19/08		3-Month USD-LIBOR	5.00%	217,069
Deutsche Bank	105,700	12/19/08		3-Month USD-LIBOR	5.00%	297,989
Deutsche Bank	175,800	12/19/09		3-Month USD-LIBOR	5.00%	97,792
Deutsche Bank	£ 400	9/15/10		6 month LIBOR	5.00%	(12,619)
Goldman Sachs	\$ 39,400	12/19/08		3-Month USD-LIBOR	5.00%	90,687
Goldman Sachs	BRL 18,000	1/2/12		BRL-CDI-Compounded	10.15%	(213,527)
Lehman Brothers	\$ 660,000	4/21/17		4.648%	3-Month USD-LIBOR	(60,813)
Lehman Brothers	400,000	7/20/17		4.93%	3-Month USD-LIBOR	(5,365,679)
Lehman Brothers	660,000	4/21/17		3-Month USD-LIBOR	5.815%	177,178
Lehman Brothers	400,000	7/20/17		3-Month USD-LIBOR	6.245%	3,402,704

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Lehman Brothers		33,100	12/19/17	5.00%	3-Month USD-LIBOR	(1,424,694)
Morgan Stanley	MXN	162,000	5/14/09	28-Day Mexico	7.91%	(12,353)
				Interbank TIIE Banxico		
Morgan Stanley	\$	67,000	12/19/09	3-Month USD-LIBOR	5.00%	(96,071)
Morgan Stanley	BRL	174,100	1/2/12	BRL-CDI-Compounded	10.115%	(3,004,815)
Royal Bank of Scotland	\$	95,000	12/19/09	3-Month USD-LIBOR	5.00%	93,442
UBS		8,700	12/19/08	3-Month USD-LIBOR	5.00%	22,287
UBS		680,000	6/21/25	3-Month USD-LIBOR	5.70%	24,013,858
						\$(123,300,888)

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BRL Brazilian Real

CDI Inter-bank Deposit Certificate

£ British Pound Sterling

LIBOR London Inter-bank Offered Rate

MXN Mexican Peso

TIIE Inter-bank Equilibrium Interest Rate

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**PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

**3. Investment in Securities (continued)**

The Fund received \$21,750,000 par value in U.S. Treasury Bills as collateral for swap contracts.

(c) Forward foreign currency contracts outstanding at September 30, 2007:

	U.S. \$Value Origination Date	U.S. \$Value September 30, 2007	Unrealized Appreciation (Depreciation)
<u>Purchased:</u>			
104,557,900 Brazilian Real settling 11/5/07	\$55,900,000	\$56,584,284	\$ 684,284
1,004,212,915 Indian Rupee settling 5/12/08	25,000,000	25,052,970	52,970
22,875,000,000 Korean Won settling 8/4/08	25,000,000	25,159,802	159,802
279,687,500 Mexican Peso settling 7/10/08	25,000,000	25,018,620	18,620
633,250,000 New Russian Ruble settling 7/10/08	25,000,000	25,218,431	218,431
<u>Sold:</u>			
70,000,000 Brazilian Real settling 11/5/07	37,858,302	37,882,359	(24,057)
36,333,000 Euro settling 10/4/07	49,358,562	51,679,088	(2,320,526)
3,544,000 British Pound settling 11/1/07	7,123,440	7,214,990	(91,550)
1,004,212,915 Indian Rupee settling 5/12/08	25,030,232	25,052,970	(22,738)
11,722,000 Japanese Yen settling 10/25/07	97,187	102,259	(5,072)
22,875,000,000 Korean Won settling 8/4/08	25,061,627	25,159,802	(98,175)
279,687,500 Mexican Peso settling 7/10/08	25,069,017	25,018,620	50,397
633,250,000 New Russian Ruble settling 7/10/08	25,094,115	25,218,431	(124,316)
			\$(1,501,930)

(d) Open reverse repurchase agreements at September 30, 2007:

Counterparty	Rate	Trade Date	Maturity Date	Principal & Interest	Par
Lehman Securities	4.90%	9/20/07	9/21/09	\$39,749,425	\$39,690,000

Collateral for open reverse repurchase agreements at September 30, 2007 as reflected in the schedule of investments:

Counterparty	Description	Rate	Maturity Date	Par	Value
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Lehman Securities	Dow Jones CDX U.S. High Yield	8.375%	12/29/11	\$42,000,000	\$42,525,000
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The weighted average daily balance of reverse repurchase agreements outstanding for the six months ended September 30, 2007 was \$102,349,471 at a weighted average interest rate of 5.05%.

