MERCURY COMPUTER SYSTEMS INC
Form DEF 14A
August 31, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Mercury Computer Systems, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Title of each class of securities to which transaction applies:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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August 31, 2012

Dear Shareholder:

We will hold our Annual Meeting of Shareholders on October 17, 2012, beginning at 10:00 a.m., local time, at our offices at 201 Riverneck Road, Chelmsford, Massachusetts 01824. We look forward to your attending the meeting either in person or by proxy, but please note that due to security procedures you will be required to show a form of picture identification to gain access to our offices. The enclosed notice of meeting, proxy statement, and proxy card describe the proposals to be acted upon at the meeting.

Please refer to the enclosed proxy statement for detailed information on each of the proposals. Your vote is important. Whether or not you expect to attend the meeting, your shares should be represented. Therefore, we urge you to complete, sign, date, and promptly return the enclosed proxy card.

On behalf of the Board of Directors, we would like to express our appreciation for your continued interest in our company.

Sincerely yours,

Mark Aslett,

President, Chief Executive Officer,

and Director

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MERCURY COMPUTER SYSTEMS, INC.

201 RIVERNECK ROAD

CHELMSFORD, MA 01824

(978) 256-1300

Notice of Annual Meeting of Shareholders

To Be Held on October 17, 2012

The Annual Meeting of Shareholders of MERCURY COMPUTER SYSTEMS, INC. will be held on Wednesday, October 17, 2012, at 10:00 a.m., local time, at our offices at 201 Riverneck Road, Chelmsford, Massachusetts 01824, for the following purposes:

1. To elect two Class III directors nominated by the Board of Directors, each to serve for a three-year term and until his successor has been duly elected and qualified.

2. To approve an amendment to our 2005 Stock Incentive Plan.

3. To hold an advisory vote on the compensation of our named executive officers (the say-on-pay vote);

4. To approve the change of our name to Mercury Systems, Inc.

5. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2013.

6. To consider and act upon any other business that may properly come before the meeting or any adjournment or postponement of the meeting.

Proposal Number One relates solely to the election of two Class III directors nominated by the Board of Directors and does not include any other matters relating to the election of directors, including, without limitation, the election of directors nominated by any Mercury shareholder.

The Board of Directors has fixed the close of business on August 22, 2012 as the record date for the meeting. All shareholders of record on that date are entitled to notice of and to vote at the meeting.

YOUR VOTE IS IMPORTANT. PLEASE COMPLETE AND RETURN THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING IN PERSON. IF YOU ATTEND THE MEETING, YOU MAY CONTINUE TO HAVE YOUR SHARES VOTED AS INSTRUCTED IN THE PROXY CARD OR YOU MAY

WITHDRAW YOUR PROXY AND VOTE YOUR SHARES IN PERSON.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders To Be Held on October 17, 2012: This proxy statement and Annual Report and Form 10-K for our fiscal year ended June 30, 2012 are available at www.edocumentview.com/MRCY.

By Order of the Board of Directors

GERALD M. HAINES II

Secretary

Chelmsford, Massachusetts

August 31, 2012

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MERCURY COMPUTER SYSTEMS, INC.

201 RIVERNECK ROAD

CHELMSFORD, MA 01824

(978) 256-1300

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Why am I receiving these materials?

We are mailing this proxy statement, with the accompanying proxy card, to you on or about August 31, 2012 in connection with the solicitation of proxies by the Board of Directors of Mercury Computer Systems, Inc. (Mercury) for the annual meeting of shareholders to be held on October 17, 2012, and any adjournment or postponement of that meeting. The meeting will be held on Wednesday, October 17, 2012, beginning at 10:00 a.m., local time, at our offices, 201 Riverneck Road, Chelmsford, Massachusetts 01824. You are invited to attend the meeting, and we request that you vote on the proposals described in this proxy statement. You do not need to attend the meeting in person to vote your shares. You may simply complete, sign, date, and return your proxy card in order to have your shares voted at the meeting on your behalf.

What am I voting on?

There are five matters scheduled for a vote:

- election of two Class III directors, each to serve for a three-year term and until his successor has been duly elected and qualified;
- approval of an amendment to our 2005 Stock Incentive Plan (the 2005 Plan) to increase the aggregate number of shares authorized for issuance under the 2005 Plan by 1,500,000 shares;
- an advisory vote on the compensation of our named executive officers (the say-on-pay vote);
- approval of the change of our name to Mercury Systems, Inc. ; and
- ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2013.

Who can attend and vote at the meeting?

Shareholders of record at the close of business on August 22, 2012 are entitled to attend and vote at the meeting. Each share of our common stock is entitled to one vote on all matters to be voted on at the meeting, and can be voted only if the record owner is present to vote or is represented by proxy. The proxy card provided with this proxy statement indicates the number of shares of common stock that you own and are entitled to vote at the meeting.

What constitutes a quorum at the meeting?

The presence at the meeting, in person or represented by proxy, of the holders of a majority of our common stock outstanding on August 22, 2012, the record date, will constitute a quorum for purposes of the meeting. On the record date, 32,166,594 shares of our common stock were outstanding. For purposes of determining whether a quorum exists, proxies received but marked abstain and so-called broker non-votes (described below) will be counted as present.

How do I vote by proxy?

If you properly fill in your proxy card and our transfer agent receives it in time to vote at the meeting, your proxy (one of the individuals named on your proxy card) will vote your shares as you have directed. No postage is required if your proxy card is mailed in the United States in the return envelope that has been enclosed with this proxy statement.

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If you sign, date, and return the proxy card but do not specify how your shares are to be voted, then your proxy will vote your shares as follows:

- **FOR the election of the nominees for Class III director named below under Proposal 1: Election of Class III Directors;**
- **FOR the approval of the amendment to our 2005 Plan;**
- **FOR the approval of, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement;**
- **FOR the approval of the change of our name to Mercury Systems, Inc. ; and**
- **FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2013; and**
- **in the proxy s discretion as to any other business which may properly come before the meeting or any adjournment or postponement of the meeting.**

How do I vote if my shares are held by my broker?

If your shares are held by your broker in street name, you will need to instruct your broker concerning how to vote your shares in the manner provided by your broker. If your shares are held in street name and you wish to vote them in person at the meeting, you must obtain from your broker a properly executed legal proxy identifying you as a Mercury shareholder, authorizing you to act on behalf of the broker at the meeting, and specifying the number of shares with respect to which the authorization is granted.

What discretion does my broker have to vote my shares held in street name ?

A broker holding your shares in street name must vote those shares according to any specific instructions it receives from you. If specific instructions are not received, your broker may vote your shares in its discretion, depending on the type of proposal involved. Under applicable rules, there are certain matters on which brokers may not vote without specific instructions from you, such as the election of directors, the amendment to our 2005 Plan, the change in our name, and the advisory vote on say-on-pay. If such matters come before the meeting and you have not specifically instructed your broker how to vote your shares, your shares will not be voted on those matters, giving rise to what is called a broker non-vote. Shares represented by broker non-votes will be counted for purposes of determining the existence of a quorum for the transaction of business, but for purposes of determining the number of shares voting on a particular proposal, broker non-votes will not be counted as votes cast or shares voting.

Can I change my vote after I return my proxy card?

Yes. You may change your vote at any time before your proxy is exercised. To change your vote, you may:

- deliver to our Secretary a written notice revoking your earlier vote;
- deliver to our transfer agent a properly completed and signed proxy card with a later date; or

vote in person at the meeting.

Your attendance at the meeting will not be deemed to revoke a previously delivered proxy unless you clearly indicate at the meeting that you intend to revoke your proxy and vote in person.

How are votes counted?

Election of directors. The election of a nominee for director will be decided by a plurality of the votes cast. If you do not vote for a particular nominee, or you withhold authority for one or all nominees, your vote will have no effect on the outcome of the election.

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All other proposals. All of the other proposals at the meeting require the favorable vote of a majority of the votes cast on the matter. Abstentions and broker non-votes, which are described above, will have no effect on the outcome of voting on these matters.

How is Mercury soliciting proxies?

We bear the cost of preparing, assembling, and mailing the proxy material relating to the solicitation of proxies by the Board of Directors for the meeting. In addition to the use of the mails, certain of our officers and regular employees may, without additional compensation, solicit proxies in person, by telephone, or by other means of communication. We will also request brokerage houses, custodians, nominees, and fiduciaries to forward copies of the proxy material to those persons for whom they hold shares, and will reimburse those record holders for their reasonable expenses in transmitting this material.

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PROPOSAL 1: ELECTION OF CLASS III DIRECTORS

Who sits on the Board of Directors?

Our by-laws provide for a Board of Directors of not fewer than three nor more than fifteen directors. Pursuant to Massachusetts law, the Board of Directors is divided into three classes, with each class consisting, as nearly as may be possible, of one-third of the whole number of the Board of Directors. The Board of Directors currently consists of eight members, with James K. Bass, Michael A. Daniels, and Lee C. Steele serving as Class I directors, Mark Aslett, George W. Chamillard, and William K. O Brien serving as Class II directors, and George K. Muellner and Vincent Vitto serving as Class III directors.

The terms of the Class I, Class II, and Class III directors expire in 2013, 2014, and 2012, respectively. With the expiration of its respective term, each class is nominated for election for a subsequent three-year term. We are proposing that the Class III nominees listed below, which include two incumbent directors, be elected to serve terms of three years and in each case until their successors are duly elected and qualified or until they sooner die, resign, or are removed.

Directors Qualifications and Diversity

The Board of Directors believes that the Board, as a whole, should possess a combination of skills, professional experience, and backgrounds necessary to oversee the Company s business. In addition, the Board of Directors believes that there are certain attributes that every director should possess, as reflected in the Board s membership criteria. Accordingly, the Board of Directors and the Nominating and Governance Committee consider the qualifications of directors and director candidates individually and in the broader context of the Board of Directors overall composition and the Company s current and future needs.

The Nominating and Governance Committee is responsible for developing and recommending Board of Director membership criteria to the Board for approval. The criteria include independent and sound judgment, integrity, the ability to commit sufficient time and attention to Board of Director activities, and the absence of conflicts with the Company s interests. In addition, the Nominating and Governance Committee periodically evaluates the composition of the Board of Directors to assess the skills and experience that are currently represented on the Board of Directors as well as the skills and experience that the Board of Directors will find valuable in the future, given the Company s current situation and strategic plans. While the Nominating and Governance Committee does not have an explicit policy with respect to diversity, it may consider the Board s diversity of qualifications in terms of industry experience, functional skills, age, governance service on other boards, prior work experience, educational background, and other important considerations. The Nominating and Governance Committee believes that it is important that Board of Director members represent diverse viewpoints and perspectives in their application of judgment to company matters.

In evaluating director candidates, and considering incumbent directors for renomination to the Board of Directors, the Nominating and Governance Committee considers, among other things, each nominee s independence, financial literacy, personal and professional accomplishments, and experience.

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Recommendation

The Board of Directors recommends a vote FOR the election of the nominees listed below.

Information about the Directors

The persons named as proxies in the accompanying proxy card will vote, unless authority is withheld, for the election of the two Class III nominees named below. We have no reason to believe that any of the nominees will be unavailable for election. However, if any one of them becomes unavailable, the persons named as proxies in the accompanying proxy card have discretionary authority to vote for a substitute chosen by the Board. Any vacancies not filled at the meeting may be filled by the Board.

The following information was provided by each of the incumbent directors whose term will continue after the meeting.

Name	Age	Year First Elected a Director	Principal Occupation
Class III Directors Nominated for a Term Ending in 2015:			
Vincent Vitto	71	2006	Mr. Vitto served as President and Chief Executive Officer of The Charles Stark Draper Laboratory, Inc., a research and development laboratory, from 1997 to his retirement in 2006. Prior to that, he spent 32 years of increasing responsibility at MIT Lincoln Laboratory, a research and development laboratory, rising to Assistant Director for Surface Surveillance and Communications. Mr. Vitto s qualifications to serve on our Board of Directors include his exceptional understanding of defense technology, particularly related to surveillance and communications, and experience managing major defense research laboratories.
George K. Muellner	69	2010	Mr. Muellner served as the president of Advanced Systems for the Integrated Defense Systems business unit of The Boeing Company, responsible for developing advanced cross-cutting concepts and technologies, and executing new programs, until his retirement in February 2008. Prior to this assignment, he was vice president-general manager of Air Force Systems at Boeing since July 2002. He joined Boeing in 1998. Prior to that, he served 31 years in the U.S. Air Force, retiring as a lieutenant general from the position of principal deputy for the Office of the Assistant Secretary of the Air Force for Acquisition in Washington, D.C. A highly decorated veteran, Mr. Muellner spent most of his career as a fighter pilot and fighter weapons instructor, test pilot, and commander. Mr. Muellner s qualifications to serve on our Board of Directors include his executive experience with defense contracting, his military experience in the Company s target defense market, and his knowledge of defense and aerospace technology.

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Name	Age	Year First Elected a Director	Principal Occupation
Class II Directors Serving a Term Ending in 2014:			
Mark Aslett	44	2007	Mr. Aslett has served as our President and Chief Executive Officer since November 2007. Prior to that, he was Chief Operating Officer and Chief Executive Officer of Enterasys Networks, a public technology company, from 2003 to 2006, and held various positions with Marconi plc and its affiliated companies, including executive vice president of marketing, vice president of portfolio management, and president of Marconi Communications North America, from 1998 to 2002. Mr. Aslett served on the Board of Directors of Enterasys Networks from 2004 to 2006. He has also held positions at GEC Plessey Telecommunications, as well as other telecommunications-related technology firms. Mr. Aslett provides an insider s perspective in Board discussions about the business and strategic direction of the Company with his detailed knowledge of the Company s employees, customers, suppliers, business prospects, and markets.
George W. Chamillard	73	2004	Mr. Chamillard served as Chairman of the Board of Directors of Teradyne, Inc., a public company supplying automatic test equipment, from 2000 to his retirement in 2006, and as a member of the Board of Directors of Teradyne from 1996 until 2006. Mr. Chamillard served as Chief Executive Officer of Teradyne from 1997 to 2004, and as President of Teradyne from 1996 to 2003. Prior to being named as President of Teradyne, Mr. Chamillard served in various executive capacities at Teradyne. Mr. Chamillard s qualifications to serve on our Board of Directors include his years of executive experience in the technology industry, including being the Chairman and Chief Executive Officer of a public technology company.
William K. O Brien	68	2008	Mr. O Brien served as Executive Chairman at Enterasys Networks, a public technology company, from 2003 until his retirement in 2006. He served as Chief Executive Officer of Enterasys from 2002 to 2004, and as a member of the Board of Directors of Enterasys from 2002 to 2006. Prior to working at Enterasys, he worked for PricewaterhouseCoopers where he held several different senior management positions. Mr. O Brien had over 33 years of experience in auditing and professional services while at PricewaterhouseCoopers. He has been a director of Virtusa Corporation, a publicly-traded company, since 2008. Mr. O Brien is one of our audit committee financial experts. Mr. O Brien s qualifications to serve on our Board of Directors include his executive experience in the technology industry, including being the Chairman and Chief Executive Officer of a public technology company, and his strong accounting and financial expertise.

