

MERCURY COMPUTER SYSTEMS INC
Form DEF 14A
October 01, 2004
Table of Contents

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**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:

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| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, For Use of the Commission Only (as permitted |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement | | by Rule 14a-6(e)(2)) |
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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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(1) Amount previously paid:

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

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Table of Contents

October 1, 2004

Dear Shareholder:

Mercury Computer Systems, Inc. will hold its Special Meeting in Lieu of the 2004 Annual Meeting of Shareholders on November 15, 2004 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 the Board of Directors describe the matters to be acted upon at the meeting.

This year's meeting will be a business meeting only with no additional presentations from our business unit executives. The agenda for the meeting includes proposals regarding (1) the election of three Class I directors, (2) the authorization of an increase in the number of shares issuable pursuant to the company's 1997 Stock Option Plan, and (3) the approval of an amendment to the company's Articles of Organization to increase the number of shares of common stock authorized for issuance. The Board of Directors recommends that you vote FOR the election of its slate of nominees for director, FOR an increase in the number of shares issuable pursuant to the 1997 Stock Option Plan and FOR the amendment to the company's Articles of Organization.

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,

JAMES R. BERTELLI
President and Chief Executive Officer

Table of Contents

MERCURY COMPUTER SYSTEMS, INC.

199 RIVERNECK ROAD

CHELMSFORD, MA 01824

(978) 256-1300

Notice of Special Meeting in Lieu of the

2004 Annual Meeting of Shareholders

To Be Held November 15, 2004

To Shareholders:

The Special Meeting in Lieu of the 2004 Annual Meeting of Shareholders of MERCURY COMPUTER SYSTEMS, INC. will be held on Monday, November 15, 2004 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 I directors, each to serve for a three-year term, as more fully described in the accompanying proxy statement.
2. To consider and act upon a proposal to approve an amendment to the 1997 Stock Option Plan to increase the number of shares of common stock authorized for issuance thereunder by 1,000,000 shares, from 7,650,000 shares to 8,650,000 shares.
3. To consider and act upon a proposal to approve an amendment to the Articles of Organization to increase the number of shares of common stock authorized for issuance thereunder by 20,000,000 shares, from 65,000,000 shares to 85,000,000 shares.
4. To consider and act upon any other business which may properly come before the meeting or at any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on September 17, 2004 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 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 OR YOU MAY WITHDRAW YOUR PROXY AND VOTE YOUR SHARES IN PERSON.

By Order of the Board of Directors
ANTHONY J. MEDAGLIA, JR.

Secretary

Chelmsford, Massachusetts

October 1, 2004

Table of Contents

TABLE OF CONTENTS

<u>VOTING AND REVOCABILITY OF PROXIES</u>	1
<u>QUORUM AND REQUIRED VOTE</u>	1
<u>RECORD DATE AND VOTING SECURITIES</u>	2
<u>PROPOSAL 1: ELECTION OF CLASS I DIRECTORS</u>	2
<u>Recommendation</u>	2
<u>Information Regarding Directors</u>	2
<u>Board of Directors Meetings and Directors Compensation</u>	6
<u>Committees of the Board of Directors</u>	6
<u>Communicating with Directors</u>	8
<u>Code of Business Conduct and Ethics</u>	8
<u>PROPOSAL 2: AMENDMENT TO 1997 STOCK OPTION PLAN TO INCREASE THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE THEREUNDER</u>	9
<u>Recommendation</u>	9
<u>Introduction to the 1997 Plan</u>	9
<u>Summary of Amendment to the 1997 Plan</u>	9
<u>Summary of Other Principal Provisions of the 1997 Plan</u>	10
<u>Tax Effects of Plan Participation</u>	13
<u>New Plan Benefits</u>	14
<u>Equity Compensation Plans</u>	15
<u>PROPOSAL 3: AMENDMENT TO ARTICLES OF ORGANIZATION TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK AUTHORIZED FOR ISSUANCE THEREUNDER</u>	16
<u>General</u>	16
<u>Recommendation</u>	16
<u>Purpose of the Proposed Amendment</u>	16
<u>Possible Effects of the Proposed Amendment</u>	17
<u>PRINCIPAL HOLDERS OF VOTING SECURITIES</u>	18
<u>SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT</u>	19
<u>REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION</u>	20
<u>SHAREHOLDER RETURN PERFORMANCE GRAPH</u>	23
<u>COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u>	24
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	24
<u>EXECUTIVE OFFICERS</u>	25
<u>EXECUTIVE COMPENSATION</u>	27
<u>Summary Compensation Table</u>	27
<u>Stock Option and Stock Purchase Plans</u>	28
<u>Option Grants, Exercises and Holdings</u>	29
<u>AUDIT COMMITTEE OF THE BOARD OF DIRECTORS</u>	31
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	33
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	33
<u>DEADLINES FOR SUBMISSION OF SHAREHOLDER PROPOSALS</u>	33
<u>OTHER MATTERS</u>	33
<u>EXPENSES AND SOLICITATION</u>	34
<u>ANNUAL REPORT ON FORM 10-K</u>	34

Table of Contents

MERCURY COMPUTER SYSTEMS, INC.

