MERCURY COMPUTER SYSTEMS INC
Form DEF 14A
October 17, 2008
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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.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials:

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

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October 17, 2008

Dear Shareholder:

Mercury Computer Systems, Inc. will hold a Special Meeting in Lieu of the Annual Meeting of Shareholders on November 17, 2008 beginning at 10:00 a.m., local time, at the offices of Goodwin Procter LLP, 53 State Street, Boston, Massachusetts 02109. We look forward to your attending 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 the offices of Goodwin Procter LLP if you plan to attend the special meeting. The enclosed notice of meeting, the proxy statement and the proxy card from our Board of Directors describe the proposals to be acted upon at the meeting.

The agenda for the meeting includes proposals regarding (1) the election of three Class II directors, and (2) the approval of the amendment and restatement of our 2005 Stock Incentive Plan. Our Board of Directors recommends that you vote FOR the election of its slate of nominees for director and FOR the approval of the amended and restated 2005 Stock Incentive Plan.

Please refer to the enclosed proxy statement for detailed information on each of the proposals. If you have any further questions concerning the meeting or the proposals, please feel free to contact us at (978) 256-1300. 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 Special Meeting in Lieu of the

2008 Annual Meeting of Shareholders

To Be Held November 17, 2008

To Shareholders:

A Special Meeting in Lieu of the 2008 Annual Meeting of Shareholders of MERCURY COMPUTER SYSTEMS, INC. will be held on Monday, November 17, 2008 at 10:00 a.m., local time, at the offices of Goodwin Procter LLP, 53 State Street, Boston, Massachusetts 02109, for the following purposes:

1. To elect three Class II 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 the Mercury Computer Systems, Inc. 2005 Stock Incentive Plan.

3. 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 II 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 shareholder of the Corporation.

The Board of Directors has fixed the close of business on September 26, 2008 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.

By Order of the Board of Directors

ALEX A. VAN ADZIN

Secretary

Chelmsford, Massachusetts

October 17, 2008

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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 October 17, 2008 in connection with the solicitation of proxies by the Board of Directors of Mercury Computer Systems, Inc. (Mercury), for a special meeting in lieu of the 2008 annual meeting of shareholders to be held on November 17, 2008, and any adjournment or postponement of that meeting. The meeting will be held on Monday, November 17, 2008, beginning at 10:00 a.m., local time, at the offices of Goodwin Procter LLP, 53 State Street, Boston, Massachusetts 02109. 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 two matters scheduled for a vote:

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

- 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 650,000 shares.

Who can attend and vote at the meeting?

Shareholders of record at the close of business on September 26, 2008 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 September 26, 2008, the record date, will constitute a quorum for purposes of the meeting. On the record date, 22,706,962 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.

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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.

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 II director named below under Proposal 1: Election of Class II Directors;**
- **FOR the approval of the amendment and restatement of our 2005 Plan; 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 generally may vote your shares in its discretion, depending on the type of proposal involved. Under NASDAQ Global Select Market rules, there are certain matters on which brokers may not vote without specific instructions from you, such as the proposal regarding the amendment and restatement of the 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.

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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.

Approval of amendment and restatement of 2005 Plan. The approval of the amendment and restatement of the 2005 Plan requires 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 this matter.

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.

PROPOSAL 1: ELECTION OF CLASS II 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 is divided into three classes, with each class nearly equal in number as possible. The Board of Directors currently consists of ten members, with Dr. Albert P. Belle Isle, Lee C. Steele and Dr. Richard P. Wishner serving as Class I directors; Mark Aslett, Dr. Gordon B. Baty, George W. Chamillard and Sherman N. Mullin serving as Class II directors; and James R. Bertelli, Russell K. Johnsen and Vincent Vitto serving as Class III directors.

The terms of the Class I, Class II and Class III directors expire in 2010, 2008 and 2009, 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 II nominees listed below, which include two incumbent directors and a new director nominee, 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. Baty and Mr. Mullin have indicated that they wish to retire from the Board and, therefore, they are not standing for re-election at the annual meeting. In addition, Mr. Bertelli will be retiring from the Board as of November 17, 2008, the date of the annual meeting, and thereafter will no longer serve as a director of our company. As a result, following the election of the Class II directors at the annual meeting, the Board will consist of a total of eight directors.

Recommendation

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

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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 Class II 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	Age	Year First Elected a Director	Principal Occupation
Class II Directors Nominated for a Term Ending in 2011:			
Mark Aslett	40	2007	Mr. Aslett has served as our President and Chief Executive Officer since November 19, 2007. Prior to that, he was COO and CEO of Enterasys Networks 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 has also held positions at GEC Plessey Telecommunications, as well as other telecommunications-related technology firms.
George W. Chamillard	69	2004	Mr. Chamillard served as Chairman of the Board of Directors of Teradyne, Inc., a supplier of automatic test equipment, from 2000 to his retirement in 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.
William K. O Brien	64	n/a	Mr. O Brien served as Executive Chairman at Enterasys Networks from 2003 until his retirement in 2006. He served as Chief Executive Officer of Enterasys from 2002 to 2004. 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.