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Name	Age	Year First Elected a Director	Principal Occupation
Class I Directors Serving a Term Ending in 2013:			
James K. Bass	55	2010	Mr. Bass has served as a director of TTM Technologies, Inc., a publicly-traded global printed circuit board manufacturer, since September 2000, and as a director of Tigrent, Inc., a publicly-traded provider of information for real estate and financial investing, since May 2010. From September 2005 to June 2009, Mr. Bass served as the Chief Executive Officer and a director of Piper Aircraft, Inc., a general aviation manufacturing company. He served as the Chief Executive Officer and a director of Suntron Corporation, a provider of high mix electronic manufacturing services, from its incorporation in May 2001 until May 2005, and as Chief Executive Officer of EFTC Corporation, a subsidiary of Suntron Corporation, from July 2000 until April 2001. From 1992 to July 2000, Mr. Bass was a Senior Vice President of Sony Corporation. Prior to that, Mr. Bass spent 15 years in various manufacturing management positions at the aerospace group of General Electric Corporation. Mr. Bass is one of our audit committee financial experts. Mr. Bass qualifications to serve on our Board of Directors include his extensive experience in the technology marketplace, his executive and operational experience as the Chief Executive Officer of a public company, and his broad experience with accounting and audit matters for publicly-traded companies.
Michael A. Daniels	66	2010	Mr. Daniels served as Chairman of the Board of Mobile 365, Inc. from May 2005 to November 2006 and served as its Chief Executive Officer from December 2005 to August 2006. Sybase acquired Mobile 365, Inc. in November 2006 and renamed it Sybase 365, Inc. Mr. Daniels was a director of Sybase, a publicly-traded global enterprise software and services company, from 2007 until its acquisition by SAP in 2010. From December 1986 to May 2004, Mr. Daniels served in a number of senior executive positions at Science Applications International Corporation (SAIC), a publicly-traded scientific, technical, and professional services firm, including Sector Vice President from February 1994 to May 2004. Mr. Daniels served as Chairman and Chief Executive Officer of Network Solutions, Inc., an internet company, from March 1995 to June 2000 when Verisign purchased Network Solutions. From June 2007 to July 2009, Mr. Daniels served on the Board of Directors of Luna Innovations, a high technology manufacturer. Mr. Daniels qualifications to serve on our Board of Directors include his extensive executive experience in the technology industry and experience serving as a director of public companies, including software and technology companies.

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Name	Age	Year First Elected a Director	Principal Occupation
Lee C. Steele	63	2003	Mr. Steele has been a Financial Leadership Partner with Tatum LLC, an executive services and consulting firm (and a subsidiary of Spherion Corporation following its acquisition of Tatum in 2010), since 2002. From 2001 to 2002, he was Senior Vice President, Chief Financial Officer, and Treasurer of ARIAD Pharmaceuticals, Inc., a development stage biopharmaceuticals firm. From 1994 to 2001, he was Vice President, Chief Financial Officer, and Treasurer of American Science and Engineering, Inc., a manufacturer of high-technology security systems and medical devices. Prior to that, he was a consulting partner with Deloitte & Touche. Mr. Steele is one of our audit committee financial experts. Mr. Steele s qualifications to serve on our Board of Directors include his strong accounting and financial expertise and his executive experience as Chief Financial Officer of a publicly-traded company.

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CORPORATE GOVERNANCE

Independence

The Board of Directors has determined that a majority of the members of the Board should consist of independent directors, determined in accordance with the applicable listing standards of the NASDAQ Global Select Market as in effect from time to time. Directors who are also Mercury employees are not considered to be independent for this purpose. For a non-employee director to be considered independent, he or she must not have any direct or indirect material relationship with Mercury. A material relationship is one which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In determining whether a material relationship exists, the Board considers, among other things, the circumstances of any direct compensation received by a director or a member of a director s immediate family from Mercury, any professional relationship between a director or a member of a director s immediate family and Mercury s outside auditors, any participation by a Mercury executive officer in the compensation decisions of other companies employing a director or a member of a director s immediate family as an executive officer, and commercial relationships between Mercury and other entities with which a director is affiliated (as an executive officer, partner, or controlling shareholder). In addition, the Board has determined that directors who serve on the Audit Committee must qualify as independent under the applicable rules of the Securities and Exchange Commission (SEC), which limit the types of compensation an Audit Committee member may receive directly or indirectly from Mercury and require that Audit Committee members not be affiliated persons of Mercury or its subsidiaries.

Consistent with these considerations, the Board has determined that all of the members of the Board are independent directors, except Mr. Aslett, who is also a Mercury executive officer.

How are nominees for the Board selected?

Our Nominating and Governance Committee is responsible for identifying and recommending nominees for election to the Board. The committee will consider nominees recommended by a shareholder if the shareholder submits the nomination in compliance with applicable requirements. The committee did not receive any shareholder nominations for election of directors at this year s meeting. With respect to the nominees for Class III director standing for election at the meeting, Mr. Vitto was most recently elected as a Class III director at the 2009 annual meeting of shareholders and Mr. Muellner was elected as a Class III director at a Board of Directors meeting held in July 2010.

When considering a potential candidate for membership on the Board, the Nominating and Governance Committee will consider any criteria it deems appropriate, including, among other things, the experience and qualifications of any particular candidate as well as such candidate s past or anticipated contributions to the Board and its committees. At a minimum, each nominee is expected to have high personal and professional integrity and demonstrated ability and judgment, and to be effective, with the other directors, in collectively serving the long-term interests of our shareholders. In addition to these minimum qualifications, when considering potential candidates for the Board, the committee seeks to ensure that the Board is comprised of a majority of independent directors and that the committees of the Board are comprised entirely of independent directors. The committee may also consider any other standards that it deems appropriate, including whether a potential candidate has direct experience in our industry and whether such candidate, if elected, would assist in achieving a mix of directors that represents a diversity of backgrounds and experiences. In practice, the committee generally will evaluate and consider all candidates recommended by our directors, officers, and shareholders. The committee intends to consider shareholder recommendations for directors using the same criteria that would be used with potential nominees recommended by members of the committee or others.

Shareholders who wish to submit director candidates for consideration should send such recommendations to our Secretary at our executive offices not less than, unless a lesser time period is required by applicable law,

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120 days nor more than 150 days prior to the anniversary date of the immediately preceding annual meeting of stockholders or special meeting in lieu of an annual meeting. Such recommendations must include the following information as to each person whom the shareholder proposes to nominate for election or reelection as a director:

- the name and address of the shareholder and each of his or her nominees;
- a representation that the shareholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;
- a description of all arrangements or understandings between the shareholder and each such nominee;
- such other information as would be required to be included in a proxy statement soliciting proxies for the election of the nominees of such shareholder; and
- the consent of each nominee to serve as a Director if so elected.

In addition, such recommendations must include the following information as to each shareholder giving the notice:

- the number of all shares of Mercury stock held of record, owned beneficially (directly or indirectly) and represented by proxy by such shareholder as of the date of such notice and as of one year prior to the date of such notice;
- a description of all arrangements or understandings between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such shareholder;
- a description of any derivative position held or beneficially held (directly or indirectly) by such shareholder with respect to Mercury stock;
- a description of any proxy, contract, arrangement, understanding, or relationship between such shareholder and any other person or persons (including their names and addresses) in connection with the nomination or nominations to be made by such shareholder or pursuant to which such shareholder has a right to vote any Mercury stock; and
- a description of any proportionate interest in Mercury stock or derivative positions with respect to Mercury held, directly or indirectly, by a general or limited partnership in which such shareholder is a general partner or, directly or indirectly, beneficially owns an interest in such a general partner.

We may require any proposed nominee to furnish such other information as may reasonably be required by us to determine the eligibility of such proposed nominee to serve as a director. Shareholders must also submit any other information regarding the proposed director candidate that is required to be included in a proxy statement filed pursuant to SEC rules. See also the information contained elsewhere in this proxy statement under the heading Shareholder Proposals for the 2013 Annual Meeting.

Can I communicate with Mercury s directors?

Yes. Shareholders who wish to communicate with the Board or with a particular director may send a letter to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, attention: Secretary. The mailing envelope should contain a clear notation that the enclosed letter is a Shareholder-Board Communication or Shareholder-Director Communication. All such letters should clearly state whether the intended recipients are all members of the Board or certain specified individual directors. Our Secretary will make copies of all such letters and circulate them to the appropriate director or directors.

What committees has the Board established?

The Board of Directors has standing Audit, Compensation, and Nominating and Governance Committees. As described above under the heading Independence, all of the members of the Audit, Compensation, and

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Nominating and Governance Committees are deemed to be independent directors. Each of these committees acts under a written charter, copies of which can be found on our website at *www.mc.com* on the Investor Relations page (which appears under the heading About Us) under Corporate Governance.

In addition, during fiscal 2011, the Board established an ad hoc M&A Review Committee consisting of independent directors. The ad hoc M&A Review Committee does not have a written charter but meets on an as needed basis to review potential M&A transactions and make a recommendation to the Board regarding potential transactions.

Audit Committee

The Audit Committee assists the Board in its oversight of management s conduct of our accounting and financial reporting processes, including by providing oversight with respect to the financial reports and other financial information provided by our systems of internal accounting and financial controls, and the annual audit of our financial statements. The Audit Committee also reviews the qualifications, independence, and performance of our independent registered public accounting firm, pre-approves all audit and non-audit services provided by such firm and its fees, and discusses with management and our independent registered public accounting firm the quality and adequacy of our internal control over financial reporting. The Audit Committee is directly responsible for the appointment, compensation, retention, and oversight of the work of our independent registered public accounting firm, which reports directly to the Audit Committee. The Audit Committee also is responsible for reviewing and approving related-person transactions in accordance with our Code of Business Conduct and Ethics and the Audit Committee charter.

Compensation Committee

The Compensation Committee is responsible for:

- setting the compensation of our executive officers;
- reviewing and approving employment agreements, consulting arrangements, severance or retirement arrangements, and change-in-control arrangements or provisions covering any of our current or former executive officers;
- overseeing the administration of our equity-based and other long-term incentive plans;
- exercising any fiduciary, administrative, or other function assigned to the committee under any of our health, benefit, or welfare plans, including our 401(k) retirement savings plan; and
- reviewing the compensation and benefits for non-employee directors and making recommendations for any changes to our Board.

All of the independent directors on the Board annually review and approve our CEO s corporate financial and individual management-by-results (MBR) performance objectives, and evaluate the CEO s performance in light of those goals and objectives. Based on the foregoing, the Compensation Committee sets the CEO s compensation, including salary, target bonus, bonus and over-achievement payouts, and equity-based compensation, and any other special or supplemental benefits, which is then subject to ratification by a majority of the independent directors on our Board. Our CEO annually evaluates the contribution and performance of our other executive officers and provides input to the Compensation Committee, and the Compensation Committee sets their compensation. Our head of human resources and the Compensation Committee s compensation consultant also make recommendations to the Compensation Committee regarding compensation for our executives.

The Compensation Committee may delegate to the CEO the authority to grant equity awards under the 2005 Plan to individuals who are not subject to the reporting and other requirements of Section 16 of the Exchange Act or covered employees within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as

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amended (the Code). The Compensation Committee may also delegate the administration of the health, benefit, and welfare plans within the scope of its oversight to our human resources and finance departments and to outside service providers, as appropriate.

Our head of human resources and the Compensation Committee s compensation consultant provide input to the Compensation Committee regarding compensation for non-employee directors. The Compensation Committee then recommends any changes in the compensation and benefits for non-employee directors to the full Board for its consideration and approval.

The Compensation Committee is authorized to obtain advice and assistance from independent compensation consultants, outside legal counsel, and other advisors as it deems appropriate, at our expense. The Compensation Committee has engaged Aon Consulting/Radford (Radford) since 2005 to assist the committee in applying our compensation philosophy for our executive officers and non-employee directors, analyzing current compensation conditions in the marketplace generally and among our peers specifically, and assessing the competitiveness and appropriateness of compensation levels for our executive officers. Representatives of Radford periodically attend meetings of the Compensation Committee, both with and without members of management present, and interact with members of our human resources department with respect to its assessment of the compensation for our executive officers. In addition, at the direction of the Compensation Committee, Radford may assist management in analyzing the compensation of our non-executive employees. For fiscal 2012, Radford s services included providing compensation survey data for non-employee directors, executives, and non-executive employees.

Nominating and Governance Committee

The Nominating and Governance Committee assists the Board in identifying individuals qualified to become Board members, and recommends to the Board persons to be nominated for election as directors by the shareholders at the annual meeting of shareholders or by the Board to fill vacancies. The committee has recommended the nominees for election at the annual meeting. In addition, the committee oversees the process by which the Board assesses its effectiveness.

Ad Hoc M&A Review Committee

The ad hoc M&A Review Committee was created during fiscal 2011 to assist the Board in reviewing M&A transactions. The committee does not have a written charter but meets on an as needed basis to review potential M&A transactions and make a recommendation to the Board regarding potential transactions.

How often did the Board and committees meet during fiscal 2012?

The Board of Directors met seven times during fiscal 2012.

The table below reports information about the committees during fiscal 2012:

Name	Audit Committee(1)	Compensation Committee	Nominating and Governance Committee	Ad Hoc M&A Review Committee
James K. Bass	X			Alternate
George W. Chamillard		Chairman		
Michael A. Daniels		X		X
George K. Mueller		X		Chairman
William K. O Brien	Chairman		X	X
Lee C. Steele	X		X	
Vincent Vitto			Chairman	
Number of Meetings During Fiscal 2012	12	7	2	5

(1) The Board has determined that each of Mr. Steele, Mr. Bass, and Mr. O Brien qualifies as an audit committee financial expert under SEC rules.

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All of the directors attended at least 75% of the meetings of the Board of Directors and committees of the Board on which they served.

Our independent directors regularly meet in executive sessions outside the presence of management. The independent directors met four times during the last fiscal year in executive session without management present. All meetings, or portions of meetings, of the Board at which only independent directors were present were presided over by Mr. Vitto, our Chairman of the Board.

