

MERCURY COMPUTER SYSTEMS INC  
Form DEF 14A  
September 20, 2010  
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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  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))**
- 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)

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September 20, 2010

Dear Shareholder:

We will hold our Annual Meeting of Shareholders on October 21, 2010, beginning at 8:00 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 21, 2010*

The Annual Meeting of Shareholders of MERCURY COMPUTER SYSTEMS, INC. will be held on Thursday, October 21, 2010, at 8:00 a.m., local time, at our offices at 201 Riverneck Road, Chelmsford, Massachusetts 01824, for the following purposes:

1. To elect three Class I 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 the amendment and restatement of our 2005 Stock Incentive Plan.
3. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2011.
4. 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 three Class I 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 31, 2010, 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 21, 2010: This proxy statement and Annual Report and Form 10-K for our fiscal year ended June 30, 2010, are available at [www.edocumentview.com/MRCY](http://www.edocumentview.com/MRCY).**

By Order of the Board of Directors

GERALD M. HAINES II

Secretary

Chelmsford, Massachusetts

September 20, 2010

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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 September 20, 2010, 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 21, 2010, and any adjournment or postponement of that meeting. The meeting will be held on Thursday, October 21, 2010, beginning at 8:00 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 three matters scheduled for a vote:

election of three Class I directors, each to serve for a three-year term and until his successor has been duly elected and qualified;

approval of the amendment and restatement of our 2005 Stock Incentive Plan (the 2005 Plan), including an increase in the aggregate number of shares authorized for issuance under the 2005 Plan by 1,000,000 shares and the other changes summarized in the proposal; and

ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2011.

**Who can attend and vote at the meeting?**

Shareholders of record at the close of business on August 31, 2010, 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 31, 2010, the record date, will constitute a quorum for purposes of the meeting. On the record date, 24,254,627 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 I director named below under **Proposal 1: Election of Class I Directors;****

**FOR the approval of the amendment and restatement of our 2005 Plan;**

**FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2011; 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 and the proposal regarding the amendment and restatement of our 2005 Plan. If such a matter comes before the meeting and you have not specifically instructed your broker how to vote your shares, your shares will not be voted on that matter, 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 Corporation 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.

**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.

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**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 I 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 Dr. Albert P. Belle Isle, Lee C. Steele, and Dr. Richard P. Wishner 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 2010, 2011, 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 I nominees listed below, which include one incumbent director and two new director nominees, 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.

Dr. Belle Isle and Dr. Wishner, each of whom is currently a Class I director, are not standing for re-election at the annual meeting.

**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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**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 three Class I 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 the director nominees and by each of the incumbent directors whose term will continue after the meeting.

Name Class I Directors Nominated for a Term Ending in 2013:	Age	Director	Year First
			Elected a
			Principal Occupation
James K. Bass	53	N/A	Mr. Bass has served as a director of TTM Technologies, Inc., a publicly-traded global printed circuit board manufacturer, since September 2000. 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' 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	64	N/A	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

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Name	Age	Year First	Principal Occupation
		Elected a	
Director			
			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.
Lee C. Steele	61	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 and the Chair of the Audit Committee. 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.

Dr. Belle Isle and Dr. Wishner, each of whom is currently a Class I director, are not standing for re-election at the annual meeting.

Name	Age	Year First	Principal Occupation
		Elected a	
Director			
<b>Class II Directors Serving a Term Ending in 2011:</b>			
Mark Aslett	42	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

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Name	Age	Year First Elected a Director	Principal Occupation
George W. Chamillard	71	2004	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. 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	66	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.

Name	Age	Year First Elected a Director	Principal Occupation
<b>Class III Directors Serving a Term Ending in 2012:</b>			
Vincent Vitto	69	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

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Name	Age	Year First Elected a Director	Principal Occupation
George K. Muellner	67	2010	<p>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.</p> <p>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.</p>

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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. The Board has also determined that Mr. Bass and Mr. Daniels are independent in accordance with applicable NASDAQ listing standards.

**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 I director standing for election at the meeting: (1) Mr. Steele was most recently re-elected as a Class I director at the special meeting in lieu of the 2007 annual meeting of shareholders and; (2) Mr. Bass and Mr. Daniels have each been nominated for election as a Class I director by the Board upon the recommendation of the Nominating and Governance Committee. The Nominating and Governance Committee conducted a director search with the assistance of an independent director search firm, and Mr. Bass and Mr. Daniels were identified to the Nominating and Governance Committee in connection with this director search process.