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Mercury Computer Systems, Inc. (the Corporation) for use at the Special Meeting in Lieu of the 2004 Annual Meeting of Shareholders to be held on Monday, November 15, 2004, at the time and place set forth in the accompanying notice of the meeting, and at any adjournments or postponements thereof. The approximate date on which this proxy statement and form of proxy are first being sent to shareholders is on or about October 1, 2004.

The Corporation's principal executive offices are located at 199 Riverneck Road, Chelmsford, Massachusetts 01824, telephone number (978) 256-1300.

VOTING AND REVOCABILITY OF PROXIES

If the enclosed proxy is properly executed and is received prior to the meeting, it will be voted in the manner directed by the shareholder. If no instructions are specified with respect to any particular matter to be acted upon, proxies will be voted:

FOR the election of the nominees for Class I director as set forth in this proxy statement;

FOR the amendment to the Corporation's 1997 Stock Option Plan, as amended and restated (the 1997 Plan), to increase the number of shares authorized for issuance thereunder; and

FOR the amendment to the Corporation's Articles of Organization, as amended (the Articles of Organization), to increase the number of shares of common stock, par value \$.01 per share (Common Stock), authorized for issuance thereunder.

It is not anticipated that any matters other than those set forth in this proxy statement will be presented at the meeting. If other matters are presented, proxies will be voted in accordance with the discretion of the proxy holders.

Any person giving the enclosed form of proxy has the power to revoke it by voting in person at the meeting, by giving a duly executed proxy bearing a later date or by giving written notice of revocation to the Secretary of the Corporation any time before the proxy is exercised. A shareholder of record attending the meeting may vote in person whether or not a proxy has been previously given, but the presence, without further action, of a shareholder at the meeting will not constitute revocation of a previously given proxy.

QUORUM AND REQUIRED VOTE

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The holders of a majority in interest of all shares of Common Stock issued, outstanding and entitled to vote are required to be present in person or to be represented by proxy at the meeting in order to constitute a quorum for the transaction of business. The election of a nominee for director will be decided by plurality vote. Votes may be cast for or withheld from each nominee. The proposal to amend the 1997 Plan requires the affirmative vote of a majority of voting shares present in person or represented by proxy at the meeting (following the

Table of Contents

determination of a quorum). The proposal to amend the Article of Organization to increase the number of authorized shares of Common Stock requires the affirmative vote of a majority of the shares of Common Stock outstanding and entitled to vote at the meeting. Both abstentions and broker non-votes (that is, shares held by a broker or nominee that does not have the authority, either express or discretionary, to vote on a particular matter) are counted as present for the purposes of determining the existence of a quorum for the transaction of business. However, for purposes of determining the number of shares voting on a particular proposal, abstentions and broker non-votes are not counted as votes cast or shares voting, and with respect to the proposal regarding the amendment to the Articles of Organization, will have the effect of a vote against such proposal.

RECORD DATE AND VOTING SECURITIES

Only shareholders of record at the close of business on September 17, 2004 are entitled to notice of and to vote at the meeting. At the close of business on that date, there were 21,044,957 shares of Common Stock outstanding and entitled to vote. Each outstanding share of the Corporation's Common Stock entitles the record holder to cast one (1) vote for each matter to be voted upon.

PROPOSAL 1: ELECTION OF CLASS I DIRECTORS

Pursuant to Massachusetts law, the Corporation's Board of Directors is divided into three (3) classes, with each class as nearly equal in number as possible. Presently, the Board of Directors consists of eight (8) members, with Dr. Albert P. Belle Isle, Lee C. Steele and Dr. Richard P. Wishner serving as Class I directors; Dr. Gordon B. Baty, George W. Chamillard and Sherman N. Mullin serving as Class II directors; and James R. Bertelli and Russell K. Johnsen serving as Class III directors.

The terms of the Class I, Class II and Class III directors expire in 2004, 2005 and 2006, respectively. Following expiration of its respective current term, each class is then nominated for election for a subsequent three-year term. It is proposed that the Class I nominees listed below, whose terms expire at this meeting, be elected to serve terms of three (3) years and in each case until their successors are duly elected and qualified or until they sooner die, resign or are removed.