Does Mercury have a policy regarding director attendance at annual meetings of the shareholders?

Directors are encouraged to attend the annual meeting of shareholders, or special meeting in lieu thereof; however, we do not have a formal policy with respect to attendance at shareholder meetings. One of the directors then in office attended the 2012 annual meeting of shareholders.

Does Mercury have stock ownership guidelines for directors?

Each non-employee director is expected to own or control, directly or indirectly, 8,000 shares of Mercury common stock within four years of first becoming a non-employee director, or within four years of April 22, 2009, whichever is later. Each non-employee director is expected to retain such investment as long as he is a non-employee director. Exceptions to this stock ownership guideline may be approved from time to time by the Board as it deems necessary to address individual circumstances.

Does Mercury have stock ownership guidelines for its Chief Executive Officer?

The CEO is expected to own or control, directly or indirectly, shares of Mercury common stock with a value of at least three times the CEO s base salary. The CEO is expected to meet this guideline within four years of first becoming CEO and is expected to retain such investment in the Company as long as he or she is the CEO. Exceptions to this stock ownership guideline may be approved from time to time by the Board as it deems necessary to address individual circumstances.

Does Mercury have a Code of Business Conduct and Ethics?

Yes. We have adopted a Code of Business Conduct and Ethics applicable to our officers, directors, and employees. This code is posted on our website at *www.mc.com* on the Investor Relations page (which appears under the heading About Us) under Corporate Governance. We intend to satisfy our disclosure requirements regarding any amendment to, or waiver of, a provision of our Code of Business Conduct and Ethics by disclosing such matters on our website. Shareholders may request a copy of our Code of Business Conduct and Ethics free of charge by writing to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, attention: Secretary.

Does Mercury have a written policy governing related-person transactions?

Yes. We have adopted a written policy which provides for the review and approval by the Audit Committee of transactions involving Mercury in which a related person is known to have a direct or indirect interest and that are required to be reported under Item 404(a) of Regulation S-K promulgated by the SEC. For purposes of this policy, a related person includes: (1) any of our directors, director nominees, or executive officers; (2) any known beneficial owner of more than 5% of any class of our voting securities; or (3) any immediate family member of any of the foregoing. In situations where it is impractical to wait until the next regularly scheduled meeting of the committee or to convene a special meeting of the committee, the chairman of the committee has been delegated authority to review and approve related-person transactions. Transactions subject to this policy may be pursued only if the Audit Committee (or the chairman of the committee acting pursuant to delegated authority) determines in good faith that, based on all the facts and circumstances available, the transactions are in, or are not inconsistent with, the best interests of Mercury and our shareholders.

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How Does the Board of Directors Exercise Its Oversight of Risk?

Our Chief Executive Officer and senior management are principally responsible for risk identification, management, and mitigation. Our senior management engages in an enterprise risk management (ERM) process each fiscal year, which process consists of an annual assessment of risks and an ongoing review of risk mitigation efforts and assessment of new risk developments. At regularly scheduled Board meetings, our Director of Internal Audit reviews the key risks identified in the ERM process and management s plans for mitigating such risks. Our directors have the opportunity to evaluate such risks and mitigation plans, to ask questions of management regarding those risks and plans, and to offer their ideas and insights to management as to these and other perceived risks and the implementation of risk mitigation plans.

In addition to discussions at regular Board meetings, the Audit Committee focuses on risks related to accounting, internal controls, financial and tax reporting, and related-party transactions; the Compensation Committee focuses on risks associated with our executive compensation policies and practices; the Nominating and Governance Committee focuses on risks associated with non-compliance with SEC and NASDAQ requirements for director independence and the implementation of our corporate governance policies; and the ad hoc M&A Review Committee focuses on risks related to our acquisition activities.

How is the Leadership of the Board of Directors Structured and How Does this Leadership Structure Impact Risk Oversight?

Our Board Policy provides that the Chairman of the Board will be elected from among the independent directors, barring the Board s specific determination otherwise. If, in its judgment the Board determines that election of a non-independent Chairman would best serve the Company at a particular time, such a Chairman would be excluded from executive sessions of the independent directors. In such case, a Lead Independent Director, as appointed from time to time, would preside over executive sessions and would perform such other duties as might be determined from time to time by the Board.

Prior to his retirement from the Board in 2008, the founder of our Company served as the Chairman of the Board and an independent director served as a Lead Director to preside over executive sessions of the independent directors. Following the founder s retirement as Chairman in 2008, the Board has elected an independent director as Chairman. The Board has determined that having a separate Chairman and Chief Executive Officer is the most appropriate leadership structure for the Board of Directors at this time. However, the roles of Chairman and CEO may be filled by the same or different individuals. This allows the Board of Directors flexibility to determine whether the two roles should be combined in the future based upon the Company s needs and the Board of Directors assessment of the Company s leadership from time to time.

As discussed above, our Chief Executive Officer and senior management are principally responsible for risk identification, management, and mitigation through our ERM process. Our Chairman of the Board is responsible for providing leadership for the Board, including the Board s evaluation of management s ERM process.

Do Our Compensation Programs Create a Reasonable Likelihood of Material Adverse Effects for the Company?

Our general employee compensation programs are substantially less weighted towards incentive compensation and equity awards than those for our executive officers. While managers below the executive officers do have incentive compensation tied to Company performance, and do receive equity awards in the form of stock options or restricted stock, the relative weight of their fixed salary compensation is much greater than for the executive officers. While some sales personnel are heavily dependent on sales-based commissions, the terms on which they may make sales are controlled by business unit managers and corporate-level revenue recognition procedures.

Although any compensation program can create incentives that may prove to be inappropriate to future circumstances, or that may encourage behavior that proves to be risky for the organization, the Compensation

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Committee believes that our programs, for both executives and other employees, do not create a reasonable likelihood of material adverse effects for the Company. In reaching this conclusion, the Compensation Committee has considered the following:

Our compensation program consists of both fixed and variable components. The fixed portion (i.e., base salary) provides a steady income to our employees regardless of the performance of our company or stock price. The variable portion (i.e., bonus and equity awards) is based upon company and stock price performance. This mix of compensation is designed to motivate our employees, including our executive officers, to produce superior short- and long-term corporate performance without taking unnecessary or excessive risks to the detriment of important business metrics.

For the variable portion of compensation, the executive bonus program is an annual program that is focused on profitability while the equity program grants awards that have a four year service-based vesting period and is focused on stock price performance. We believe that these programs provide a check on excessive risk taking because to inappropriately benefit one would be a detriment to the other. In addition, we prohibit all our executive officers from short selling Mercury stock or from buying or selling puts, calls, or other derivative securities related to Mercury stock. By prohibiting such hedging transactions our executives cannot insulate themselves from the effects of poor stock performance.

In order for any employee, including our executive officers, to be eligible for the corporate financial performance element of our annual bonus program, our company must first achieve a certain level of profitability that is established annually by the Compensation Committee (we refer to this metric as adjusted EBITDA). We believe that focusing on profitability rather than other measures encourages a balanced approach to company performance and emphasizes consistent behavior across the organization.

Our annual bonus program is capped, which we believe mitigates excessive risk taking by limiting bonus payouts even if our company dramatically exceeds its operating income target. In addition, 50% of over-achievement awards (an element of the annual corporate financial performance bonus) are banked and paid out over a multi-year period, with the executive forfeiting his banked award if he is not an employee of the Company on the date the award is scheduled to be paid unless he dies, leaves for good reason (as defined in the plan), or leaves as part of a planned retirement.

Our annual bonus program has been structured around attaining a certain level of profitability for several years and we have seen no evidence that it encourages unnecessary or excessive risk taking.

The calculation of our adjusted EBITDA for the annual executive bonus plan is defined annually by our Compensation Committee and is designed to keep it from being susceptible to manipulation by any employee, including our named executive officers.

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DIRECTOR COMPENSATION

How are the directors compensated?

The Compensation Committee performs an annual review of non-employee director compensation. Our director compensation philosophy is to provide our non-employee directors with competitive compensation. Our compensation philosophy is intended to offer compensation that attracts highly qualified non-employee directors and retain the leadership and skills necessary to build long-term shareholder value. We target non-employee director compensation at the 75th percentile compared to our peer group.

Cash Compensation for Non-Employee Directors

Directors who are also our employees receive no additional compensation for serving on the Board of Directors. During fiscal 2012, each non-employee director received an annual cash retainer of $55,000 and the following positions received additional cash retainers:

Independent Chairman of the Board	$ 45,000 per annum
Chairman of the Audit Committee	$ 19,000 per annum
Chairman of the Compensation Committee	$ 15,000 per annum
Chairman of the Nominating and Governance Committee	$ 10,500 per annum

All of these retainers are paid in cash in quarterly installments. Directors are also reimbursed for their reasonable expenses incurred in connection with attendance at Board and committee meetings.

Equity Compensation for Non-Employee Directors

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

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

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

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How were the non-employee directors compensated for fiscal 2012?

The compensation paid to the non-employee members of the Board of Directors with respect to fiscal 2012 was as follows:

Non-Employee Director Compensation Fiscal 2012

Name	Fees Earned	Restricted Stock Awards ($)(1)	Total
James K. Bass	$ 55,000	$ 100,003	$ 155,003
George W. Chamillard	70,000	100,003	170,003
Michael A. Daniels	58,750	100,003	158,753
William K. O Brien	74,500	100,003	174,503
George K. Muellner	55,000	100,003	155,003
Lee C. Steele	64,500	100,003	164,503
Vincent Vitto	107,875	100,003	207,878

(1) This column represents the grant date fair value of restricted stock awards for fiscal 2012 in accordance with FASB ASC Topic 718. The grant date fair value of the restricted stock awards granted to non-employee directors in fiscal 2012 has been calculated by multiplying the number of shares granted by the closing price of our common stock as reported on the NASDAQ Global Select Market on the date of grant.

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EQUITY COMPENSATION PLANS

The following table sets forth information as of June 30, 2012 with respect to existing compensation plans under which our equity securities are authorized for issuance.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights(1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in the first column)
Equity compensation plans approved by shareholders(2)	2,184,534(3)	$ 14.458	3,035,003(4)
Equity compensation plans not approved by shareholders			
TOTAL	2,184,534	$ 14.458	3,035,003

(1) Does not include outstanding unvested restricted stock awards.
(2) Consists of our 1997 and 1998 equity plans, the 2005 Plan, and the 1997 Employee Stock Purchase Plan (ESPP).
(3) Does not include purchase rights under the ESPP, as the purchase price and number of shares to be purchased is not determined until the end of the relevant purchase period.
(4) Includes 359,742 shares available for future issuance under the ESPP and 2,675,261 shares available for future issuance under the 2005 Plan. We are no longer permitted to grant awards under our 1997 and 1998 equity plans.

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PROPOSAL 2: APPROVAL OF AMENDMENT AND RESTATEMENT OF

MERCURY COMPUTER SYSTEMS, INC. 2005 STOCK INCENTIVE PLAN

At a meeting on July 24, 2012, the Board adopted, subject to the approval of our shareholders, an amendment to our 2005 Stock Incentive Plan (the 2005 Plan) to increase the aggregate number of shares authorized for issuance under the 2005 Plan by 1,500,000 shares. The anticipated future grants under the 2005 Plan are for (i) annual grants to non-employee directors, executives, and key employees, (ii) new executives and key employees joining our existing business, and (iii) new executives and key employee joining us through or in connection with acquisition transactions.

Basis for Request for Additional Shares

Since fiscal year 2010, we have shifted our business focus away from our former turnaround activities and toward growing the business organically and through acquisitions. We improved our working capital position, refreshed our product portfolio, developed a strong position in the C4ISR market (command, control, communications, computers, intelligence, surveillance, and reconnaissance) that we believe will continue to grow, and grew our services and systems integration business. During this same period we completed three acquisitions: LNX Corporation, KOR Electronics (including its Paragon Dynamics, Inc. subsidiary), and Micronetics, Inc. Fiscal 2013 and beyond is about growth, both organic growth and inorganic growth through acquisitions. We are requesting additional shares for the plan both for recognition and retention awards to help run our business on an organic basis and to have flexibility to provide incentives to new executives and key employees obtained through or in connection with acquisitions or otherwise.

Burn-Rate Commitment

The Board of Directors committed to our shareholders that for fiscal 2010 through 2012, we would limit grants of shares subject to options or stock awards to employees or non-employee directors, such that the annual average number of shares granted over such three-year period would not exceed 5.52% of the average number of shares of our common stock that were outstanding at the end of each of such three fiscal years. The burn-rate limitation discussed above did not apply to awards settled in cash as opposed to the delivery of shares of our common stock, awards under plans assumed in acquisitions, and issuances under tax-qualified employee stock purchase plans and certain other tax-qualified plans. For purposes of calculating the number of shares granted in a fiscal year with respect to this commitment, stock awards counted as equivalent to 1.5 option shares. In addition, shares under awards issued in the one-year period following the closing of an acquisition (whether completed as a stock purchase, a merger, an asset purchase, or another form of acquisition transaction) to attract and retain the following employees did not count toward the calculation of our burn rate: (i) new employees to Mercury that were employees of the acquired business and (ii) new employees to the acquired business (or the operations of the acquired business after its integration into Mercury) that are hired within one year of the acquisition closing. The exclusion of acquisition-related grants from the burn rate calculation shall not apply to any grants to employees who are on the payroll of Mercury or its affiliates prior to the closing of such acquisition.

Our actual burn rate for fiscal 2010 through 2012 calculated as discussed above was 3.58%, substantially below our burn-rate commitment of 5.52%.

Available Shares

As of August 22, 2012, there were 775,990 shares available for future grants under the 2005 Plan. Also as of that date, there were total options to purchase an aggregate of 2,298,527 shares outstanding under our equity compensation plans, with a weighted average exercise price of $13.045 and a weighted remaining contractual term of 3.62 years. That total option number includes exercisable options to purchase an aggregate of 2,041,637 shares, with a weighted average exercise price of $14.023 and a weighted remaining contractual term of 3.06 years. In addition, as of August 22, 2012, 2,152,857 restricted stock awards were outstanding, which restricted shares are included in the 32,166,594 shares outstanding as of such date.

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In order to be able to make future grants, the Board has amended the 2005 Plan to increase the number of shares authorized for issuance under the 2005 Plan by an additional 1,500,000 shares. Based solely on the closing price of our common stock as reported on the NASDAQ Global Select Market on August 22, 2012 ($9.58 per share), the maximum aggregate market value of the additional 1,500,000 shares that could potentially be issued under the 2005 Plan is $14,370,000. If the shareholders approve the proposed amendment and restatement of the 2005 Plan, the additional shares to be issued under the 2005 Plan will be authorized but unissued shares.