Dr. Baty and Mr. Mullin, each of whom is currently a Class II director, are retiring from the Board and, thus, are not standing for re-election.

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Name	Age	Year First Elected a Director	Principal Occupation
Class III Directors Serving a Term Ending in 2009:			
Russell K. Johnsen	54	2001	Mr. Johnsen was the Chairman and Chief Executive Officer of Sirific Wireless Limited, a provider of integrated circuits for the telecommunications market from 2007 until its acquisition by Icera in 2008. Prior to that, he co-founded and served as the CEO of the Occtane Group, a private company which developed and operated a proprietary network of interactive display terminals from 2005 to 2007. From 2003 through 2007, Mr. Johnsen was also President of Delumina, Inc., a technology investment and strategy consulting firm. From 1993 through 2002, Mr. Johnsen was with Analog Devices, Inc., a supplier of high performance analog, mixed signal, and digital signal processing integrated circuits. He served as the company s Vice President of Corporate Business Development in 2002, and as the Vice President and General Manager of the Analog Devices Communications Products Division from 1993 to 2001. Prior to that he served in various senior management capacities at National Semiconductor Corporation.
Vincent Vitto	67	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 also serves as Vice Chairman of the Defense Science Board.

Mr. Bertelli, who is currently a Class III director, will be retiring from the Board as of the date of the annual meeting, and thereafter will no longer serve as a director of our company.

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Class I Directors Name Serving a Term Ending in 2010:	Age	Year First Elected a Director	Principal Occupation
Dr. Albert P. Belle Isle	65	1986	Dr. Belle Isle has been a private investor in technology-based companies since 1990. He is a director of NetClarity, Inc. (formerly known as PredatorWatch, Inc.), a software company for which he served as Chairman of the Board from 2003 to 2006. He was President of Custom Silicon, Inc., a semiconductor company, from 1983 to 1990. He was previously Vice President in charge of a division of Wang Laboratories, Inc., a computer company, from 1980 to 1983. Prior to that, he served in various technical and business management positions involving defense electronics during fifteen years with General Electric Company.
Lee C. Steele	59	2003	Mr. Steele has been a Financial Leadership Partner with Tatum LLC, an executive services and consulting firm, 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.
Dr. Richard P. Wishner	73	2003	Dr. Wishner has been associated both directly and as a consultant with the Defense Advanced Research Projects Agency (DARPA) since 1994, and served as Director of its Information Exploitation Office from 2001 through 2002. He has also served as an advisor to several government organizations including the Senate Select Committee on Intelligence Technical Advisory Group, the Defense Science Board, the Army Science Board, the National Geospatial-Intelligence Agency and the National Security Agency. Prior to joining DARPA, Dr. Wishner served briefly in the Office of the Secretary of Defense where he was Assistant Deputy Undersecretary of Defense (Advanced Technology) for Special Projects. He also served as Chief Executive Officer of Advanced Decision Systems, a privately-held artificial intelligence company, from 1979 to 1991.

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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, and Mr. Bertelli, who is a former executive officer of Mercury. The Board has also determined that Mr. O Brien is independent in accordance with the 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 shareholders 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 II director standing for election at the meeting: (1) Mr. Chamillard was most recently re-elected as a Class II director at the special meeting in lieu of the 2005 annual meeting of shareholders; (2) Mr. Aslett was appointed to the Board on November 19, 2007 in connection with joining our company; and (3) Mr. O Brien has been nominated for election as a Class II director by the Board upon the recommendation of the Nominating and Governance Committee. Mr. O Brien was initially recommended to the Nominating and Governance Committee for election to the Board by Mr. Aslett.

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

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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 background and experience. 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 as 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 Corporation Secretary at Mercury s executive offices not fewer than 120 calendar days prior to the first anniversary of the date on which Mercury s proxy statement for the prior year was released. Such recommendations must include the following information:

(1) the name and address of record of the shareholder submitting the recommendation;

(2) 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);

(3) the name, age, business and 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;

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

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

(6) 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 2009 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. The 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

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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 Mercury s website at *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 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 written related person transaction policy.

During fiscal year 2008, the members of the Audit Committee were Mr. Steele (Chairman), Drs. Baty and Belle Isle and Mr. Vitto. The Board has determined that Mr. Steele 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/or 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 of any changes to our Board.

All of the independent directors on the Board annually review and approve the CEO s corporate and personal 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 payouts, equity-based or other long-term 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 the Compensation Committee sets their compensation based on the recommendation of our CEO. Our Senior Vice President, Organizational Development and Human Resources, and our compensation consultants also make recommendations to the Compensation Committee regarding compensation for our executives.