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.

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Shareholders who wish to submit director candidates for consideration should send such recommendations to our Corporation Secretary at our executive offices not fewer than 120 calendar days prior to the first anniversary of the date on which our proxy statement for the prior year was released. Such recommendations must include the following information:

the name and address of record of the shareholder submitting the recommendation;

a representation that the shareholder is a record holder of our common stock, or if the shareholder is not a record holder, evidence of ownership in accordance with Rule 14a-8(b)(2) under the Securities Exchange Act of 1934, as amended (the Exchange Act );

the name, age, business address, residential address, educational background, current principal occupation or employment, and principal occupation or employment for the preceding five full fiscal years of the proposed director candidate;

a description of the qualifications of the proposed director candidate that address the minimum qualifications described above;

a description of all arrangements or understandings between the shareholder and the proposed director candidate; and

the consent of the proposed director candidate to be named in the proxy statement and to serve as a director if elected.

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 2011 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: Corporation 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 Corporation 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 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](http://www.mc.com) on the Investor Relations page (which appears under the heading About Us ) under Corporate Governance.

#### ***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



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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.

During fiscal year 2010, the members of the Audit Committee were Mr. Steele (Chairman), Dr. Belle Isle, and Mr. O'Brien. The Board has determined that each of Mr. Steele and Mr. O'Brien qualifies as an audit committee financial expert under SEC rules.

### ***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 Senior Vice President, 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 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 corporate benefits and finance departments and to outside service providers, as appropriate.

Our Senior Vice President, 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



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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 year 2010, Radford's services were limited to providing compensation survey data for non-employee directors, executives, and non-executive employees.

During fiscal year 2010, the members of the Compensation Committee were Mr. Chamillard (Chairman), Dr. Wishner, and Mr. Vitto.

### ***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 meeting. In addition, the committee oversees the process by which the Board assesses its effectiveness. During fiscal year 2010, the members of the Nominating and Governance Committee were Mr. O'Brien (Chairman) (effective October 21, 2009), Dr. Belle Isle (through October 21, 2009), Dr. Wishner (through October 21, 2009), Mr. Johnsen (through January 4, 2010), Mr. Steele, and Mr. Vitto (effective October 21, 2009).

### **How often did the Board and committees meet in fiscal year 2010?**

The Board of Directors met seven times during fiscal year 2010. The Audit, Compensation, and Nominating and Governance Committees met fifteen, nine, and six times, respectively, during fiscal year 2010. 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. Johnsen, our former Chairman of the Board, through January 4, 2010, and by Mr. Vitto, our current Chairman of the Board, effective January 5, 2010.

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

Directors are strongly 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. All of the directors then in office attended the 2009 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 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](http://www.mc.com) on the Investor Relations page (which appears

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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: Corporation 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.

### **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 Manager 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, and 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.

### **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,

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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 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., annual company 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 generally 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 "operating income"). 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 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 or leaves for good reason (as defined in the plan).

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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 operating income target 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 between the 50<sup>th</sup> and 75<sup>th</sup> percentiles compared to peer companies.

Directors who are also our employees receive no additional compensation for serving on the Board of Directors. Each non-employee director receives an annual retainer of \$55,000. In addition, the Chairman of the Board receives an additional annual retainer of \$25,000, the chairman of the Audit Committee receives an additional annual retainer of \$15,000, the chairman of the Compensation Committee receives an additional annual retainer of \$12,000, and the chairman of the Nominating and Governance Committee receives an additional annual retainer of \$6,000. 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.

New non-employee directors are granted (i) stock options to purchase 15,000 shares of common stock and (ii) 10,000 shares of restricted stock in connection with their initial election to the Board. These awards vest as to 50% of the shares covered by the award on each of the first two anniversaries of the date of grant, and the stock options expire seven years after the date of grant. Non-employee directors may also receive annual equity awards at the discretion of the Board. Currently, non-employee directors receive annual stock option awards to purchase 8,000 shares and restricted stock awards for 5,333 shares. These awards vest as to 50% of the shares covered by the award on the date of grant and as to the remaining covered shares on the first anniversary of the date of grant, and the stock options expire seven years after the date of grant. All of such awards immediately vest upon the occurrence of a change in control of Mercury.

**How were the non-employee directors compensated for fiscal year 2010?**

The compensation paid to the non-employee members of the Board of Directors with respect to fiscal year 2010 was as follows:

**Director Compensation Fiscal Year 2010**

Name	Fees Earned	Option
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