Summary of the Amended and Restated 2005 Plan

The following is a summary of certain major features of the amended and restated 2005 Plan. This summary is subject to the specific provisions contained in the full text of the amended and restated 2005 Plan, which is attached as *Appendix A* to this proxy statement.

Plan Administration. The Compensation Committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the 2005 Plan. The Compensation Committee may delegate to our CEO or any other executive officers the authority to grant awards at fair market value to employees who are not subject to the reporting and other provisions of Section 16 of the Exchange Act.

Eligibility and Limitations on Grants. Persons eligible to participate in the 2005 Plan will be those full or part-time officers, employees, non-employee directors, and other key persons (including consultants and prospective officers) of Mercury and its subsidiaries as selected from time to time by the Compensation Committee. As of August 22, 2012, approximately 916 individuals were eligible to participate in the 2005 Plan.

The maximum award of stock options or stock appreciation rights granted to any one individual will not exceed 500,000 shares of common stock (subject to adjustment for stock splits and similar events) for any calendar year period. If any award of restricted stock or deferred stock granted to an individual is intended to qualify as performance-based compensation under Section 162(m) of the Code, then the maximum award shall not exceed 300,000 shares of common stock (subject to adjustment for stock splits and similar events) to any one such individual in any performance cycle. The performance criteria for performance grants are set forth in the 2005 Plan.

Effect of Grants. The grant of any award other than an option or a stock appreciation right will reduce the number of shares of common stock available for issuance under the 2005 Plan by 1.77 shares of common stock for each such share actually subject to the award and will be deemed as an award of 1.77 shares of common stock for each such share actually subject to the award. The grant of an option or a stock appreciation right will be deemed as an award of one share of common stock for each such share actually subject to the award.

Stock Options. The 2005 Plan permits the granting of (1) options to purchase common stock intended to qualify as incentive stock options under Section 422 of the Code and (2) options that do not so qualify. Options granted under the 2005 Plan will be non-qualified options if they fail to qualify as incentive options or exceed the annual limit on incentive stock options. Non-qualified options may be granted to any persons eligible to receive incentive options and to non-employee directors and key persons. The option exercise price of each option will be determined by the Compensation Committee but may not be less than 100% of the fair market value of the common stock on the date of grant. The amended and restated 2005 Plan provides for 6,092,264 shares that can be granted in the form of incentive stock options.

The term of each option will be fixed by the Compensation Committee and may not exceed seven years from the date of grant. The Compensation Committee will determine at what time or times each option may be exercised. Options may be made exercisable in installments and the exercisability of options may be accelerated by the Compensation Committee. Options may be exercised in whole or in part with written notice to Mercury.

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Upon exercise of options, the option exercise price must be paid in full (1) in cash, by certified or bank check, or other instrument acceptable to the Compensation Committee, (2) by delivery (or attestation to the ownership) of shares of common stock that are beneficially owned by the optionee, or (3) subject to applicable law, by a broker pursuant to irrevocable instructions to the broker from the optionee.

To qualify as incentive options, options must meet additional federal tax requirements, including a $100,000 limit on the value of shares subject to incentive options that first become exercisable by a participant in any one calendar year.

Stock Appreciation Rights. The Compensation Committee may award a stock appreciation right either as a freestanding award or in tandem with a stock option. The Compensation Committee may award stock appreciation rights subject to such conditions and restrictions as the Compensation Committee may determine, provided that (1) upon exercise of a stock appreciation right granted in tandem with an option, the applicable portion of any related option shall be surrendered, and (2) stock appreciation rights granted in tandem with options are exercisable at such time or times and to the extent that the related stock options are exercisable. The term of each stock appreciation right may not exceed seven years.

Restricted Stock. The Compensation Committee may award shares of common stock to participants subject to such conditions and restrictions as the Compensation Committee may determine. These conditions and restrictions may include the achievement of certain performance goals (as summarized below) and/or continued employment with Mercury through a specified restricted period. However, in the event awards made to employees have a performance-based goal, the restriction period will be at least one year, and in the event any awards made to employees have a time-based restriction, the restriction period will be at least three years, but vesting can occur incrementally over the three-year period.

Deferred Stock Awards. The Compensation Committee may award phantom stock units as deferred stock awards to participants. Deferred stock awards are ultimately payable in the form of shares of common stock and may be subject to such conditions and restrictions as the Compensation Committee may determine. These conditions and restrictions may include the achievement of certain performance goals (as summarized below) and/or continued employment with Mercury through a specified vesting period. However, in the event awards made to employees have a performance-based goal, the restriction period will be at least one year, and in the event any awards have a time-based restriction, the restriction period will be at least three years, but vesting can occur incrementally over the three-year period. In the Compensation Committee s sole discretion and subject to the participant s compliance with the procedures established by the Compensation Committee and requirements of Section 409A of the Code, it may permit a participant to make an advance election to receive a portion of his or her future cash compensation otherwise due in the form of a deferred stock award.

Performance-Based Awards. To ensure that certain awards granted under the 2005 Plan, including awards of restricted stock and deferred stock, to a covered employee (as defined in the Code) qualify as performance-based compensation under Section 162(m) of the Code, the 2005 Plan provides that the Compensation Committee may require that the vesting of such awards be conditioned on the satisfaction of one or more of the performance criteria stated above. Subject to adjustments for stock splits and similar events, the maximum award of restricted stock or deferred stock (or combination thereof) granted to any one individual that is intended to qualify as performance-based compensation under Section 162(m) of the Code will not exceed 300,000 shares of common stock (subject to adjustments for stock splits and similar events) for any performance cycle.

Detrimental Activity. The Compensation Committee may cancel, rescind, suspend, or otherwise limit any award to a participant if the participant engages in detrimental activities, including rendering services to a competitor of Mercury, disclosing confidential information without permission, refusing to assign inventions to Mercury, soliciting employees or customers of Mercury, engaging in an activity that results in a termination for cause, materially violating any internal policies of Mercury, or being convicted of, or pleading guilty to, a crime.

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Tax Withholding. Participants in the 2005 Plan are responsible for the payment of any federal, state, or local taxes that we are required by law to withhold upon any option exercise or vesting of other awards. Subject to approval by the Compensation Committee, participants may elect to have the minimum tax withholding obligations satisfied either by authorizing us to withhold shares of common stock to be issued pursuant to an option exercise or other award, or by transferring to us shares of common stock having a value equal to the amount of such taxes. Effective May 1, 2010, the Compensation Committee discontinued the net share settlement practice for settling restricted stock awards.

Change in Control Provisions. The 2005 Plan provides that, if there is a change in control of Mercury that is approved by the Board of Directors:

For awards with grant dates prior to November 17, 2008, if the grantee has a minimum of six months of service, 50% of such grantee s unvested awards will become vested and immediately exercisable upon consummation of the change in control.

For awards with grant dates on or after November 17, 2008, if the grantee has a minimum of six months of service and within six months of the consummation of the change in control, the grantee s employment is involuntarily terminated by us for reasons other than for cause or the grantee resigns for good reason , 50% of such grantee s unvested awards will become vested and immediately exercisable. If, in connection with the change in control, awards granted under the 2005 Plan are cancelled or otherwise terminated upon consummation of the change in control, then instead of accelerated vesting, the grantee will receive a cash payment for 50% of the value of his or her unvested awards (determined based on the price of our common stock at the time of consummation of the change in control). The foregoing is conditioned on the grantee s execution of an effective release of claims if the value of the accelerated vesting or cash payment exceeds $25,000.

If there is a change of control that is not approved by the Board of Directors, all of the unvested awards under the 2005 Plan (regardless of the grant date) will become vested and immediately exercisable upon the change of control. Further, upon any change of control, all outstanding awards held by non-employee directors will automatically become fully vested.

Amendments and Termination. The Board may at any time amend or discontinue the 2005 Plan, and the Compensation Committee may at any time amend or cancel any outstanding award for the purpose of satisfying changes in the law or for any other lawful purpose. However, no such action may adversely affect any rights under any outstanding award without the holder s consent. Any amendments that materially change the terms of the 2005 Plan, including any amendments that increase the number of shares reserved for issuance under the 2005 Plan, expand the types of awards available under the 2005 Plan, materially expand the eligibility to participate in the 2005 Plan, materially extend the term of the 2005 Plan, or materially change the method of determining the fair market value of common stock, will be subject to approval by shareholders. Amendments shall also be subject to approval by our shareholders if and to the extent determined by the Compensation Committee to be required by the Code to preserve the qualified status of incentive options or to ensure that compensation earned under the 2005 Plan qualifies as performance-based compensation under Section 162(m) of the Code. In addition, except in connection with a reorganization or other similar change in the capital stock of Mercury or a merger or other transaction, without prior shareholder approval, the Compensation Committee may not reduce the exercise price of an outstanding stock option or stock appreciation right or effect repricing of an outstanding stock option or stock appreciation right through cancellation or regrants.

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New Plan Benefits

It is not possible to state the persons who will receive options or awards under the 2005 Plan in the future or the amount of options or awards that will be granted under the 2005 Plan. The following table provides information with respect to awards granted under the 2005 Plan in the fiscal year ended June 30, 2012. This table does not include any grants made following the end of fiscal 2012 as described in *Compensation Discussion and Analysis*.

	Stock Options			Restricted Stock	
Name and Position	**Dollar Value**	**Number**	**Average Exercise Price**	**Dollar Value(1)**	**Number**
Mark Aslett	$		$	$ 1,000,575	67,500
President and Chief Executive Officer					
Kevin M. Bisson				801,000	60,000
Senior Vice President, Chief Financial Officer, and Treasurer					
Gerald M. Haines II				371,950	25,000
Senior Vice President, Corporate Development, Chief Legal Officer, and Secretary					
Charles A. Speicher					
Vice President, Controller, and Chief Accounting Officer				132,795	9,000
Didier M.C. Thibaud					
President, Advanced Computing Solutions				489,990	33,000
All executive officers as a group				2,796,310	194,500
All non-employee directors as a group				700,019	50,470
Employees as a group (excluding executive officers)				4,870,766	340,100

(1) The dollar value of each restricted stock grant is estimated on the date of grant by multiplying the number of shares granted by the closing price of our common stock as reported on the NASDAQ Global Select Market on the date of grant.

Tax Aspects Under the Code

The following is a summary of the principal federal income tax consequences of certain transactions under the 2005 Plan. It does not describe all federal tax consequences under the 2005 Plan, nor does it describe state or local tax consequences.

Incentive Options. No taxable income is generally realized by the optionee upon the grant or exercise of an incentive option. If shares of common stock issued to an optionee pursuant to the exercise of an incentive option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (1) upon sale of such shares, any amount realized in excess of the option price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (2) there will be no deduction for Mercury for federal income tax purposes. The exercise of an incentive option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee.

If shares of common stock acquired upon the exercise of an incentive option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a disqualifying disposition), generally (a) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares of common stock at exercise (or, if less, the amount realized on a sale of such shares of common stock) over the option price, and (b) we will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the incentive option is paid by tendering shares of common stock.

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If an incentive option is exercised at a time when it no longer qualifies for the tax treatment described above, the option is treated as a non-qualified option. Generally, an incentive option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three-month rule does not apply.

Non-Qualified Options. No income is realized by the optionee at the time the option is granted. Generally (1) at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the option price and the fair market value of the shares of common stock on the date of exercise, and we receive a tax deduction for the same amount, and (2) at disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares of common stock have been held. Special rules will apply where all or a portion of the exercise price of the non-qualified option is paid by tendering shares of common stock. Upon exercise, the optionee will also be subject to Social Security taxes on the excess of the fair market value over the exercise price of the option.

Restricted Stock. A recipient of restricted stock generally will be subject to tax at ordinary income rates on the fair market value of the stock at the time that the stock is no longer subject to forfeiture, minus any amount paid for such stock. However, a recipient who so elects under Section 83(b) of the Code, within 30 days of the date of issuance of the restricted stock, will realize ordinary income on the date of issuance equal to the fair market value of the shares of restricted stock at that time (measured as if the shares were unrestricted and could be sold immediately), minus any amount paid for such stock. If the shares subject to such election are forfeited, the recipient will not be entitled to any deduction, refund, or loss for tax purposes with respect to the forfeited shares. Mercury generally will receive a tax deduction equal to the amount includable as ordinary income to the recipient.

Parachute Payments

The vesting of any portion of an option or other award that is accelerated due to the occurrence of a change in control may cause a portion of the payments with respect to such accelerated awards to be treated as parachute payments as defined in the Code. Any such parachute payments may be non-deductible to Mercury, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

Limitation on Our Deductions

As a result of Section 162(m) of the Code, our deduction for certain awards under the 2005 Plan may be limited to the extent that the CEO or other executive officer whose compensation is required to be reported in the summary compensation table receives compensation in excess of $1,000,000 a year (other than performance-based compensation that otherwise meets the requirements of Section 162(m) of the Code). The 2005 Plan is structured to allow grants to qualify as performance-based compensation, as described above.

Required Vote

Approval of the amendment and restatement of the 2005 Plan requires the affirmative FOR vote of a majority of the votes cast on the proposal. Unless marked to the contrary, proxies received will be voted FOR approval of the amendment and restatement of the 2005 Plan.

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Recommendation

The Board of Directors recommends a vote FOR the approval of the amended and restated 2005 Plan.

The Board believes that stock options and other stock-based incentive awards can play an important role in the success of our company by encouraging and enabling the current employees, consultants, officers, and non-employee directors and prospective officers and employees of Mercury and its subsidiaries, upon whose judgment, initiative, and efforts we largely depend for the successful conduct of our business, to acquire a proprietary interest in our company. The Board anticipates that providing such persons with a direct stake in our company will ensure a closer identification of the interests of participants in the 2005 Plan with those of Mercury and its shareholders, thereby stimulating their efforts on our behalf and strengthening their desire to remain with our company.

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PROPOSAL 3: ADVISORY VOTE ON EXECUTIVE COMPENSATION (SAY-ON-PAY)

Pursuant to Section 14A of the Securities Exchange Act of 1934, as amended, we provide our shareholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission.

As described in greater detail under the heading *Compensation Discussion and Analysis,* we seek to closely align the interests of our named executive officers with the interests of our shareholders. Our compensation programs are designed to reward our named executive officers for the achievement of short-term and long-term strategic and operational goals and the achievement of increased total shareholder return, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking.