(e) At September 30, 2007, the Fund had the following unfunded loan commitments which could be extended at the option of the borrower:

Borrower	Amount
Harrah's Entertainment, Inc.	\$15,000,000
SLM Corp.	13,156,627
Telesat Canada, Inc.	5,996,258
	\$34,152,885

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**PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

**4. Income Tax Information**

Net investment income and net realized gains differ for financial statement and federal income tax purposes primarily due to the treatment of amounts received under swap agreements. For the six months ended September 30, 2007, the Fund received \$7,263,686 from swap agreements, which are treated as net realized gain (loss) for financial statement purposes and as net income (loss) for federal income tax purposes.

The cost basis of portfolio securities of \$2,554,518,573 is substantially the same for both federal income tax and financial reporting purposes. Aggregated gross unrealized appreciation for securities in which there is an excess value over tax cost is \$65,262,148; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is \$49,718,047; net unrealized appreciation for federal income tax purposes is \$15,544,101.

**5. Auction Preferred Shares**

The Fund has issued 7,200 shares of Preferred Shares Series M, 7,200 shares of Preferred Shares Series T, 7,200 shares of Preferred Shares Series W, 7,200 shares of Preferred Shares Series TH and 7,200 shares of Preferred Shares Series F each with a net asset and liquidation value of \$25,000 per share plus accrued dividends.

Dividends and distributions of net realized long-term capital gains, if any, are accumulated daily at an annual rate (typically re-set every seven days) through auction procedures.

For the six months ended September 30, 2007, the annualized dividend rate ranged from:

	High	Low	At September 30, 2007
Series M	6.30%	5.00%	5.95%
Series T	6.30%	5.00%	5.99%
Series W	6.40%	5.00%	5.90%
Series TH	6.30%	4.95%	5.99%
Series F	6.30%	5.00%	6.10%

The Fund is subject to certain limitations and restrictions while Preferred Shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Fund from declaring any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation value.

Preferred Shares, which are entitled to one vote per share, generally vote together with the common stock but vote separately as a class to elect two Trustees and on any matters affecting the rights of the preferred shares.

#### **6. Subsequent Common Dividend Declarations**

On October 1, 2007, a dividend of \$0.121875 per share was declared to common shareholders payable November 1, 2007 to shareholders of record on October 11, 2007.

On November 1, 2007, a dividend of \$0.121875 per share was declared to common shareholders payable December 3, 2007 to shareholders of record on November 12, 2007.

#### **7. Legal Proceedings**

In June and September 2004, the Investment Manager, certain of its affiliates (Allianz Global Investors Distributors LLC, PEA Capital LLC and Allianz Global), agreed to settle, without admitting or denying the allegations, claims brought by the Securities and Exchange Commission (the Commission), the New Jersey Attorney General and the California Attorney General alleging violations of federal and state securities laws with respect to certain open-end funds for which the Investment Manager serves as investment adviser. Two settlements (with the Commission and New Jersey) related to an alleged market timing arrangement in certain open-end funds sub-advised by PEA Capital. Two settlements (with the Commission and California) related to the alleged use of cash and fund portfolio commissions to finance shelf-space arrangements with broker-dealers for open-end funds. The Investment Manager and its affiliates agreed to pay a total of \$68 million to settle the claims related to market timing and \$20.6 million to settle the claims related to shelf space. In addition to monetary payments, the settling parties agreed to undertake certain corporate governance, compliance and disclosure reforms related to market timing, brokerage commissions, revenue sharing and shelf space arrangements, and consented to cease and desist orders and censures. Subsequent to these events PEA Capital LLC deregistered and dissolved. None of the settlements allege that any inappropriate activity took place with respect to the Fund.