Recommendation

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE

CLASS I NOMINEES LISTED BELOW.

Information Regarding Directors

The persons named in the accompanying proxy will vote, unless authority is withheld, for the election of the Class I nominees named below. If any such nominee should become unavailable for election, which is not anticipated, the persons named in the accompanying proxy will vote for such substitute as the Board of Directors may recommend. There are no family relationships between any director or executive officer of the

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Corporation. The Board of Directors has determined that all of the director nominees and incumbent directors listed below are independent as such term is defined in the applicable listing standards of NASDAQ, except for Mr. Bertelli, who is also an executive officer of the Corporation.

Table of Contents

Set forth below is certain information furnished to the Corporation by the director nominees and by each of the incumbent directors whose terms will continue after the meeting.

Name	Age	Year First Elected a Director	Position with the Corporation or Principal Occupation
Class I Directors Nominated for a Term Ending in 2007:			
Dr. Albert P. Belle Isle	61	1986	Dr. Belle Isle is a private investor in technology-based companies. He is presently Chairman of the Board of PredatorWatch, Inc., a software company, and was President of Custom Silicon, Inc., a semiconductor company. He previously served as a Vice President of Wang Laboratories, Inc. and in various technical and business management positions during fifteen years with the General Electric Company.
Lee C. Steele	55	2003	Mr. Steele is currently a CFO partner with Tatum Partners, a national professional service firm providing financial and technology leadership services to companies in transition. Previously, Mr. Steele served as Senior Vice President, CFO, and Treasurer of ARIAD Pharmaceuticals Inc., a NASDAQ-listed, development stage biopharmaceuticals firm. Prior to joining ARIAD, Mr. Steele served as Vice President, CFO, and Treasurer of American Science & Engineering Inc. (AS&E), an AMEX-listed manufacturer of high-technology security systems and medical devices. Prior to joining AS&E, Mr. Steele was a consulting partner with Deloitte & Touche.
Dr. Richard P. Wishner	70	2003	Dr. Wishner has been associated both directly and as a consultant with the Defense Advanced Research Projects Agency (DARPA) for a number of years, serving as Director of its Information Exploitation Office from December 2001 through November 2002, and as Assistant Director of its Information Systems Office between 1994 and 1997. Prior to joining DARPA in 1994, Dr. Wishner served briefly in the Office of the Secretary of Defense where he was

Table of Contents

Name	Age	Year First Elected a Director	Position with the Corporation or Principal Occupation
			Assistant Deputy Undersecretary of Defense (Advanced Technology) for Special Projects. He also served as CEO of Advanced Decision Systems, a privately owned artificial intelligence company. Dr. Wishner has served in a number of government advisory positions including as a member of the Senate Select Committee on Intelligence Technical Advisory Group, as a member of the Army Science Board, and as a consultant to the Defense Science Board, DARPA and the National Geospatial-Intelligence Agency.
Class II Directors Serving a Term Ending in 2005:			
Dr. Gordon B. Baty	66	1983	Dr. Baty has been a partner of Zero Stage Capital Co., Inc., a venture capital firm, since 1986. Dr. Baty was the founder and Chief Executive Officer of Icon Corporation, Context Corporation, and Wormser Engineering, Inc. Dr. Baty is also a director of five private companies and a director of The Charles Stark Draper Laboratory, Inc. at the Massachusetts Institute of Technology.
Sherman N. Mullin	69	1994	Mr. Mullin served as President of Lockheed Advanced Development Company, a defense contractor, from 1990 through 1994. Previously, Mr. Mullin held other engineering and management positions with Lockheed Corporation, an aerospace company, from 1959 to 1990. Mr. Mullin served as an ad hoc advisor to the U.S. Air Force Scientific Advisory Board from 1994 to 2000. He is a Fellow of the American Institute of Aeronautics and Astronautics.
George W. Chamillard	65	2004	Mr. Chamillard served as Chairman of the Board of Directors of Teradyne since May 2000 and as Chief Executive Officer of Teradyne since May 1997. Mr. Chamillard resigned as Chief Executive Officer of Teradyne effective May 27, 2004. Mr. Chamillard served as President of Teradyne from January 1996 until May 2003 and has