Required Vote

This vote is advisory, which means that the vote on executive compensation is not binding on the company, our Board of Directors, or the Compensation Committee of the Board of Directors. The vote on this resolution is not intended to address any specific element of compensation, but rather relates to the overall compensation of our named executive officers, as described in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission. To the extent there is a significant vote against our named executive officer compensation as disclosed in this proxy statement, the Compensation Committee will evaluate whether any actions are necessary to address our shareholders concerns.

The affirmative vote of a majority of the shares present or represented and entitled to vote either in person or by proxy is required to approve this Proposal 3.

Accordingly, we ask our shareholders to vote on the following resolution at the Annual Meeting:

RESOLVED, that the Company s shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company s Proxy Statement for the 2012 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table, and the other related tables and disclosure.

Recommendation

The Board of Directors recommends a vote FOR the approval of the compensation of our named executive officers, as disclosed in this proxy statement.

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PROPOSAL 4: APPROVAL OF CHANGE OF OUR NAME TO MERCURY SYSTEMS, INC.

We are proposing to amend our Restated Articles of Organization with the Massachusetts Secretary of State to change our corporate name from Mercury Computer Systems, Inc. to Mercury Systems, Inc. The change in our name reflects the evolution of our business to be a trusted provider of commercially developed application-ready intelligence, surveillance, and reconnaissance (ISR) and electronic warfare (EW) subsystems for defense prime contractors. Removing the limiting term Computer from our name more fully reflects the breadth of our product and solution offerings along the sensor processing chain, including digital electronics, radio frequency, and microwave components and subsystems.

This name change will also help us more clearly promote our solutions and products to both existing customers and new customer prospects. As Mercury Systems, we plan to clearly and broadly leverage this name change to our advantage in sales and marketing activities. This can help drive future growth and market expansion.

Required Vote

Approval of the change of our name from Mercury Computer Systems, Inc. to Mercury Systems, Inc. requires the affirmative FOR vote of a majority of the votes cast on the proposal. Unless marked to the contrary, proxies received will be voted FOR approval of the change in our name.

Recommendation

The Board of Directors recommends a vote FOR the approval of the change of our name to Mercury Systems, Inc.

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PROPOSAL 5: RATIFICATION OF APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed KPMG LLP (KPMG) as our independent registered public accounting firm for the fiscal year ending June 30, 2013. We are asking shareholders to ratify this appointment. Although ratification by shareholders is not required by law or by our by-laws, the Audit Committee believes that submission of its selection to shareholders is a matter of good corporate governance. Even if the selection is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time if the Audit Committee believes that such a change would be in the best interests of Mercury and our shareholders. If our shareholders do not ratify the selection of KPMG, the Audit Committee will take that fact into consideration, together with such other factors it deems relevant, in determining its next selection of an independent registered public accounting firm.

Representatives of KPMG will attend the annual meeting, where they will have the opportunity to make a statement if they wish to do so and will be available to answer questions from shareholders.

Required Vote

Approval of the ratification of the appointment of KPMG as our independent registered public accounting firm for fiscal 2013 requires the affirmative FOR vote of a majority of the votes cast on the proposal. Unless marked to the contrary, proxies received will be voted FOR approval of the ratification of the appointment.

Recommendation

The Board of Directors recommends a vote FOR the ratification of the appointment of KPMG as our independent registered public accounting firm for fiscal 2013.

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VOTING SECURITIES

Who owns more than 5% of our stock?

On August 22, 2012, there were 32,166,594 shares of our common stock outstanding. On that date, to our knowledge, there were three shareholders who owned beneficially more than 5% of our common stock. The table below contains information, as of the dates noted below, regarding the beneficial ownership of these persons or entities. The Percent of Class was calculated using the number of shares of our common stock outstanding as of August 22, 2012. Unless otherwise indicated, we believe that each of the persons or entities listed below has sole voting and investment power with respect to all of the shares of common stock indicated.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
Black Rock, Inc.(1)	2,344,158	7.3%
Baron Capital Group, Inc.(2)	1,750,000	5.4
Barrow, Hanley, Mewhinney & Strauss, Inc.(3)	1,708,471	5.3

(1) Based on a Schedule 13G/A filed by Black Rock, Inc. with the SEC on January 20, 2012, reporting beneficial ownership as of December 31, 2011. The reporting entity s address is 40 East 52nd Street, New York, New York 10022.
(2) Based on a Schedule 13G filed by Baron Capital Group, Inc. with the SEC on February 14, 2012, reporting beneficial ownership as of December 31, 2011. The reporting entity s address is 767 5th Avenue, 49th Floor, New York, New York 10153.
(3) Based on a Schedule 13G/A filed with the SEC on February 9, 2012, reporting beneficial ownership as of December 31, 2011. The reporting entity s address is 2200 Ross Avenue, 31st Floor, Dallas, Texas 75201.

How much stock does each of Mercury s directors and executive officers own?

The following information is furnished as of August 22, 2012, with respect to common stock beneficially owned by: (1) our directors (including our chief executive officer) and director nominees; (2) our chief financial officer and the three most highly compensated executive officers other than the chief executive officer and the chief financial officer; and (3) all directors, director nominees, and executive officers as a group. Unless otherwise indicated, the individuals named below held sole voting and investment power over the shares listed.

Name and Address of Beneficial Owner*	Number of Shares Beneficially Owned(1)	Percent of Class(1)
Mark Aslett(2)	888,120	2.7%
James K. Bass(3)	32,210	**
George W. Chamillard(4)	118,876	**
Michael A. Daniels(5)	32,210	**
George K. Muellner(6)	32,210	**
William K. O Brien(7)	63,876	**
Lee C. Steele(8)	130,376	**
Vincent Vitto(9)	95,876	**
Kevin M. Bisson(10)	110,395	**
Gerald M. Haines II(11)	144,617	**
Charles A. Speicher(12)	51,266	**
Didier M.C. Thibaud(13)	511,098	1.6
All directors, director nominees, and executive officers as a group (12 persons)(14)	2,211,130	6.7%

* The address for each director and executive officer is c/o Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824.

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** Less than 1.0%.

(1) The number and percent of the shares of common stock with respect to each beneficial owner are calculated by assuming that all shares which may be acquired by such person within 60 days of August 22, 2012 are outstanding.

(2) Includes (a) 146,267 shares owned by Mr. Aslett individually; (b) 294,726 shares which may be acquired by Mr. Aslett within 60 days of August 22, 2012 through the exercise of stock options; and (c) 447,127 restricted shares awarded to Mr. Aslett under our stock-based plans (as to which Mr. Aslett has sole voting power, but which are subject to restrictions on transfer).

(3) Includes (a) 8,605 shares owned by Mr. Bass individually; (b) 15,000 shares which may be acquired by Mr. Bass within 60 days of August 22, 2012 through the exercise of stock options; and (c) 8,605 restricted shares awarded to Mr. Bass under our stock-based plans (as to which Mr. Bass has sole voting power, but which are subject to restrictions on transfer).

(4) Includes (a) 24,271 shares owned by Mr. Chamillard individually; (b) 91,000 shares which may be acquired by Mr. Chamillard within 60 days of August 22, 2012 through the exercise of stock options; and (c) 3,605 restricted shares awarded to Mr. Chamillard under our stock-based plans (as to which Mr. Chamillard has sole voting power, but which are subject to restrictions on transfer).

(5) Includes (a) 8,605 shares owned by Mr. Daniels individually; (b) 15,000 shares which may be acquired by Mr. Daniels within 60 days of August 22, 2012 through the exercise of stock options; and (c) 8,605 restricted shares awarded to Mr. Daniels under our stock-based plans (as to which Mr. Daniels has sole voting power, but which are subject to restrictions on transfer).

(6) Includes (a) 8,605 shares owned by Mr. Muellner individually; (b) 15,000 shares which may be acquired by Mr. Muellner within 60 days of August 22, 2012 through the exercise of stock options; and (c) 8,605 restricted shares awarded to Mr. Muellner under our stock-based plans (as to which Mr. Muellner has sole voting power, but which are subject to restrictions on transfer).

(7) Includes (a) 14,271 shares owned by Mr. O Brien individually; (b) 46,000 shares which may be acquired by Mr. O Brien within 60 days of August 22, 2012 through the exercise of stock options; and (c) 3,605 restricted shares awarded to Mr. O Brien under our stock-based plans (as to which Mr. O Brien has sole voting power, but which are subject to restrictions on transfer).

(8) Includes (a) 26,271 shares owned by Mr. Steele individually; (b) 100,500 shares which may be acquired by Mr. Steele within 60 days of August 22, 2012 through the exercise of stock options; and (c) 3,605 restricted shares awarded to Mr. Steele under our stock-based plans (as to which Mr. Steele has sole voting power, but which are subject to restrictions on transfer).

(9) Includes (a) 14,271 shares owned by Mr. Vitto individually; (b) 78,000 shares which may be acquired by Mr. Vitto within 60 days of August 22, 2012 through the exercise of stock options; and (c) 3,605 restricted shares awarded to Mr. Vitto under our stock-based plans (as to which Mr. Vitto has sole voting power, but which are subject to restrictions on transfer).

(10) Includes (a) 110,395 restricted shares awarded to Mr. Bisson under our stock-based plans (as to which Mr. Bisson has sole voting power, but which are subject to restrictions on transfer).

(11) Includes (a) 22,739 shares owned by Mr. Haines individually; and (b) 121,878 restricted shares awarded to Mr. Haines under our stock-based plans (as to which Mr. Haines has sole voting power, but which are subject to restrictions on transfer).

(12) Includes (a) 5,233 shares owned by Mr. Speicher individually; and (b) 46,033 restricted shares awarded to Mr. Speicher under our stock-based plans (as to which Mr. Speicher has sole voting power, but which are subject to restrictions on transfer).

(13) Includes (a) 87,077 shares owned by Mr. Thibaud individually; (b) 195,250 shares which may be acquired by Mr. Thibaud within 60 days of August 22, 2012 through the exercise of stock options; and (c) 228,771 restricted shares awarded to Mr. Thibaud under our stock-based plans (as to which Mr. Thibaud has sole voting power, but which are subject to restrictions on transfer).

(14) Includes (a) 366,215 shares owned by directors and executive officers individually; (b) 850,476 shares which may be acquired within 60 days of August 22, 2012 through the exercise of stock options; and (c) 994,439 restricted shares awarded to the directors and executive officers under our stock-based plans (as to which each has sole voting power, but which are subject to restrictions on transfer).

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EXECUTIVE OFFICERS

Who are Mercury s executive officers?

The following persons are our executive officers as of August 31, 2012:

Name	Position
Mark Aslett	President and Chief Executive Officer
Kevin M. Bisson	Senior Vice President, Chief Financial Officer, and Treasurer
Gerald M. Haines II	Senior Vice President, Corporate Development, Chief Legal Officer, and Secretary
Didier M.C. Thibaud	President, Advanced Computing Solutions
Charles A. Speicher	Vice President, Controller, and Chief Accounting Officer

Where can I obtain more information about Mercury s executive officers?

Biographical information concerning our executive officers and their ages can be found in Item 4.1 titled Executive Officers of the Registrant in our annual report on Form 10-K for the fiscal year ended June 30, 2012, which item is incorporated by reference into this proxy statement.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

We use a pay-for-performance system that measures corporate financial and individual management-by results performance and rewards contributions toward our success.

Fiscal 2012 was a strong year for Mercury in an increasingly challenging environment. For full-year fiscal 2012, Mercury s bookings grew 14% from fiscal 2011, total revenue increased 7% from fiscal 2011, operating income grew 21%, and adjusted EBITDA was up 20%, driven by 27% top-line growth in our defense business. We delivered record defense revenues in fiscal 2012, increasing 27% year over year including KOR Electronics and 16% on an organic basis. Defense bookings and backlog for fiscal 2012 also exhibited very strong growth at 24% and 25% respectively. At 20% of total revenue, our adjusted EBITDA for fiscal 2012 was 200 basis points above the high end of our target business model. Given this overachievement, we have revised our long-term target business model which now seeks to deliver 18% to 22% on an adjusted EBITDA basis over the coming years, assuming the defense industry returns to a more normal funding and contracting environment.

Also in fiscal 2012, we successfully executed on our M&A agenda. During the second quarter of fiscal 2012, we completed the acquisition of KOR Electronics (KOR) and its Paragon Dynamics, Inc. (PDI) subsidiary. KOR designs and develops digital radio frequency memory units for a variety of modern electronic warfare applications, as well as radar environment simulation and test systems for defense applications. PDI provides sophisticated analytic services and customized multi-intelligence data fusion and exploitation solutions for the U.S. intelligence community. During the fourth quarter of fiscal 2012, we signed a definitive agreement to acquire Micronetics, Inc. (Micronetics), which acquisition closed during the first quarter of fiscal 2013. Micronetics is a leading designer and manufacturer of microwave and radio frequency subsystems and components for defense and commercial customers. These acquisitions are well-aligned with our stated acquisition strategy of growing our capabilities, services, and offerings along the sensor processing chain. The capabilities delivered by KOR, PDI, and Micronetics enhance our integrated digital and radio frequency subsystem solutions for existing and next generation defense and intelligence programs. This type of integrated solution is unique in the marketplace and is in high demand by our defense prime customers.

Anticipating that fiscal 2012 would be challenging from a financial plan perspective, we set the financial portion of our annual executive bonus plan for fiscal 2012 to pay at 50% of target bonus (versus 100% of target bonus during fiscal 2011) based on the achievement of 100% for our financial plan for the year. For our executives to have earned a 100% bonus payout our financial results would have needed to be well in excess of our financial plan for the year. Based on the level of performance achieved relative to our fiscal 2012 targets, which are discussed in detail in the compensation discussion and analysis below, we paid 44.3% of the corporate financial performance portion of our executive bonuses for fiscal 2012. In addition, our executives earned the management-by-results portion of their annual bonus based upon their individual results measured against their individual goals established by the Compensation Committee. For fiscal 2012, our named executive officers achieved between 85% and 100% of their individual management-by-results performance goals for fiscal 2012.

Compensation Philosophy and Objectives

Our executive compensation philosophy is to provide our executives with competitive pay opportunities with actual pay heavily influenced by the attainment of corporate financial and individual management-by-results (MBR) performance objectives. Our compensation philosophy is intended to meet the following objectives:

- offer compensation opportunities that attract highly qualified executives, reward exceptional initiative and achievement, and retain the leadership and skills necessary to build long-term shareholder value; and

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achieve our short-term and long-term strategic goals and values by aligning compensation with business objectives and individual MBR performance objectives.