**PIMCO High Income Fund Notes to Financial Statements**

September 30, 2007 (unaudited)

**7. Legal Proceedings (continued)**

Since February 2004, the Investment Manager and certain of its affiliates and their employees have been named as defendants in a number of pending lawsuits concerning market timing, and revenue sharing/shelf-space/directed brokerage, which allege the same or similar conduct underlying the regulatory settlements discussed above. The market timing lawsuits have been consolidated in a multi-district litigation proceeding in the United States District Court for the District of Maryland, and the revenue sharing/shelf-space/directed brokerage lawsuits have been consolidated in the United States District Court for the District of Connecticut. Any potential resolution of these matters may include, but not be limited to, judgments or settlements for damages against the Investment Manager or their affiliates or related injunctions.

The Investment Manager and the Sub-Adviser believe that these matters are not likely to have a material adverse effect on the Fund or on their ability to perform their respective investment advisory activities relating to the Fund.

The foregoing speaks only as of the date hereof.

**PIMCO High Income Fund Financial Highlights**

For a share of common stock outstanding throughout each period:

	Six Months				For the period
	ended				April 30, 2003*
	September 30, 2007	2007	Year ended March 31,	2005	through
	(unaudited)		2006		March 31, 2004
Net asset value, beginning of period	\$15.19	\$15.02	\$15.02	\$15.45	\$14.33**
<b>Investment Operations:</b>					
Net investment income	0.88	1.68	1.66	1.65	1.28
Net realized and change in unrealized gain (loss) on investments, futures contracts, options written, swaps, unfunded loan commitments and foreign currency transactions	(0.82)	0.67	0.13	0.03	1.23
Total from investment operations	0.06	2.35	1.79	1.68	2.51
<b>Dividends and Distributions on Preferred Shares from:</b>					
Net investment income	(0.21)	(0.36)	(0.29)	(0.14)	(0.07)
Net realized gains		(0.03)	(0.00)(a)	(0.01)	
Total dividends and distributions on preferred shares	(0.21)	(0.39)	(0.29)	(0.15)	(0.07)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(0.15)	1.96	1.50	1.53	2.44
<b>Dividends and Distributions to Common Shareholders from:</b>					
Net investment income	(0.73)	(1.46)	(1.46)	(1.51)	(1.22)
Net realized gains		(0.33)	(0.04)	(0.45)	
Total dividends and distributions to common shareholders	(0.73)	(1.79)	(1.50)	(1.96)	(1.22)
<b>Capital Share Transactions:</b>					
Common stock offering costs charged to paid in capital in excess of par					(0.01)
Preferred shares offering costs/underwriting discounts charged to paid-in capital in excess of par					(0.09)
Total capital share transactions					(0.10)
Net asset value, end of period	\$14.31	\$15.19	\$15.02	\$15.02	\$15.45
Market price, end of period	\$14.57	\$15.96	\$15.07	\$14.08	\$14.78
<b>Total Investment Return (1)</b>	(4.01)%	19.29%	18.35%	8.81%	7.08%

**RATIOS/SUPPLEMENTAL DATA:**

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Net assets applicable to common shareholders, end of period (000)	\$1,660,664	\$1,756,273	\$1,720,103	\$1,716,259	\$1,765,102
Ratio of expenses to average net assets including interest expense (2)(3)	1.61%(4)	1.55%	1.28%	1.26%	1.18%(4)
Ratio of expenses to average net assets excluding interest expense (2)(3)	1.30%(4)	1.28%	1.27%	1.26%	1.18%(4)
Ratio of net investment income to average net assets (2)	12.02%(4)	11.29%	11.02%	10.68%	9.34%(4)
Preferred shares asset coverage per share	\$71,092	\$73,758	\$72,762	\$72,662	\$74,024
Portfolio turnover	11%	53%	65%	40%	73%

\* Commencement of operations.

\*\* Initial public offering price of \$15.00 per share less underwriting discount of \$0.675 per share.

(a) Less than \$0.005 per common share.

(1) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day of each period and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.

(2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.

(3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank. (See note 1(o) in Notes to Financial Statements).

(4) Annualized.