Table of Contents

<u>Name</u>	<u>Age</u>	<u>Year First Elected a Director</u>	<u>Position with the Corporation or Principal Occupation</u>
			been a director of Teradyne since January 1996. Mr. Chamillard served as Chief Operating Officer of Teradyne from January 1996 until May 1997 and as Executive Vice President of Teradyne from January 1994 until January 1996. Prior to that time, Mr. Chamillard served as a Vice President of Teradyne.
Class III Directors Serving a Term Ending in 2006:			
James R. Bertelli	64	1981	Mr. Bertelli co-founded the Corporation in 1981, and has served as the Corporation's President, Chief Executive Officer, and as a director since that time, and he has served as the Chairman of the Board of Directors since April 15, 2002. Prior to founding the Corporation, Mr. Bertelli founded a manufacturer's representative organization after a brief period at Analogic Corporation in sales management positions. Prior to that, Mr. Bertelli served as a marketing manager for Digital Equipment Corporation's telephone industry products group. After a tour of duty in the Army Signal Corps, Mr. Bertelli began his high-tech career with RCA Corporation as a computer systems analyst, and later moved into computer sales with RCA and Univac.
Russell K. Johnsen	50	2001	Mr. Johnsen is currently President of Delumina, Inc., a strategic technology consulting and investment firm and Chairman & CEO of AgileView Software, Inc., a start-up enterprise software company. He previously served as Vice President for corporate business development and Vice President/General Manager of the Communications Products Division at Analog Devices. Prior to Analog Devices, Mr. Johnsen filled various senior management roles at National Semiconductor Corp. He is a director of four private companies.

Table of Contents**Board of Directors Meetings and Directors Compensation**

During fiscal year 2004, there were ten (10) meetings of the Board of Directors of the Corporation. The Board of Directors schedules executive sessions at each regular meeting of the Board, in which the Corporation's independent directors meet without management present. The Board has established the role of Lead Independent Director, and Mr. Johnsen currently serves in that role, which includes chairing meetings of the independent directors. During fiscal year 2004, there were six (6) meetings of the Audit Committee, eleven (11) meetings of the Compensation Committee, and three (3) meetings of the Nominating and Governance Committee. All of the directors attended during fiscal year 2004 at least seventy-five percent (75%) of the aggregate of (a) the total number of meetings of the Board of Directors (held during the periods they were directors) and (b) the total number of meetings held by committees of the Board of Directors on which they served (during the periods they served).

Members of the Corporation's Board of Directors are strongly encouraged to attend the Annual Meeting of Shareholders of the Corporation, or Special Meeting in lieu thereof; however, the Corporation does not have a formal policy with respect to attendance at the Annual or Special Meeting.

Each director who was not an employee of the Corporation received cash compensation in the amount of \$12,500 for the fiscal year, paid in quarterly installments, plus an additional \$2,500 for each meeting attended, as well as reimbursement for reasonable expenses incurred in connection with attendance at Board and committee meetings. In addition, committee members and the committee chairmen received an annual retainer of \$1,500 and \$2,500, respectively, as well as an additional \$300 for attending any meeting not held on the same day as a meeting of the Board of Directors. The cash compensation paid to the current directors in their capacity as such during fiscal year 2004 was as follows:

<u>Director</u>	<u>Cash Compensation</u>
Dr. Gordon B. Baty	\$ 47,100
Dr. Albert P. Belle Isle	\$ 52,100
George W. Chamillard	\$ 8,125
Russell K. Johnsen	\$ 52,000
Sherman N. Mullin	\$ 47,400
Lee C. Steele	\$ 49,600
Dr. Richard P. Wishner	\$ 44,900

In addition to cash compensation, directors are also granted options pursuant to the 1997 Plan. During fiscal year 2004, Drs. Baty and Belle Isle and Messrs. Johnsen and Mullin each were granted an option to purchase 6,000 shares at an exercise price of \$19.03 per share. In addition, Mr. Chamillard was granted an option to purchase 15,000 shares at an exercise price of \$24.28 per share. Mr. Steele and Dr. Wishner were not granted any options during fiscal year 2004.

Committees of the Board of Directors

The Board of Directors has a standing Audit Committee, Compensation Committee and Nominating and Governance Committee.

Table of Contents

The members of the Audit Committee during fiscal year 2004 were Dr. Baty (Chairman), Dr. Belle Isle, Mr. Johnsen and Mr. Steele. The Audit Committee oversees management's conduct of the Corporation's financial reporting process, including by overseeing the financial reports and other financial information provided by the Corporation's systems of internal accounting and financial controls, and the annual independent audit of the Corporation's financial statements. The Audit Committee also reviews the scope of the Corporation's engagement of its independent public auditors, preapproves all audit and non-audit services provided by the auditors and related fees, and discusses with management and the auditors the quality and adequacy of the Corporation's internal accounting controls. Each member of the Audit Committee is independent as such term is defined in the applicable listing standards of NASDAQ and under the rules of the Securities and Exchange Commission (the "SEC"). The Board of Directors has also determined that Mr. Steele qualifies as an audit committee financial expert under SEC rules. The Audit Committee acts under a written charter, which was amended and restated in February 2004, a copy of which is attached to this proxy statement as *Appendix A*.