To accomplish these objectives, our executive compensation programs are designed to maintain a significant portion of an executive s total compensation at risk tied to our annual and long-term financial performance.

Our objective is to implement strategies for delivering compensation that are well structured, are competitive with the technology and defense industries, apply pay-for-performance principles, are appropriately aligned with Mercury s financial goals, and are aligned with our shareholders objectives.

We benchmark executive compensation between the 50^{th} and 75^{th} percentiles compared to peer companies and the Radford Global Technology Survey.

How We Determine Executive Compensation

The Compensation Committee has responsibility for our executive compensation philosophy and the design of our executive compensation programs. The Compensation Committee is primarily responsible for setting executive compensation, which in the case of our CEO, is subject to ratification by a majority of the independent directors on the Board. Information about the Compensation Committee, including its composition, responsibilities, and processes, can be found earlier in this proxy statement under Corporate Governance What committees has the Board established? Compensation Committee.

The compensation of our executive officers is reviewed and approved by the Compensation Committee (with ratification of the CEO s compensation by a majority of the independent directors on the Board). The Compensation Committee analyzes all elements of compensation separately and in the aggregate. In addition to evaluating our executives contribution and performance in light of corporate financial and individual MBR performance objectives, we also base our compensation decisions on market considerations. The Compensation Committee benchmarks our cash and equity incentive compensation against programs available to employees in comparable roles at peer companies and the Radford Global Technology Survey.

The Compensation Committee has engaged the services of Radford, an Aon Consulting company, as an independent compensation consultant. Radford assists the Compensation Committee in, among other things, applying our compensation philosophy for our executive officers and non-employee directors, analyzing current compensation conditions in the marketplace generally and among our peers specifically, and assessing the competitiveness and appropriateness of compensation levels for our executive officers. Representatives of Radford periodically attend meetings of the Compensation Committee, both with and without members of management present, and interact with members of our human resources department with respect to its assessment of the compensation for our executive officers. In addition, Radford may assist management in analyzing the compensation of our non-executive employees. For fiscal 2012, Radford s services included providing compensation survey data for non-employee directors, executives, and non-executive employees. For non-executive employees, management also uses a second compensation consultant to provide market compensation data.

In connection with its benchmarking efforts, the Compensation Committee uses data included in the Radford Global Technology Survey and also specific peer group data. The Compensation Committee annually reviews the companies included in the peer group and adds or removes companies as necessary to ensure that the peer group comparisons are meaningful.

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The Compensation Committee used the following peer group in its determination of total compensation for fiscal 2012:

American Science and Engineering, Inc.	Ducommun Incorporated	KVH Industries, Inc.
Analogic Corporation	Electro Scientific Industries, Inc.	NCI, Inc.
Anaren, Inc.	EMS Technologies, Inc.	Radisys Corporation
API Technologies Corp.	Globecomm Systems Inc.	Satcon Technology Corporation
Cognex Corporation	Herley Industries, Inc.	Sonus Networks, Inc.
Comtech Telecommunications Corp.	Integral Systems, Inc.	Stratasys, Inc.
CPI International, Inc.	IRobot Corporation	Symmetricom, Inc.

During fiscal 2012, Radford assisted us in updating the peer group. We retained the same peer group with the following exceptions:

- EMS Technologies, Inc., Herley Industries, Inc., and Integral Systems, Inc. were all acquired and are no longer public companies; and

- AeroVironment, Inc., Cray, Inc., Digital Globe, Inc., GeoEye, Inc., and KEYW Holdings Corporation were added to the peer group.

The table below lists the updated peer group. Data with respect to the updated peer group and the Radford Global Technology Survey was considered by the Compensation Committee in determining the annual equity awards for August 2012 (fiscal 2013).

AeroVironment, Inc.	Cray, Inc.	KVH Industries, Inc.
American Science and Engineering, Inc.	Digital Globe, Inc.	NCI, Inc.
Analogic Corporation	Ducommun Incorporated	Radisys Corporation
Anaren, Inc.	Electro Scientific Industries, Inc.	Satcon Technology Corporation
API Technologies Corp.	GeoEye, Inc.	Sonus Networks, Inc.
Cognex Corporation	Globecomm Systems Inc.	Stratasys, Inc.
Comtech Telecommunications Corp.	IRobot Corporation	Symmetricom, Inc.
CPI International, Inc.	KEYW Holdings Corporation	

In selecting our peer group, the Compensation Committee focused on company size (as indicated by revenue, number of employees, and market capitalization) and on industries similar to Mercury s target markets.

In particular, the Compensation Committee reviewed the following elements of compensation against the benchmarking data:

- base salary;

- target bonus;

- total target cash compensation (i.e., base salary plus target bonus);

- target long-term incentive compensation, which consists of equity awards; and

- target total direct compensation (i.e., target cash plus target long-term incentive compensation).

Each such element of compensation was compared to peer group data at the 25th, 50th, and 75th percentiles. The peer group used for fiscal 2012 consisted of a blend of public technology and defense companies with revenues between $179 million and $401 million (median revenue $295 million).

The Radford Global Technology Survey data and peer group data, as applicable, were reviewed together to form a final market data point. All forms of compensation were then evaluated relative to the market median.

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Individual compensation pay levels may vary based on individual performance and other considerations, including an executive s relative experience in a new position, the initial compensation levels required to attract qualified new hires, and the compensation levels required to retain highly qualified executives.

The Compensation Committee evaluated the benchmarking data in connection with its determination of compensation levels for fiscal 2012. The data from this benchmarking indicated that each of base salary, target bonus as a percentage of base salary, total target cash compensation, target long-term incentive compensation, and total target direct compensation for our named executive officers was generally between the 50^{th} and 75^{th} percentiles.

We base our total compensation program not only on the application of corporate financial and individual MBR performance considerations and competitive positioning against our peer group, but also through the application of CEO and Compensation Committee judgment. Our Board of Directors reserves the right to determine payouts under the portion of the CEO s annual executive bonus tied to individual MBR performance objectives without regard to previously-established goals if changes in Mercury s business or strategy or other extenuating circumstances warrant such decision in the Board s judgment. The CEO is afforded similar discretion in recommending bonus payouts tied to individual MBR performance objectives for our other executive officers.

Our Elements of Total Compensation

Our total compensation program consists of fixed elements, such as base salary and benefits, and variable performance-based elements, such as annual and long-term incentives. Our fixed compensation elements are designed to provide a stable source of income and financial security to our executives. Our variable performance-based elements are designed to reward performance at two levels: (1) individual MBR performance; and (2) corporate financial performance compared to annual business goals.

We compensate our executives principally through base salary, performance-based annual bonuses, and equity awards. The objective of this approach is to remain competitive with other companies in the same market for executive talent, while ensuring that our executives are given the appropriate incentives to deliver financial results. The Compensation Committee has chosen to put a substantial portion of each executive s total compensation at risk, contingent upon the achievement of our annual strategic operating plan and year-over-year revenue growth.

Base salaries, target bonuses, and equity awards for our executive officers (other than the CEO) are set by the Compensation Committee following its review and approval of recommendations from the CEO. For the CEO, these elements of compensation are set by the Compensation Committee, and are subject to ratification by a majority of independent directors on the Board.

Base Salary

The Compensation Committee targets base salaries between the 50^{th} and 75^{th} percentiles of a composite index of data from our peer group and the Radford Global Technology Survey. In addition, when the Compensation Committee annually considers executive base salaries, it takes into account each executive s role and level of responsibility.

For fiscal 2012, we made no changes in the base salaries for our named executive officers, except Mr. Haines base salary was increased from $290,000 to $310,000 effective as of January 17, 2012 for pay parity purposes. Holding most executive base salaries at prior-year levels was consistent with market conditions during fiscal 2012. Mr. Bisson joined the Company on January 11, 2012 and the Compensation Committee approved a base salary of $310,000 in connection with his hiring.

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A portion of Mr. Thibaud s salary is paid in Euros. The salary column in the Summary Compensation Table reflects the conversion of each monthly payment from Euros into U.S. Dollars (USD) based on the average conversion rate between Euros and USD for such month.

Annual Executive Bonus Program

Our annual executive bonus program is the variable performance-based element of our overall compensation program. This bonus program provides the potential for additional cash compensation for our executive officers based on achieving the corporate financial and, where applicable, operational goals contained in the annual strategic operating plan that is approved by our Board of Directors around the beginning of the fiscal year, as well as individual MBR performance goals. Participants in the program are senior executives who have a strategic function and are recommended by the CEO to the Compensation Committee for participation in the program. In general, executives with the highest level and amount of responsibility have the highest percentage of their total target compensation at risk. This program consists of two elements: (1) target bonuses; and (2) over-achievement awards. Each executive officer s target bonus is determined based on position, responsibilities, and total target cash compensation, and may be subject to change from year to year. In addition, each executive officer s over-achievement award is determined based on actual adjusted EBITDA exceeding budgeted adjusted EBITDA for the fiscal year. Adjusted EBITDA is a non-GAAP measure and all references to actual adjusted EBITDA in this Compensation Discussion and Analysis refer to such non-GAAP measure. As used in the annual executive bonus plan, adjusted EBITDA includes income from continuing operations (prior to the impact, if any, of a payout of any potential overachievement award) and is adjusted for the following: interest income and expense; income taxes; depreciation; amortization of acquired intangible assets; restructuring; impairment of long-lived assets; acquisition costs and other related expenses; fair value adjustments from purchase accounting; and stock-based compensation expense. Because the annual executive bonus plan calls for a comparison of actual adjusted EBITDA to budgeted adjusted EBITDA for the fiscal year, the operating impact of one or more acquisitions occurring during a fiscal year (which would not have been included in the budget) may be included in the calculation of actual adjusted EBITDA only if all costs related to such acquisition(s) are included as well. In this way, plan participants cannot benefit from acquisition activities by excluding the transaction-related costs associated with the acquisition, and are also not penalized by an acquisition occurring part way through a fiscal year when the partial-year operating results of the acquisition may not be sufficient to cover such transaction-related costs. Actual adjusted EBITDA for fiscal 2012 included the financial results from KOR Electronics from the date of the acquisition on December 30, 2011 to June 30, 2012. Pursuant to the terms of our annual executive bonus plan, we deducted the $0.74 million in acquisition-related costs from the KOR acquisition from our reported adjusted EBITDA of $48.87 million to calculate adjusted EBITDA for purposes of the annual executive bonus program as $48.14 million.

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The following table indicates for fiscal 2012: (1) the target bonus for each named executive officer as a percentage of his base salary; (2) the percentage of the target bonus tied to corporate financial performance objectives; and (3) the percentage of the target bonus tied to individual MBR performance objectives.

Named Executive Officer and Title	Target Bonus as a Percentage of Base Salary	Portion Related to Corporate Financial Performance Objectives	Portion Related to Individual MBR Performance Objectives
Mark Aslett, *President and Chief Executive Officer*	100%	75%	25%
Kevin M. Bisson, *SVP, Chief Financial Officer, and Treasurer*	60	75	25
Robert E. Hult, *SVP, Chief Financial Officer, and Treasurer(1)*	60	75	25
Gerald M. Haines II, *SVP, Corporate Development, Chief Legal Officer, and Secretary*	60	75	25
Didier M.C. Thibaud, *President, Advanced Computing Solutions*	60	75	25
Charles A. Speicher, *Vice President, Controller, and Chief Accounting Officer*	35	75	25

(1) Effective as of the close of business on January 17, 2012, Robert E. Hult retired as Senior Vice President, Chief Financial Officer, and Treasurer. Pursuant to our annual executive bonus plan, he was not entitled to a fiscal 2012 bonus.

For all of our named executive officers, we allocate a majority of their bonus potential to the achievement of overall corporate financial performance objectives, which are based on the achievement of an adjusted EBITDA target in our strategic operating plan for the fiscal year.

Corporate Financial Performance Objectives

Anticipating that fiscal 2012 would be challenging from a financial plan perspective, we set the financial portion of our annual executive bonus plan for fiscal 2012 to pay at 50% of target bonus based on the achievement of 100% for our financial plan for the year. For our executives to have earned a 100% bonus payout our financial results would have needed to be well in excess of our financial plan for the year.

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The corporate financial performance portion of our annual executive bonus program would become fully payable only if our actual adjusted EBITDA for fiscal 2012 was $55.0 million. Achieving actual adjusted EBITDA of $40.8 million would yield a payout of 25% of the corporate financial performance bonus, and below this threshold level, no payout would occur. Payouts for corporate financial performance for fiscal 2012 were subject to the following payout formula:

Adjusted EBITDA Attained	**Percentage to be Paid for Bonus**	**Threshold, Target, and Maximum**
Less than $40.8 million	0%	Below Threshold
$40.8 million	25%	Threshold
Greater than $40.8 million but less than $50.3 million	Proportionate % between 25% and 50%	
$50.3 million	50%	
Greater than $50.3 million but less than $55.0 million	Proportionate % between 50% and 100%	
$55.0 million	100%	Target
Greater than $55.0 million	100%	Maximum

The Compensation Committee reserves the right to vary from year to year the percentages of the target corporate bonus earned upon achievement of the threshold, target, and maximum adjusted EBITDA objectives.

Fiscal 2012 actual adjusted EBITDA for purposes of the annual executive bonus program was $48.14 million, yielding a payout at 44.3% of the target corporate financial performance bonus.

Over-Achievement Awards

Each executive officer s over-achievement award for fiscal 2012 was based on the executive s share of the over-achievement award pool. The percentage of the over-achievement award pool granted to an executive is the same percentage as the individual executive s participation in the annual executive bonus program relative to the total size of the executive bonus program for the fiscal year. The size of the over-achievement award pool is determined based on the amount by which actual adjusted EBITDA exceeded budgeted adjusted EBITDA.

In order to receive an over-achievement award in fiscal 2012, the Company had to satisfy a $252.0 million organic revenue target and actual adjusted EBITDA had to exceed budgeted adjusted EBITDA. For fiscal 2012, actual organic revenue and actual adjusted EBITDA were both below their respective targets. Accordingly, no over-achievement awards were earned for fiscal 2012.

Individual MBR Performance Objectives

Individual MBR performance objectives for our executive officers (other than the CEO) are initially recommended by our CEO after consultation with the affected executive officers and reviewed and approved by the Compensation Committee. These individual MBR performance objectives are intended to focus the executive s actions for the following fiscal year in line with our strategic operating plan. At the end of the fiscal year, the CEO measures individual achievement for an executive officer by comparing actual performance of the executive to the previously established goals. The CEO is permitted to change an executive officer s individual MBR performance objectives, or recommend a payout without regard to previously-established goals, if changes in Mercury s business or strategy or other extenuating circumstances warrant such decision in the CEO s judgment. No such changes were made during fiscal 2012 for our named executive officers. At the end of the fiscal year, the CEO reports to the Compensation Committee on the executive officers achievement of individual MBR performance objectives, and the Compensation Committee reviews and approves the payout of the individual MBR performance objective bonuses to our executive officers (other than the CEO), based on the CEO s recommendation.