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PIMCO High Income Fund	Matters Relating to the Trustees Consideration of the Investment Management and Portfolio Management Agreements (unaudited)
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The Investment Company Act of 1940 requires that both the full Board of Trustees (the Trustees) and a majority of the non-interested (Independent) Trustees, voting separately, approve the Fund's Management Agreement (the Advisory Agreement) with the Investment Manager and Portfolio Management Agreement (the Sub-Advisory Agreement), and together with the Advisory Agreement, the Agreements between the Investment Manager and the Sub-Adviser. The Trustees met on June 13, 2007 (the contract review meeting) for the specific purpose of considering whether to approve the Advisory Agreement and the Sub-Advisory Agreement. The Independent Trustees were assisted in their evaluation of the Agreements by independent legal counsel, from whom they received separate legal advice and with whom they met separately from Fund management during the contract review meeting.

Based on their evaluation of factors that they deemed to be material, including those factors described below, the Board of Trustees, including a majority of the Independent Trustees, concluded that the Fund's Advisory Agreement and the Sub-Advisory Agreement should be approved for a one-year period commencing July 1, 2007.

In connection with their deliberations regarding the continuation of the Agreements, the Trustees, including the Independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. As described below, the Trustees considered the nature, quality, and extent of the various investment management, administrative and other services performed by the Investment Manager and the Sub-Adviser under the Agreements.

In connection with their contract review meeting, the Trustees received and relied upon materials provided by the Investment Manager which included, among other items: (i) information provided by Lipper Analytical Services Inc. (Lipper Inc.) on the total return investment performance (based on net assets) of the Fund for various time periods and the investment performance of a group of funds with substantially similar investment classifications/objectives identified by Lipper Inc., (ii) information provided by Lipper Inc. on the Fund's management fees and other expenses and the management fees and other expenses of comparable funds identified by Lipper Inc., (iii) information regarding the investment performance and management fees of comparable portfolios of other clients of the Sub-Adviser, including institutional separate accounts and other clients, (iv) the profitability to the Investment Manager from its relationship with the Fund for the twelve months ended March 31, 2007, (v) descriptions of various functions performed by the Investment Manager and the Sub-Adviser for the Fund, such as portfolio management, compliance monitoring and portfolio trading practices, and (vi) information regarding the overall organization of the Investment Manager and the Sub-Adviser, including information regarding senior management, portfolio managers and other personnel providing investment management, administrative and other services to the Fund.

The Trustees' conclusions as to the continuation of the Agreements were based on a comprehensive consideration of all information provided to the Trustees and not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors.

As part of their review, the Trustees examined the Investment Manager's and the Sub-Adviser's abilities to provide high quality investment management and other services to the Fund. The Trustees considered the investment philosophy and research and decision-making processes of the Sub-Adviser; the experience of key advisory personnel of the Sub-Adviser responsible for portfolio management of the Fund; the ability of the Investment Manager and the Sub-Adviser to attract and retain capable personnel; the capability and integrity of the senior management and staff of the Investment Manager and the Sub-Adviser; and the level of skill required to manage the Fund. In addition, the Trustees reviewed the quality of the Investment Manager's and the Sub-Adviser's services with respect to regulatory compliance and compliance with the investment policies of the Fund; the nature and quality of certain administrative services the Investment Manager is responsible for providing to the Fund;

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and conditions that might affect the Investment Manager's or the Sub-Adviser's ability to provide high quality services to the Fund in the future under the Agreements, including each organization's respective business reputation, financial condition and operational stability. Based on the foregoing, the Trustees concluded that the Sub-Adviser's investment process, research capabilities and philosophy were well suited to the Fund given their investment objectives and policies, and that the Investment Manager and the Sub-Adviser would be able to continue to meet any reasonably foreseeable obligations under the Agreements.

Based on information provided by Lipper Inc., the Trustees also reviewed the Fund's total return investment performance as well as the performance of comparable funds identified by Lipper Inc. In the course of their

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PIMCO High Income Fund	Matters Relating to the Trustees Consideration of the Investment Management and Portfolio Management Agreements (unaudited) (continued)
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deliberations, the Trustees took into account information provided by the Investment Manager in connection with the contract review meeting, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding the Fund's performance.