The Compensation Committee is currently comprised of Mr. Mullin (Chairman), Mr. Chamillard, Mr. Johnsen and Dr. Wishner, each of whom qualifies as an independent director as defined by NASDAQ. The Compensation Committee is responsible for administering the Corporation's stock option plans, reviewing and approving the senior management compensation policy, and annually recommending to the Board the compensation of the Chief Executive Officer. The Compensation Committee acts pursuant to a written charter, which was adopted by the Board of Directors on February 4, 2004. A copy of the charter can be found on the Corporation's website at www.mc.com on the Investor Relations page under Corporate Governance.

The members of the Nominating and Governance Committee are Dr. Belle Isle (Chairman), Dr. Baty and Mr. Mullin, each of whom qualifies as an independent director as defined by NASDAQ. The Nominating and Governance Committee recommends nominees to the Board of Directors, and has recommended the nominees for election at the meeting. The Nominating and Governance Committee acts pursuant to a written charter, which was adopted by the Board of Directors on February 4, 2004. A copy of the charter can be found on the Corporation's website at www.mc.com on the Investor Relations page under Corporate Governance. The Nominating and Governance Committee will consider nominees recommended by shareholders if the shareholder submits the nomination in compliance with applicable requirements. The Nominating and Governance Committee did not receive any shareholder nominations for election of directors at this year's meeting.

When considering a potential candidate for membership on the Board of Directors, 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 the shareholders. In addition to the minimum qualifications set forth for each nominee above, when considering potential candidates for the Board of Directors, the Nominating and Governance Committee seeks to ensure that the Board of Directors is comprised of a majority of independent directors and that the committees of the Board of Directors are comprised entirely of independent directors. The Nominating and Governance Committee may also consider any other standards that it deems appropriate, including whether a potential candidate has direct experience in the industry in which the Corporation operates 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 Nominating and Governance Committee generally will evaluate and consider all candidates recommended by the directors, officers and shareholders of the Corporation. The Nominating and Governance Committee intends to consider shareholder recommendations for directors using the same criteria as potential nominees recommended by the members of the committee or others.

Table of Contents

Shareholders who wish to submit director candidates for consideration should send such recommendations to the Secretary of the Corporation at the Corporation's executive offices not less than 120 calendar days prior to the date on which the Corporation's proxy statement for the prior year was released. Such recommendations must include: (1) the name and address of record of the shareholder; (2) a representation that the shareholder is a record holder of the Corporation's Common Stock, or if the shareholder is not a record holder, evidence of ownership in accordance with Rule 14a-8(b)(2) of 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 (5) full fiscal years of the proposed director candidate; (4) a description of the qualifications of the proposed director candidate which 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 at such meeting. Shareholders must also submit any other information regarding the proposed candidate that is required to be included in a proxy statement filed pursuant to the rules of the SEC. See also the information under Deadlines for Submission of Shareholder Proposals.

Communicating with Directors

Shareholders who wish to communicate with the Board of Directors or with a particular director may send a letter to the Secretary of Mercury Computer Systems, Inc. at 199 Riverneck Road, Chelmsford, Massachusetts 01824. The mailing envelope should contain a clear notation indicating 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 Secretary will make copies of all such letters and circulate them to the appropriate director or directors.

Code of Business Conduct and Ethics

The Corporation has adopted a Code of Business Conduct and Ethics applicable to its officers, directors and employees. This Code of Business Conduct and Ethics is posted on the Corporation's website at www.mc.com on the Investor Relations page under Corporate Governance. The Corporation intends to satisfy its disclosure requirements regarding any amendment to, or waiver of, a provision of its Code of Business Conduct and Ethics by disclosing such matters on its website. Shareholders may request a copy of the Corporation's Code of Business Conduct and Ethics free of charge by writing to the Secretary of Mercury Computer Systems, Inc. at 199 Riverneck Road, Chelmsford, Massachusetts 01824.

Table of Contents

PROPOSAL 2: AMENDMENT TO 1997 STOCK OPTION PLAN TO INCREASE THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE THEREUNDER

There will be presented at the meeting a proposal to approve an amendment to the Corporation's 1997 Stock Option Plan, which amendment was approved by the Board of Directors on August 24, 2004. The amendment provides for the number of shares of Common Stock authorized for issuance under the 1997 Plan to be increased from 7,650,000 shares to 8,650,000 shares. As of August 31, 2004, options for the purchase of 4,965,617 shares of Common Stock were outstanding under the 1997 Plan.