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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, Organizational Development and Human Resources, and our compensation consultants make recommendations 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 Mercury s expense. The Compensation Committee has engaged Aon Consulting/Radford since 2005 to provide research and comparative market data on executive compensation and non-employee director compensation, plan design consulting, executive compensation consulting, and proxy statement consulting services. These consultants meet with the Compensation Committee, either with or without members of management in attendance, at the committee s request.

During fiscal year 2008, the members of the Compensation Committee were Messrs. Chamillard (Chairman), Johnsen and Mullin and Dr. Wishner.

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 2008, the members of the Nominating and Governance Committee were Drs. Belle Isle (Chairman) and Baty, Mr. Mullin and Dr. Wishner.

How often did the Board and committees meet in fiscal year 2008?

The Board of Directors met eleven times, and acted by unanimous written consent four times, during fiscal year 2008. The Audit, Compensation, and Nominating and Governance Committees met eight, twelve and two times, respectively, during the last fiscal year. 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 seven 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 the lead independent director. The lead independent director currently is, and during fiscal year 2008 was, Russell K. Johnsen.

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 special meeting in lieu of the 2007 annual meeting of shareholders.

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: 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.

DIRECTOR COMPENSATION

How are the directors compensated?

Directors who are also Mercury 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 lead independent director and the chairman of the Audit Committee each 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 stock options to purchase 30,000 shares of common stock in connection with their 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 expire seven years after the date of grant. Non-employee directors may also receive annual stock option awards at the discretion of the Compensation Committee. Beginning with fiscal year 2007, non-employee directors receive annual stock option awards to purchase 16,000 shares. These awards vest as to 50% of the shares covered by the award on the date of grant and

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as to the remaining covered shares on the first anniversary of the date of grant, and will expire seven years after the date of grant. All or a portion 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 2008?

The compensation paid to the non-employee members of the Board of Directors with respect to fiscal year 2008 was as follows:

Director Compensation Fiscal Year 2008

Name	Fees Earned or Paid in Cash	Option Awards ($)(1)(2)	Total
Dr. Gordon B. Baty	$ 55,000	$ 91,576	$ 146,576
Dr. Albert P. Belle Isle	61,000	91,576	152,576
George W. Chamillard	67,000	91,576	158,576
Russell K. Johnsen	70,000	91,576	161,576
Sherman N. Mullin	55,000	91,576	146,576
Lee C. Steele	70,000	91,576	161,576
Vincent Vitto	55,000	172,583	227,583
Dr. Richard P. Wishner	55,000	91,576	146,576

(1) This column represents the dollar amount we recognized for financial statement reporting purposes with respect to fiscal year 2008 related to stock option awards in accordance with Statement of Financial Accounting Standards No. 123R (FAS 123R), disregarding the estimate for forfeitures, and thus includes amounts for stock option awards granted in fiscal year 2008 as well as prior years. Additional information can be found in Note C to the consolidated financial statements included in Mercury s annual report on Form 10-K for the fiscal year ended June 30, 2008.

(2) The following table provides details regarding the grant date fair value of each stock option award granted to our non-employee directors in fiscal year 2008 and the aggregate number of shares subject to each non-employee director s outstanding stock option awards as of June 30, 2008:

Name	FAS 123R Grant Date Fair Value	Shares Subject to Outstanding Options at Fiscal Year-End (#)
Dr. Gordon B. Baty	$ 89,035	67,952
Dr. Albert P. Belle Isle	89,035	67,952
George W. Chamillard	89,035	51,000
Russell K. Johnsen	89,035	74,520
Sherman N. Mullin	89,035	77,926
Lee C. Steele	89,035	60,500
Vincent Vitto	89,035	23,000
Dr. Richard P. Wishner	89,035	60,500

The grant date fair value of the stock option awards granted to non-employee directors in fiscal year 2008 has been calculated using the Black-Scholes option pricing model, based on the following assumptions: (a) expected life of option equal to five years; (b) expected risk-free interest rate of 3.4%, which is equal to the U.S. Treasury yield curve in effect at the time of grant for instruments with a similar expected life; (c) expected stock volatility of 39%; and (d) expected dividend yield of 0%.

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PROPOSAL 2: APPROVAL OF AMENDMENT AND RESTATEMENT OF

MERCURY COMPUTER SYSTEMS, INC. 2005 STOCK INCENTIVE PLAN

At a meeting on October 10, 2008, the Board adopted, subject to the approval of our shareholders, an amendment and restatement of our 2005 Stock Incentive Plan. The amendment and restatement increases the aggregate number of shares authorized for issuance under the 2005 Plan by 650,000 shares and includes such other changes as summarized below.