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Individual MBR performance objectives for our CEO are established by the independent directors on the Board of Directors upon the recommendation of the Compensation Committee. At the end of the fiscal year, all of the independent directors evaluate the CEO s performance in light of the previously-established goals, and based on that review, the Compensation Committee approves the payout of the CEO s individual MBR performance objective bonus, which is subject to ratification by a majority of the independent directors on our Board.

Set forth below are the specific individual MBR performance objectives for our named executive officers for fiscal 2012.

Mark Aslett, *President and Chief Executive Officer*. The individual MBR performance objectives for Mr. Aslett established by the independent directors on the Board of Directors, upon the recommendation of the Compensation Committee, were as follows:

- Defense Business Growth acquire and integrate one to two companies, raise additional capital as necessary, execute on key revenue programs, continue to evolve Mercury s sales capabilities, and grow defense bookings and the number and probable value of design wins (35% of individual MBR bonus potential);

- Commercially-Developed, Affordable Intelligence, Surveillance, and Reconnaissance (ISR) Subsystems deliver differentiated product and technology building blocks in radio frequency, intermediate frequency, and digital signal processing, improve and evolve software architecture and building blocks, and develop one application-ready subsystem for each priority market segment (20% of individual MBR bonus potential);

- Customer Intimacy establish a baseline customer perception of Mercury and build an end-to-end process and organizational model focused on customer intimacy (20% of individual MBR bonus potential);

- Services-Led Systems Business scale and transform Mercury into a services-led systems organization and drive growth in the Services and Systems Integration (SSI) group and Microwave and Digital Solutions (MDS) group (15% of individual MBR bonus potential); and

- People, Culture, and Values, and Shareholder Outreach complete the hiring of a new Chief Financial Officer, complete the transition of the new head of human resources, continue to strengthen succession planning and people development, and continue the shareholder outreach program (10% of individual MBR bonus potential).

Kevin M. Bisson, *Senior Vice President, Chief Financial Officer, and Treasurer*. The individual MBR performance objectives for Mr. Bisson approved by the Compensation Committee, upon the recommendation of the CEO, were as follows:

- Finance Organization Development successfully complete the Chief Financial Officer transition, develop talent and build succession capability throughout the finance organization, and migrate to a matrixed functional organization model with the business units (20% of individual MBR bonus potential);

- Support Acquisitions support the Company s acquisition strategy by ensuring adequate funding, assisting with transaction structuring, and performing due diligence and integration activities (25% of individual MBR bonus potential);

- Shareholder Value Creation maintain the accelerated pace of investor outreach road shows, increase the percentage of growth investors in the shareholder base, and focus sell-side analyst coverage (25% of individual MBR bonus potential);

Finance Infrastructure Build-Out continue to strengthen contract accounting practices and tools, build-out the Mercury Federal Systems finance team, and develop further expertise in Defense Contract Audit Agency accounting matters (20% of individual MBR bonus potential); and

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Security Culture implement Phase II of the Company-wide security program by developing a security culture through training, drills, and audits (10% of individual MBR bonus potential).

Gerald M. Haines II, *Senior Vice President, Corporate Development, Chief Legal Officer, and Secretary*. The individual MBR performance objectives for Mr. Haines approved by the Compensation Committee, upon the recommendation of the CEO, were as follows:

Mergers and Acquisitions deliver corporate development and legal support for multiple M&A transactions, maintain a robust pipeline of targets, implement a tracking tool for entire process from identification through integration, negotiate appropriate transaction structures, produce transaction documentation, acquire one to two companies, define and document an integration process, and maintain a robust, flexible capital structure (50% of individual MBR bonus potential);

People, Structure, and Services align and organize groups with business needs in target areas, establish clear protocols for operations as a commercial-item vendor, handle additional and more complex transactions, and extend and integrate knowledge of commercial-item contracting into M&A transactions and throughout the organization (20% of individual MBR bonus potential);

Corporate Governance support Mercury s Board and Committees through continuing education on emerging issues and facilitate a robust self-evaluation process, and implement clear protocols in support of hybrid business model (15% of individual MBR bonus potential); and

Security and Trade Compliance implement Phase II of the Company-wide security program, extend security and trade compliance training to cover higher level courses, and emphasize counter-intelligence capabilities (15% of individual MBR bonus potential).

Didier M.C. Thibaud, *President, Advanced Computing Solutions*. The individual MBR performance objectives for Mr. Thibaud approved by the Compensation Committee, upon the recommendation of the CEO, were as follows:

Defense Business Growth drive growth in defense bookings and the probable value of design wins, have the MDS group and the SSI group meet their bookings, revenue, and profit goals, execute on departmental synergies, make at least one acquisition to strengthen the MDS group, and efficiently manage inventory (40% of individual MBR bonus potential);

Services-Led Systems Business scale and transform Mercury into a services-led systems organization, develop a process to ensure interoperable architecture to explore the role of standards in enhancing the probability of design wins, establish ownership for building blocks and cross divisional leverage, establish ownership for system level building block quality assurance, and optimize our end-to-end support processes and business model (20% of individual MBR bonus potential);

Commercially-Developed, Affordable Intelligence, Surveillance, and Reconnaissance (ISR) Subsystems deliver differentiated product and technology building blocks in radio frequency, intermediate frequency, and digital signal processing, improve and evolve software architecture and building blocks, and develop one application-ready subsystem for each priority market segment (10% of individual MBR bonus potential);

Customer Intimacy improve the overall customer experience in all customer touch points, establish a baseline customer perception of Mercury, and track delivery based on commitments by SSI, MDS, engineering, and operations (10% of individual MBR bonus potential);

People, Culture, and Values implement the functional organization in accordance with our strategic operating plan, continue to strengthen succession planning and people development, engage in talent assessment and development, conduct communication meetings with employees, and reach out to remote sites by quarterly location visits (10% of individual MBR bonus potential); and

Security Culture implement Phase II of the Company-wide security program by developing a security culture through training, drills, and audits (10% of individual MBR bonus potential).

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Charles A. Speicher, *Vice President, Controller, and Chief Accounting Officer*. The individual MBR performance objectives for Mr. Speicher approved by the Compensation Committee, upon the recommendation of the CEO, were as follows:

- Finance Organization Development develop talent and build succession capability throughout the finance organization and migrate to a matrixed functional organization model with the business units (25% of individual MBR bonus potential);

- Support Acquisitions support the Company s acquisition strategy by ensuring adequate funding, assisting with transaction structuring, and performing due diligence and integration activities (25% of individual MBR bonus potential);

- Finance Infrastructure Build-Out continue to strengthen contract accounting practices and tools, build-out the Mercury Federal Systems finance team, and develop further expertise in Defense Contract Audit Agency accounting matters (20% of individual MBR bonus potential);

- Customer Intimacy and Service Orientation require two measurable process improvements from each finance team member and enhance customer intimacy and service levels (20% of individual MBR bonus potential); and

- Security Culture implement Phase II of the Company-wide security program by developing a security culture through training, drills, and audits (10% of individual MBR bonus potential).

Our named executive officers satisfied their individual MBR performance objectives as follows: Mr. Aslett, 90%; Mr. Bisson, 96%; Mr. Haines, 100%; Mr. Thibaud, 85%; and Mr. Speicher 99%.

Annual Executive Bonus Program for Fiscal 2013

Consistent with fiscal 2012, for fiscal 2013, the target bonus as a percentage of base salary for the CEO under the annual executive bonus program will be 100%; for Senior Vice Presidents will be 60%; and for Vice Presidents will be 35 to 50%. Also, for fiscal 2013, the bonus components for our executive officers will be 75% for corporate financial performance objectives and 25% for individual MBR performance objectives. The over-achievement award pool for fiscal 2013 will be 23.9% of the amount, if any, by which actual adjusted EBITDA exceeds budgeted adjusted EBITDA.

New Hire Bonus for Kevin M. Bisson

Mr. Bisson received a $100,000 hiring bonus upon commencement of his employment with Mercury. If within one year of joining Mercury he were to leave the company other than for good reason or be terminated for cause , he would be required to pay back the hiring bonus.

Retirement of Robert E. Hult

Mr. Hult retired as Senior Vice President, Chief Financial Officer, and Treasurer effective at the close of business on January 17, 2012. Mr. Hult agreed to be a part-time employee through the filing of our fiscal 2012 annual report on Form 10-K to provide certain transition services following his retirement as Chief Financial Officer . He received a bi-weekly payment of $3,929.04 and continued to vest in his Mercury equity awards during the period from his retirement as Chief Financial Officer until August 31, 2012.

We paid Mr. Hult a $92,500 cash bonus in lieu of a restricted stock award for his services related to the Company s acquisition of LNX Corporation and the Company s successful follow-on common stock offering.

Pursuant to our annual executive bonus plan, Mr. Hult was not entitled to a fiscal 2012 bonus due to his retirement prior to the end of the fiscal year.

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Equity Compensation

We believe that compensation in the form of Mercury stock should be a significant portion of our executive officers total compensation. Equity compensation creates a unique link between the creation of shareholder value and an executive s long-term wealth accumulation opportunity. Our 2005 Plan allows for several types of equity instruments, including stock options, stock appreciation rights, restricted stock, and deferred stock awards. The Compensation Committee determines which instruments to use on a grant-by-grant basis. When approving equity awards for an executive officer, the Compensation Committee considers the executive s current contribution to Mercury, the anticipated contribution to meeting Mercury s long-term strategic performance goals, and industry practices and norms. Long-term incentives granted in prior years, existing levels of stock ownership by executive officers, and aggregate grants to all executive officers are also taken into consideration.

In considering the executive s current contribution to Mercury, the Compensation Committee reviews the executive s role within Mercury, the contribution that the executive is currently making to Mercury, the results achieved by the executive, and input from the CEO with respect to executive officers other than the CEO. In general, executives with higher levels and amounts of responsibility receive larger equity awards. As a result, the CEO, CFO, and business unit leaders tend to have larger equity awards than our other executives.

In terms of the executive s anticipated contribution to meeting long-term strategic performance goals, the Compensation Committee reviews the potential role of the executive in achieving the long-term strategic goals set forth in our strategic operating plan, again with input from the CEO with respect to executives other than the CEO. The Compensation Committee considers the incentive and retention value that equity awards may provide.

Finally, the Compensation Committee reviews proposed equity awards to executives against benchmarking and peer group data. The Compensation Committee believes that equity awards create an incentive in addition to the annual executive bonus program in order to attract and retain senior executives who would contribute to our future success. As a result, the Compensation Committee intends for equity awards to executives as part of their long-term incentive compensation to generally be in line with industry practices and norms, both in terms of the type of equity award (e.g., stock options versus restricted stock) and the amount of the award.

The Compensation Committee has adopted an equity compensation awards policy that describes how equity awards are granted. Awards are granted by the Compensation Committee, subject to the following:

- any award granted to the CEO is subject to ratification by a majority of the independent directors on the Board; and

- the Compensation Committee may delegate to the CEO the authority to grant awards to other employees (other than our executive officers or other persons deemed to be covered employees within the meaning of Section 162(m) of the Code), subject to guidelines that are included in any such delegation.

The equity compensation awards policy provides pre-established monthly grant dates for new hires, as well as quarterly grant dates. New-hire grants are made with an effective date of the 15th of each month following the date of hire, or if not a business day, the next succeeding business day. Quarterly grants are made with an effective date of the 15th of February, May, August, or November, or if not a business day, then the next succeeding business day. Awards are made on these pre-established dates regardless of whether the Compensation Committee, the Board, or the CEO is then in possession of material, non-public information. This policy is not intended to time the grant of equity awards in coordination with such information.

Under the equity compensation awards policy, the Compensation Committee may also grant equity awards having an effective date other than a pre-established new-hire or quarterly grant date if the committee determines in good faith that such award is advisable and in the best interests of Mercury and so long as the committee believes, in good faith, that neither the members of the committee nor the grantee is then in possession of material, non-public information concerning Mercury. Grants are made by the Compensation Committee only at a meeting of the committee, which must occur on or prior to (but not after) the grant date applicable to such awards. Grants to the CEO are ratified by the independent directors only at a meeting of the Board, which must occur on or prior to (but not after) the grant date applicable to such award. Grants made by the CEO pursuant to delegated authority are evidenced by a grant document that must be signed and dated by the CEO on or prior to (but not after) the grant date applicable to such awards.

The fiscal 2012 annual grants to our named executive officers were: Mr. Aslett, 60,000 restricted shares; Mr. Haines, 20,000 restricted shares; Mr. Speicher, 9,000 restricted shares; and Mr. Thibaud, 28,000 restricted shares. The fiscal 2012 grants were smaller than the prior year grants largely due to the stock price used to determine the fiscal 2012 annual equity grants being approximately 73% higher than the stock price used to determine the fiscal 2011 annual equity awards (fiscal 2012 $19.05 per share versus fiscal 2011 $10.99 per share). In addition, the Compensation Committee decided to split the fiscal 2012 annual grant into two equal pieces, with the first half being granted on August 15, 2011 and the second half being granted on February 15, 2012. The share grant numbers reflected above are the total of the first half and the second half grants. These grants were made based on the Compensation Committee s assessment of both competitive annual grant levels and its determination of retention needs reflected by the pre-existing unvested long-term incentive awards previously granted to the executives.

The Compensation Committee did not grant an annual restricted stock award to Mr. Hult in fiscal 2012 in light of his planned retirement during the fiscal year. In addition, the Compensation Committee granted the following special recognition restricted stock awards effective August 15, 2011: Mr. Aslett, 7,500 restricted shares; Mr. Haines, 5,000 restricted shares; and Mr. Thibaud, 5,000 restricted shares. These special recognition awards are separate and distinct from the annual grants and were approved in recognition of the completion of the acquisition of LNX and the February 2011 follow-on equity offering.

Mr. Bisson was granted 60,000 restricted shares on January 16, 2012 in connection with his hiring as our Chief Financial Officer.