Recommendation

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE AMENDMENT TO THE 1997 PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK AUTHORIZED FOR ISSUANCE THEREUNDER BY 1,000,000 SHARES.

Introduction to the 1997 Plan

The 1997 Plan provides for the granting of incentive stock options meeting the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the Code), non-qualified options which are not intended to meet the requirements of the Code, and restricted stock awards.

The 1997 Plan is intended to encourage ownership of the stock of the Corporation by employees of, and other key individuals engaged to provide services to, the Corporation and its subsidiaries, including directors, to induce qualified personnel to enter and remain in the employ of, or otherwise provide services to, the Corporation or its subsidiaries, and to provide additional incentive for grantees to promote the success of the Corporation's business. The 1997 Plan is administered by the Compensation Committee, which consists of two (2) or more members of the Corporation's Board of Directors. The members of the Compensation Committee are appointed by the Board of Directors and the Board may from time to time appoint a member or members of the Compensation Committee in substitution for or in addition to the member or members then in office, and may fill vacancies on the Compensation Committee, however caused. The present members of the Compensation Committee are Sherman N. Mullin (Chairman), George W. Chamillard, Russell K. Johnsen and Dr. Richard P. Wishner, c/o Mercury Computer Systems, Inc., 199 Riverneck Road, Chelmsford, Massachusetts 01824.

Summary of Amendment to the 1997 Plan

The Board of Directors believes that the remaining number of shares of Common Stock is not sufficient for future granting needs under the 1997 Plan. Accordingly, the proposed amendment to the 1997 Plan increases the number of shares of Common Stock authorized for issuance under the 1997 Plan from 7,650,000 shares to 8,650,000 shares. Based solely on the closing price of the Corporation's Common Stock as reported on The NASDAQ National Market on September 28, 2004 of \$26.74 per share, the maximum aggregate market value of the additional 1,000,000 shares of Common Stock authorized for issuance under the 1997 Plan would be \$26,740,000. The Board of Directors believes that these additional shares would result in an adequate number of shares of Common Stock being available for grant under the 1997 Plan.

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The maximum number of shares of the Corporation's Common Stock for which options may be granted under the 1997 Plan is subject to adjustments for capital changes. Shares issued under the 1997 Plan will be authorized but unissued shares of Common Stock. As of August 31, 2004, options for the purchase of 4,965,617

Table of Contents

shares of Common Stock were outstanding under the 1997 Plan and 1,290,163 shares were available for new grants under the 1997 Plan. The maximum number of shares of the Corporation's Common Stock that may be issued in the form of restricted stock under the 1997 Plan is 100,000 shares in the aggregate.

Summary of Other Principal Provisions of the 1997 Plan

Set forth below is a summary of other principal provisions of the 1997 Plan, a copy of which, together with the proposed amendment, may be obtained from the Secretary of the Corporation upon request. The affirmative vote of the holders of at least a majority of the shares of Common Stock voting in person or by proxy at the meeting will be required for approval of the amendment to the 1997 Plan.

Options. The 1997 Plan provides that options designated as incentive stock options may be granted only to employees (including officers and directors who are also employees) of the Corporation or any subsidiary. Options designated as non-qualified options may be granted to officers, directors, employees, consultants and advisors of the Corporation or any of its subsidiaries.

In determining the eligibility of an individual to be granted an option, as well as in determining the number of options to be granted to any individual, the Compensation Committee takes into account the position and responsibilities of the individual being considered, the nature and value to the Corporation or its subsidiaries of the individual's service and accomplishments, his or her present and potential contribution to the success of the Corporation or its subsidiaries, and such other factors as the Compensation Committee deems relevant. The number of individuals potentially eligible to participate in the 1997 Plan is approximately 486 people.

To satisfy Section 162(m) of the Code, the maximum number of shares with respect to which an option or options may be granted to any employee in any one (1) taxable year of the Corporation shall not exceed 200,000, taking into account shares granted during such taxable period under options that have terminated.

Terms and Provisions of Options. Options granted under the 1997 Plan are exercisable at such times and during such period as is set forth in the option agreement, but no option granted under the 1997 Plan can have a term in excess of ten (10) years from the date of grant. The option agreement may contain such provisions and conditions as may be determined by the Compensation Committee. The option exercise price for options designated as non-qualified stock options granted under the 1997 Plan is determined by the Compensation Committee, but in no event shall be less than 100% of the fair market value of the underlying Common Stock at the time such option is granted. The option exercise price for incentive stock options granted under the 1997 Plan shall be no less than 100% of the fair market value of the Common Stock of the Corporation at the time the option is granted. Options granted under the 1997 Plan may provide for the payment of the exercise price by delivery of cash or shares of Common Stock of the Corporation owned by the optionee having a fair market value equal in amount to the exercise price of the options being exercised, or any combination thereof; provided, however, that the payment of the exercise price by delivery of shares of Common Stock of the Corporation owned by the optionee may be made only if the payment does not result in a charge to earnings for financial accounting purposes, as determined by the Compensation Committee.