Summary of Changes

When the 2005 Plan was initially approved, no new shares of common stock were authorized for the issuance of awards under the 2005 Plan. Rather, the maximum number of shares of our common stock reserved and available for issuance under the 2005 Plan was the sum of (1) the number of shares available under our 1997 Stock Option Plan (the 1997 Plan) on September 14, 2005 (the date upon which the 2005 Plan was approved by the Board), or 1,960,304 shares, plus (2) any shares underlying grants under the 1997 Plan that are forfeited, are cancelled, expire or are terminated (other than by exercise) from and after September 14, 2005, less (3) any shares underlying grants made under the 1997 Plan from September 14, 2005 through November 14, 2005, subject to adjustment as set forth in the 2005 Plan. Based on this formula, as of November 14, 2005 (the date upon which the 2005 Plan was approved by our shareholders), the maximum number of shares of our common stock reserved and available for issuance under the 2005 Plan was 1,942,264 shares, plus any shares underlying grants under the 1997 Plan that are forfeited, are cancelled, expire or are terminated (other than by exercise) from and after that date.

As of September 30, 2008, there were 518,897 shares available for future grants under the 2005 Plan. Also as of that date, there were options to purchase a total of 3,520,114 shares outstanding under our equity compensation plans, with a weighted average exercise price of $16.03 and a weighted remaining contractual term of 5.87 years. In addition, as of September 30, 2008, 654,105 restricted stock awards were outstanding.

In order to be able to make anticipated grants, the Board has amended and restated the 2005 Plan to increase the number of shares authorized for issuance under the 2005 Plan by an additional 650,000 shares. Based solely on the closing price of our common stock as reported on the NASDAQ Global Select Market on October 10, 2008, the maximum aggregate market value of the additional 650,000 shares that could potentially be issued under the 2005 Plan is $4,491,500. The shares issued under the 2005 Plan will be authorized but unissued shares.

In order to address potential shareholder concerns regarding the number of options or stock awards we intend to grant in a given year, the Board commits to our shareholders that for fiscal years 2009 through 2011, we will not grant during such three fiscal years a number of shares subject to options or stock awards to employees or non-employee directors, such that the average number of shares granted in each of such fiscal years over such three-year period is greater than 4.8% of the average number of shares of our common stock that were outstanding at the end of each of such three fiscal years. This limitation shall 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 will count as equivalent to 1.5 option shares.

In addition to the increase in the number of reserved shares, the amended and restated 2005 Plan also contains the following changes:

- The maximum term for a stock option or stock appreciation right is now limited to seven years.

- The maximum award of stock options or stock appreciation rights that can be granted to any one individual in a calendar year has been increased from 200,000 shares to 500,000 shares of common stock (subject to adjustments for stock splits or similar events).

The performance criteria used for performance awards intended to qualify as performance-based compensation under Section 162(m) of the Code have been expanded. The performance criteria used in performance goals governing performance-based awards granted to covered employees may include any or all of the following criteria at the parent, subsidiary, business unit or business segment level as appropriate: (1) Mercury s return on equity, assets, capital or investment; (2) pre-tax or after-tax profit levels; (3) bookings or revenue growth; (4) bookings or revenues; (5) operating income as a percentage of sales; (6) total shareholder return; (7) changes in the market price of the stock; (8) sales or market share; (9) earnings per share; (10) improvements in operating margins; (11) operating cash flow or free cash flow; (12) working capital improvements; and (13) design wins or entering into contracts with key customers.

The grant of any award other than an option or stock appreciation right will reduce the number of shares of common stock available for issuance under the 2005 Plan by 1.36 shares of common stock for each share actually subject to the award, instead of 1.75 shares of common stock as previously provided in the 2005 Plan.

The maximum number of shares that may be granted under the 2005 Plan in the form of incentive stock options has been increased from 1,960,304 shares to 2,610,304 shares of common stock.

The term of the 2005 Plan has been extended to November 17, 2018, ten years from the date of the 2008 shareholder meeting.

Recommendation

The Board of Directors recommends a vote FOR the approval of the amendment and restatement of the 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 assure 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.

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

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prospective officers) of Mercury and its subsidiaries as selected from time to time by the Compensation Committee. Approximately 630 individuals are currently 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.

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 1.36 shares of common stock for each such share actually subject to the award and will be deemed as an award of 1.36 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. Currently, the maximum number of shares that can be granted in the form of incentive stock options cannot exceed 1,960,304. As described above, the amended and restated 2005 Plan provides for an increase in this number by 650,000 shares, from 1,960,304 shares to 2,610,304 shares.

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.

Upon exercise of options, the option exercise price must be paid in full either in cash, by certified or bank check or other instrument acceptable to the Compensation Committee, by delivery (or attestation to the ownership) of shares of common stock that are beneficially owned by the optionee. Subject to applicable law, the exercise price may also be delivered to Mercury 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