In assessing the reasonableness of the Fund's fees under the Agreements, the Trustees considered, among other information, the Fund's management fee and the total expense ratio as a percentage of average net assets attributable to common shares and the management fee and total expense ratios of comparable funds identified by Lipper Inc.

The Trustees specifically took note of how the Fund compared to its Lipper Inc. peers as to performance and total expense ratio. The Trustees noted that while the Fund was not charged a separate administration fee, it was not clear whether the peer funds in the Lipper Inc. categories were charged such a fee by their investment managers. Thus, the Trustees, at the recommendation of the Investment Manager, considered the total expenses of the Fund compared to the total expenses of the peer funds, recognizing that the fees for management and administrative services would be subsumed within the total expense ratio.

The Trustees noted that the Fund significantly outperformed its peer group's median and low returns but had underperformed its peer group's high returns for the one-year and three-year periods ended March 31, 2007. The Trustees also noted that the Fund's expense ratio was below the high and the median for its peer group but was above the low for its peer group.

After reviewing these and related factors, the Trustees concluded, within the context of their overall conclusions regarding the Agreements, that they were satisfied with the Investment Manager's and the Sub-Adviser's responses and efforts relating to investment performance and the comparative positioning of the Fund with respect to the management fee paid to the Investment Manager.

The Trustees also considered the management fees charged by the Sub-Adviser to other clients, including institutional separate accounts with investment strategies similar to those of the Fund. Regarding the institutional separate accounts, they noted that the management fees paid by the Fund is generally higher than the fees paid by these other clients of the Sub-Adviser, but were advised that the administrative burden for the Investment Manager and the Sub-Adviser with respect to the Fund is also relatively higher, due in part to the more extensive regulatory regime to which the Fund is subject in comparison to institutional separate accounts. The Trustees noted that the management fees paid by the Fund is generally higher than the fees paid by the open-end funds but were advised that there are additional portfolio management challenges in managing the Fund, such as the use of leverage and meeting a regular dividend.

The Trustees also took into account that the Fund has preferred shares outstanding, which increases the amount of fees received by the Investment Manager and the Sub-Adviser under the Agreements (because the fees are calculated based on either the Fund's new assets or total managed assets, including assets attributable to preferred shares and other forms of leverage outstanding but not deducting any liabilities connected to the leverage). In this regard, the Trustees took into account that the Investment Manager and the Sub-Adviser have a financial incentive for the Fund to continue to have preferred shares outstanding, which may create a conflict of interest between the Investment Manager and the Sub-Adviser, on the one hand, and the Fund's common shareholders, on the other. In this regard, the Trustees considered information provided by the Investment Manager and the Sub-Adviser indicating that the Fund's use of leverage through preferred shares continues to be appropriate and in the interests of the Fund's common shareholders.

Based on a profitability analysis provided by the Investment Manager, the Trustees also considered the profitability of the Investment Manager from its relationship with the Fund and determined that such profitability was not excessive.

The Trustees also took into account that, as closed-end investment companies, the Fund did not currently intend to raise additional assets, so the assets of the Fund will grow (if at all) only through the investment performance of the Fund. Therefore, the Trustees did not consider potential economies of scale as a principal factor in assessing the fee rates payable under the Agreements.

Additionally, the Trustees considered so-called "fall-out benefits" to the Investment Manager and the Sub-Adviser, such as reputational value derived from serving as Investment Manager and Sub-Adviser to the Fund.

<b>PIMCO High Income Fund</b>	<b>Matters Relating to the Trustees Consideration of the Investment Management and Portfolio Management Agreements (unaudited) (continued)</b>
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After reviewing these and other factors described herein, the Trustees concluded, within the context of their overall conclusions regarding the Agreements, that the fees payable under the Agreements represent reasonable compensation in light of the nature and quality of the services being provided by the Investment Manager and Sub-Adviser to the Fund.

**Portfolio Management Update (unaudited)**

Effective May 1, 2007, Mark Hudoff, who has been part of the Fund's portfolio management team since inception (April 2003), assumed Mr. Ray Kennedy's role as the Fund's lead portfolio manager. Mr. Hudoff, an Executive Vice President at the Sub-Adviser, has over 17 years of investment experience and joined the Sub-Adviser in 1996. He was previously associated with BCA where he worked as a fixed income strategist.