The right of any optionee to exercise an option granted under the 1997 Plan is not assignable or transferable by such optionee otherwise than by will or the laws of descent and distribution, and any such option shall be exercisable during the lifetime of such optionee only by him or her; provided, however, that in the case of a non-qualified stock option, the Compensation Committee may permit transferability of such option on such terms and conditions as determined by the Compensation Committee and set forth in an option agreement.

Table of Contents

An option granted to any employee optionee who ceases to be an employee of the Corporation or one of its subsidiaries shall terminate ninety (90) days after the date such optionee ceases to be an employee of the Corporation or one of its subsidiaries. If such termination of employment is because of dismissal for cause or because the employee is in breach of any employment agreement, such an option will terminate immediately on the date the optionee ceases to be an employee of the Corporation or one of its subsidiaries. If such termination of employment is because the optionee has become permanently disabled, the option shall terminate on the last day of the twelfth month from the date such optionee ceases to be an employee. In the event of the death of the optionee, the option shall terminate on the last day of the twelfth month from the date of death. If such termination of employment is because of the retirement of the optionee on or after attaining the minimum age, completing the minimum number of years of service and satisfying all other conditions specified for retirement status under the Corporation's Retirement Policy Statement as in effect at the time of the grant of the option, such option will terminate on the date that is five (5) years after the date the optionee ceases to be an employee of the Corporation or one of its subsidiaries. An option granted to a non-employee director, a consultant or any other person who is not an employee of the Corporation or one of its subsidiaries shall be exercisable only to the extent so provided in the optionee's agreement. In no event shall an option be exercisable after the date upon which it expires by its terms. The Compensation Committee has the authority to extend the expiration date of any outstanding option in circumstances in which it deems such action to be appropriate.

An option granted to an employee optionee who ceases to be an employee of the Corporation or one of its subsidiaries shall be exercisable only to the extent that the right to purchase shares under such option has accrued and is in effect on the date such optionee ceases to be an employee of the Corporation or one of its subsidiaries. In the event of the death of any optionee, the option granted to such optionee may be exercised by the estate of such optionee, or by any person or persons who acquired the right to exercise such option by bequest or inheritance or by reason of the death of such optionee.

Restricted Stock Awards. The Compensation Committee may also award shares of common stock subject to such conditions and restrictions as the Compensation Committee may determine as set forth in a restricted stock award agreement. These conditions and restrictions may include the achievement of pre-established performance goals and/or continued employment with the Corporation through a specified vesting period. The vesting period shall be determined by the Compensation Committee; provided, however, that in the case of any performance-based goals, the vesting period will not be less than one (1) year, and in the case of any continued employment requirements, the vesting period will not be less than three (3) years. If the applicable performance goals and other restrictions are not attained, the participant will forfeit his award of restricted stock. The purchase price (if any) of shares of restricted stock will be determined by the Compensation Committee.

Recapitalization; Reorganization; Change of Control. The 1997 Plan provides that the number and kind of shares as to which options or shares of restricted stock may be granted thereunder and as to which outstanding options then unexercised shall be exercisable shall be adjusted to prevent dilution in the event of any reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, combination of shares or dividends payable in capital stock. In addition, unless otherwise determined by the Compensation Committee in its sole discretion, in the case of any sale or conveyance to another entity of all or substantially all of the property and assets of the Corporation or a Change of Control (as defined in the 1997 Plan), the purchaser of the Corporation's assets or stock may deliver to the optionee or holder of restricted stock the same kind of consideration that is delivered to the shareholders of the Corporation as a result of the sale, conveyance or Change of Control or the Compensation Committee may cancel all outstanding options or shares of restricted stock in exchange for consideration in cash or in kind, which consideration shall be equal in value to the value of

Table of Contents

those shares of stock or other securities the optionee would have received had the option been exercised (to the extent then exercisable) and no disposition of the shares acquired upon such exercise has been made prior to such sale, conveyance or a Change of Control, less the option price therefor, or the value of those shares or other securities the holder of restricted stock would have received had the shares of restricted stock vested (to the extent they would have vested as of such date) and no disposition of the vested shares has been made prior to such sale, conveyance or a Change of Control.