Subsequent to fiscal 2012, we granted annual restricted stock awards to certain of our named executive officers. The fiscal 2013 annual grants to our named executive officers were: Mr. Aslett, 126,502 restricted shares; Mr. Bisson, 50,395 restricted shares; Mr. Haines, 39,128 restricted shares; Mr. Speicher, 17,533 restricted shares; and Mr. Thibaud, 72,396 restricted shares. Since these awards occurred during fiscal 2013, they are not reflected in the Outstanding Equity Awards at Fiscal Year-End Table for fiscal 2012 included in this proxy statement. We determined the value of fiscal 2013 equity grants using compensation market data from our peer group and the Radford Global Technology Survey. For fiscal 2013, the Compensation Committee granted annual equity awards at the Committee s July 2012 meeting with a fixed dollar value for each individual grant. The number of shares granted in the fiscal 2013 equity grants were larger than the prior year grants largely due to the stock price used to determine the fiscal 2013 annual equity grants being approximately 45% lower than the stock price used to determine the fiscal 2012 annual equity awards (fiscal 2013 $10.55 per share versus fiscal 2012 $19.05 per share). The total annual grants to our named executive officers plus seven other members of senior management was capped at 500,000 shares. The Compensation Committee approved the 500,000 share cap to limit the potential increase in number of shares granted in the event of a significant decline in our stock price. The number of shares granted for the annual grant effective as of August 15, 2012 for each named executive officer was determined by dividing the dollar value fixed for such executive grant by the average closing price of Mercury s common stock during the 30 calendar days prior August 15, 2012. Since such total grants would have exceeded the 500,000 share cap, each individual annual grant to our named executive officers was reduced by approximately 4.7% to fit within the share limit.

In addition, we granted retention awards to certain of our named executive officers and other members of senior management subsequent to fiscal 2012. These retention grants, which were granted effective as of August 15, 2012, are intended to create a greater retention value in light of the significant defense market headwinds facing the industry and Mercury in fiscal 2013 primarily the uncertainty, and the resulting slowness and reduced volume of defense-related orders, in the U.S. defense budget caused by the November 2012 Presidential election, the potential for a continuing budget resolution, and the potential for defense budget sequestration. These retention grants to our named executive officers were: Mr. Aslett, 190,000 restricted shares; Mr. Haines, 34,000 restricted shares; and Mr. Thibaud, 80,000 restricted shares. Since these awards occurred during fiscal 2013, they are not reflected in the Outstanding Equity Awards at Fiscal Year-End Table for fiscal 2012 included in this proxy statement.

These equity grants were made based on the Compensation Committee s assessment of both competitive annual grant levels and its determination of retention needs reflected by the pre-existing unvested long-term incentive awards previously granted to the executives.

Employee Benefits

We offer employee benefit programs that are intended to provide financial protection and security for our employees and to reward them for the total commitment we expect from them in service to Mercury. All of our named executive officers are eligible to participate in these programs on the same basis as our other employees. These benefits include the following: (1) medical, dental, and vision insurance, with employees sharing a percentage of the cost that may be adjusted from year to year; (2) company-paid group life and accident insurance of one times base salary (up to $350,000); (3) employee-paid supplemental group life and accident insurance up to five times base salary (up to $400,000); (4) short- and long-term disability insurance; (5) a qualified 401(k) retirement savings plan with a 50% company match up to 6% of base pay as contributed by the individual to the 401(k) plan (subject to IRS limits on contributions); and (6) an employee stock purchase plan, which entitles participants to purchase our common stock at a 15% discount.

Perquisites and Personal Benefits

We provide our executive officers with up to $2,000 annually for personal tax and financial planning services.

Employment and Severance Agreements

While we do not generally enter into contractual commitments with our executive officers regarding their compensation, we do recognize that there are circumstances in which it is in the best interests of Mercury and our shareholders to do so. In this regard, we have entered into an employment agreement with Mr. Aslett and severance agreements with Messrs. Bisson, Haines, and Thibaud, each as described below. The Compensation Committee consulted with Radford regarding the market parameters of similar compensation arrangements for executive officers in connection with entering into these agreements.

We entered into an employment agreement with Mr. Aslett in connection with his appointment as CEO in November 2007. Given the highly competitive market for executive talent, we believe that it was appropriate to enter into this agreement with Mr. Aslett in order to induce him to join our company. The agreement is intended to provide Mr. Aslett with certainty regarding his compensation so that he can attend to his assigned duties without distraction, while also allowing us flexibility to design a compensation program for Mr. Aslett based on our pay-for-performance philosophy. The agreement provides for an 18-month term, with one-year renewal periods. The employment agreement provides that Mr. Aslett will receive an initial annual base salary of $500,000 (subject to annual review by the Board), and that he will be eligible to participate in our annual executive bonus program in an amount determined by the Board. The employment agreement also provides for termination and severance benefits in the case of a termination of Mr. Aslett s employment by us without cause or by Mr. Aslett for good reason.

We entered into a severance agreement with Mr. Thibaud in connection with his relocation to the United States. We believe that it was appropriate to enter into this agreement with Mr. Thibaud in order to provide him with certainty regarding his position so that he can attend to his assigned duties without distraction. Under the agreement, if at any time prior to July 1, 2013, we terminate Mr. Thibaud s employment without cause or Mr. Thibaud terminates his employment for good reason, then we will pay Mr. Thibaud a severance amount equal to one times his annual base salary. In such event, we also will pay for certain insurance benefits, outplacement services and relocation expenses of Mr. Thibaud.

In connection with his offer to join the company, we agreed to provide Mr. Haines with certain severance benefits. Under the terms of the offer letter to Mr. Haines, if we terminate his employment without cause or Mr. Haines terminates his employment for good reason, then we will pay Mr. Haines a severance amount equal to one times his annual base pay. In such event, we also will pay for certain insurance benefits and outplacement services.

In connection with his offer to join the company, we agreed to provide Mr. Bisson with certain severance benefits. Under the terms of the offer letter to Mr. Bisson, if we terminate his employment without cause or Mr. Bisson terminates his employment for good reason, then we will pay Mr. Bisson a severance amount equal to one times his annual base pay. In such event, we also will pay for certain insurance benefits and outplacement services.

For more details, please refer to *Agreements with Named Executive Officers.*

Change in Control Severance Agreements

We recognize that Mercury, as a publicly-traded company, may become the target of a proposal which could result in a change in control, and that such possibility and the uncertainty and questions which such a proposal may raise among management could cause our executive officers to leave or could distract them in the performance of their duties, to the detriment of Mercury and our shareholders. Certain of our named executive officers have agreements intended to reinforce and encourage the continued attention of our executives to their assigned duties without distraction and to ensure the continued availability to Mercury of each of our executives in the event of a proposed change in control transaction. We believe that these objectives are in the best interests of Mercury and our shareholders.

As part of our normal review cycle, we recently entered into new forms of change in control severance agreements with our Chief Executive Officer and certain other executive officers. The new agreements became effective on August 16, 2011. Provisions of these agreements relating to termination and change in control are summarized under *Potential Payments to Named Executive Officers upon Termination of Employment Following a Change in Control.*

Tax Deductibility of Compensation

Section 162(m) of the Code limits the deduction a public company is permitted for compensation paid to the CEO and to the three most highly compensated executive officers other than the CEO and CFO. Generally, amounts paid in excess of $1,000,000 to a covered executive cannot be deducted, unless the compensation is paid pursuant to a plan which is performance related, is non-discretionary, and has been approved by our shareholders. In its deliberations, the Compensation Committee considers ways to maximize deductibility of executive compensation, but, other than as discussed below, retains the discretion to compensate executive officers at levels the Compensation Committee considers commensurate with their responsibilities and achievements. For fiscal year 2010, the Compensation Committee adopted, and our shareholders approved, our Annual Executive Bonus Plan Corporate Financial Performance that is designed to be Section 162(m) compliant. As such, payments under this plan, which are based on the achievement of objective corporate financial targets, should be excluded from the $1,000,000 limitation under Section 162(m).

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How were the executive officers compensated for fiscal 2010, 2011, and 2012?

The following table sets forth all compensation paid to our chief executive officer, our chief financial officer, and each of our other three most highly compensated executive officers, who are collectively referred to as the named executive officers, for the last three fiscal years.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary	Bonus(1)	Stock Awards(2)	Option Awards(2)	Non-Equity Incentive Plan Compensation(3)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings(4)	All Other Compensation(5)	Total
Mark Aslett	2012	$ 500,000	$	$ 1,000,575	$	$ 278,625	$	$ 10,350	$ 1,789,550
President and Chief	2011	500,000		934,150		991,250		7,350	2,432,750
	2010	500,000		1,179,600		521,681		8,700	2,209,981
Executive Officer									
Kevin M. Bisson(6)	2012	140,692	100,000	801,000		53,219		3,577	1,098,488
Senior Vice President,									
Chief Financial Officer,									
and Treasurer									
Robert E. Hult(7)	2012	214,140	92,500					11,095	317,735
Senior Vice President,	2011	290,000		335,195		347,021		7,945	980,161
Chief Financial Officer,	2010	290,000		412,860		182,850		7,925	893,635
and Treasurer									
Gerald M. Haines II(8)	2012	298,462		371,950		104,223		7,613	782,248
Senior Vice President,	2011	286,654	50,000	657,800		345,608		4,350	1,344,412
Corporate Development, Chief									
Legal Officer, and Secretary									
Charles A. Speicher(9)	2012	215,000		132,795		43,626		7,350	398,771
Vice President, Controller,	2011	172,827		367,700		64,966		5,185	610,678
Chief Accounting Officer									
Didier M.C. Thibaud(10)	2012	340,361		489,990		101,324	336	8,800	940,811
President, Advanced	2011	340,778		549,500		368,745	10,436	8,500	1,277,959
Computing Solutions	2010	324,253		909,275		179,805	1,385	6,418	1,421,136

(1) Mr. Haines received a $50,000 hiring bonus upon the commencement of his employment during fiscal 2011. Mr. Bisson received a $100,000 hiring bonus upon the commencement of his employment during fiscal 2012. Mr. Hult received a $92,500 cash bonus during fiscal 2012 in lieu of a restricted stock award for his services related to the Company s acquisition of LNX Corporation and the Company s successful follow-on common stock offering.

(2) These columns represent the grant date fair value of stock and stock-based awards in accordance with FASB ASC Topic 718.

(3) The aggregate amounts in this column reflect payments under our annual executive bonus program. The table below shows the components of our annual executive bonus program earned for fiscal 2012:

Name	Corporate Financial	MBR Bonus	Over-Achievement

	Performance Bonus		Award	Total Non-Equity Incentive Plan Compensation
Mark Aslett	$ 166,125	$ 112,500	$	$ 278,625
Kevin M. Bisson(a)	30,899	22,320		53,219
Robert E. Hult				
Gerald M. Haines II	59,473	44,750		104,223
Charles A. Speicher	25,002	18,624		43,626
Didier M.C. Thibaud	61,799	39,525		101,324

(a) Mr. Bisson s annual bonus related to corporate financial performance and individual MBRs for fiscal 2012 was prorated based on date of hire in January 2012. Mr. Bisson was not eligible for an over-achievement award for fiscal 2012 based on his date of hire.

(4) The amounts in this column reflect the aggregate change in the actuarial present value of Mr. Thibaud s accumulated benefit under the retirement indemnities pension plan for our French national employees. Amounts under the plan are payable in Euros and the amounts listed in the table above have been converted to dollars using the exchange rate in effect at the end of the applicable fiscal year.

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(5) The table below shows the components of this column for fiscal 2012:

Name	401(k) Plan Matching Contribution(a)	Perquisites and Other Personal Benefits(b)	Total All Other Compensation
Mark Aslett	$ 7,500	$ 2,850	$ 10,350
Kevin M. Bisson	3,577		3,577
Robert E. Hult	10,500	595	11,095
Gerald M. Haines II	7,613		7,613
Charles A. Speicher	7,350		7,350
Didier M.C. Thibaud	7,350	1,450	8,800

(a) The amounts in this column represent our matching contributions allocated to each of the named executive officers who participate in our 401(k) retirement savings plan (subject to IRS limits on contributions to the 401(k) plan). All such matching contributions vest based upon the same vesting schedule used for all other employees.

(b) The amounts in this column include payments we made to or on behalf of the named executive officers for personal tax and financial planning.

(6) Mr. Bisson joined the Company in January 2012.

(7) Effective as of the close of business on January 17, 2012, Mr. Hult retired as Senior Vice President, Chief Financial Officer, and Treasurer. Pursuant to our annual executive bonus plan, he was not entitled to a fiscal 2012 bonus due to his retirement prior to the end of the fiscal year. During fiscal 2012, the Company paid Mr. Hult a $92,500 cash bonus in lieu of a restricted stock award for his services related to the Company s acquisition of LNX Corporation and the Company s successful follow-on common stock offering.

(8) Mr. Haines joined the Company in July 2010.

(9) Mr. Speicher joined the company in September 2010.

(10) A portion of Mr. Thibaud s salary in fiscal years 2010, 2011, and 2012 was paid in Euros. The salary column reflects the conversion of each monthly payment from Euros into U.S. Dollars (USD) based on the average conversion rate between Euros and USD for such month. The amounts in the Non-Equity Incentive Plan Compensation column were paid in USD.

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Grants of Plan-Based Awards

The following table reflects: (i) the grant date fair value of equity awards granted to the named executive officers under the 2005 Plan during fiscal 2012; and (ii) the possible cash amounts that could have been earned under each element (i.e., corporate financial performance, individual MBRs, and over-achievement awards) of our annual executive bonus program for fiscal 2012. The actual payouts for fiscal 2012 under our annual executive bonus program are reflected in the column titled Non-Equity Incentive Plan Compensation in the Summary Compensation Table.

Grants of Plan-Based Awards Fiscal 2012

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards						
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**All Other Stock Awards: Number of Shares of Stock or Units (#)**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Exercise or Base Price of Option Awards ($/sh)**	**Grant Date Fair Value of Stock and Option Awards(1)**
Mark Aslett								
Restricted Stock	8/15/2011(2)				37,500		$	$ 576,375
	2/15/2012(2)				30,000			424,200
Corporate Financial Performance Bonus	(3)	93,750	375,000	375,000				
MBR Bonus	(4)		125,000	125,000				
Over-Achievement Award	(5)			500,000				
Gerald M. Haines II								
Restricted Stock	8/15/2011(2)				15,000			230,550
	2/15/2012(2)				10,000			141,400
Corporate Financial Performance Bonus	(3)	33,563	134,250	134,250				
MBR Bonus	(4)		44,750	44,750				
Over-Achievement Award	(5)			179,000				
Kevin M. Bisson(6)								
Restricted Stock	1/16/2012(2)				60,000			801,000
Corporate Financial Performance Bonus	(3)	34,875	139,500	139,500				
MBR Bonus	(4)							