**Investment Policy Change (unaudited)**

The Sub-Adviser's prior policy of uniformly treating certain interests in bank loan as illiquid investments has been modified. The Fund has adopted policies pursuant to which the Sub-Adviser may determine that bank loan interests are liquid, which will be followed for purposes of determining compliance with the Fund's investment restriction relating to investments in illiquid securities. Substantially all of the bank loan interests held by the Fund have been and will continue to be treated as liquid investments under the new policies.



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**Trustees and Principal Officers**

Hans W. Kertess  
Trustee, Chairman of the Board of Trustees  
Paul Belica  
Trustee  
Robert E. Connor  
Trustee  
John J. Dalessandro II  
Trustee  
John C. Maney  
Trustee  
William B. Ogden, IV  
Trustee  
R. Peter Sullivan III  
Trustee

Brian S. Shlissel  
President & Chief Executive Officer  
Lawrence G. Altadonna  
Treasurer, Principal Financial & Accounting Officer  
Thomas J. Fuccillo  
Vice President, Secretary & Chief Legal Officer  
Scott Whisten  
Assistant Treasurer  
Youse E. Guia  
Chief Compliance Officer  
William V. Healey  
Assistant Secretary  
Richard H. Kirk  
Assistant Secretary  
Kathleen A. Chapman  
Assistant Secretary  
Lagan Srivastava  
Assistant Secretary

**Investment Manager**

Allianz Global Investors Fund Management LLC  
1345 Avenue of the Americas  
New York, NY 10105

**Sub-Adviser**

Pacific Investment Management Company LLC  
840 Newport Center Drive  
Newport Beach, CA 92660

**Custodian & Accounting Agent**

State Street Bank & Trust Co.  
801 Pennsylvania  
Kansas City, MO 64105-1307

**Transfer Agent, Dividend Paying Agent and Registrar**

PFPC Inc.  
P.O. Box 43027  
Providence, RI 02940-3027

**Independent Registered Public Accounting Firm**

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PricewaterhouseCoopers LLP  
300 Madison Avenue  
New York, NY 10017

### Legal Counsel

Ropes & Gray LLP  
One International Place  
Boston, MA 02110-2624

This report, including the financial information herein, is transmitted to the shareholders of PIMCO High Income Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

The financial information included herein is taken from the record of the Fund without examination by an independent registered public accounting firm, who did not express an opinion hereon.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase shares of its common stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarter of its fiscal year on Form N-Q. The Fund's Form N-Q is available on the SEC's website at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Fund's website at [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds).

On January 8, 2007, the Fund submitted a CEO annual certification to the New York Stock Exchange ( NYSE ) on which the Fund's principal executive officer certified that he was not aware, as of the date, of any violation by the Fund of the NYSE's Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Fund's principal executive and principal financial officer made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q relating to, among other things, the Fund's disclosure controls and procedures and internal control over financial reporting, as applicable.

Information on the Fund is available at [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds) or by calling the Fund's shareholder servicing agent at (800) 331-1710.



ITEM 2. CODE OF ETHICS

Not required in this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

Not required in this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not required in this filing.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT

Not required in this filing.

ITEM 6. SCHEDULE OF INVESTMENTS Schedule of Investments in included as part of the report to shareholders filed under Item 1 of this form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing.

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ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED COMPANIES.

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS
April 2007	N/A	15.190	73,527	N/A
May 2007	N/A	15.419	71,168	N/A
June 2007	N/A	15.571	70,838	N/A
July 2007	N/A	14.659	74,183	N/A
August 2007	N/A	13.510	79,699	N/A
September 2007	N/A	13.880	78,705	N/A

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to procedures by which shareholders may recommend nominees to the Fund's Board of Trustees since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant's President and Chief Executive Officer and Principal Financial Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-2(c) under the Act (17 CFR 270.3a-3(c)), as amended are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(c)) under the Act (17 CFR 270.3a-3(d)) that occurred during the registrant's second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS

(a) (1) Exhibit 99.302 CERT - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Exhibit 99.906 Cert. - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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