The Compensation Committee shall also have the power to accelerate the exercisability or vesting of any options or shares of restricted stock, notwithstanding any limitations in the 1997 Plan or in the option or restricted stock agreement, upon such a sale, conveyance or Change of Control. A Change of Control is defined in the 1997 Plan as having occurred if any of the following conditions have occurred: (1) the merger or consolidation of the Corporation with another entity where the Corporation is not the surviving entity and where after the merger or consolidation (a) its shareholders prior to the merger or consolidation hold less than 50% of the voting stock of the surviving entity and (b) its directors prior to the merger or consolidation are less than a majority of the Board of the surviving entity; (2) the sale of all or substantially all of the Corporation's assets to a third party and subsequent to the transaction (a) its shareholders hold less than 50% of the stock of said third party and (b) its directors are less than a majority of the board of said third party; (3) a transaction or series of related transactions, including a merger of the Corporation with another entity where the Corporation is the surviving entity, whereby 50% or more of the voting stock of the Corporation is transferred to parties who are not prior thereto shareholders or affiliates of the Corporation; or (4) the Continuing Directors shall not constitute a majority of the Board of Directors of the Corporation. The term Continuing Directors shall mean a member of the Board of Directors of the Corporation who either was a member of the Board of Directors of the Corporation on the date the 1997 Plan was adopted by the Board of Directors or who subsequently became a director of the Corporation and whose initial appointment, initial election or initial nomination for election by the Corporation's shareholders subsequent to such date was approved by a vote of a majority of the Continuing Directors then on the Board of Directors of the Corporation. Upon dissolution or liquidation of the Corporation, all options and shares of restricted stock granted under the 1997 Plan shall terminate, but each optionee shall have the right, immediately prior to such dissolution or liquidation, to exercise his or her option to the extent then exercisable. The Compensation Committee shall have the right to accelerate the vesting of any award or take such other action with respect thereto as the Compensation Committee shall in its sole discretion determine in the event of any contemplated dissolution or liquidation of the Corporation.

Termination and Amendment. Unless sooner terminated, the 1997 Plan shall terminate ten (10) years from June 5, 1997, the date upon which it was adopted by the Board of Directors. The Board of Directors may at any time terminate the 1997 Plan or make such modification or amendment as it deems advisable; provided, however, that the Board of Directors may not, without shareholder approval, increase the maximum number of shares for which options and shares of restricted stock may be granted or change the designation of the class of persons eligible to receive options under the 1997 Plan or make any other change in the 1997 Plan which requires shareholder approval under applicable law or regulations. The Compensation Committee may terminate, amend or modify any outstanding option without the consent of the option holder; provided, however, that without the consent of the optionee, the Compensation Committee shall not change the number of shares subject to an option nor the exercise price thereof, nor extend the term of such option.

Table of Contents

Tax Effects of Plan Participation

Options granted under the 1997 Plan are intended to be either incentive stock options, as defined in Section 422 of the Code, or non-qualified stock options.

Incentive Stock Options. Except as provided below with respect to the alternative minimum tax, the optionee will not recognize taxable income upon the grant or exercise of an incentive stock option. If the optionee holds the shares received pursuant to the exercise of the option for at least one (1) year after the date of exercise and for at least two (2) years after the option is granted, the optionee will recognize long-term capital gain or loss upon the disposition of the stock measured by the difference between the option exercise price (the stock's basis) and the amount received for such shares upon disposition.

In the event that the optionee disposes of the stock prior to the expiration of the required holding periods (a disqualifying disposition), the optionee generally will realize ordinary income equal to the difference between the exercise price and the lower of the fair market value of the stock at the date of the option exercise or the sale price of the stock. The basis in the stock acquired upon exercise of the option will equal the amount of income recognized by the optionee plus the option exercise price. Upon eventual disposition of the stock, if the optionee holds the stock as a capital asset, the optionee will recognize long-term or short-term capital gain or loss, depending on the holding period of the stock and the difference between the amount realized by the optionee upon disposition of the stock and the optionee's basis in the stock. Under current law, an optionee will not have any additional FICA (Social Security taxes) upon exercise of an incentive stock option.

For alternative minimum tax purposes, the excess of the fair market value of stock on the date of the exercise of the incentive stock option over the exercise price of the option is included in alternative minimum taxable income for alternative minimum tax purposes. If the alternative minimum tax applies to the optionee, an alternative minimum tax credit may reduce the regular tax upon eventual disposition of the stock.

The Corporation will not be allowed an income tax deduction upon the grant or exercise of an incentive stock option. However, upon a disqualifying disposition by the optionee of shares acquired upon exercise of the incentive stock option, the Corporation will be allowed a deduction in an amount equal to the ordinary income recognized by the optionee.

The Internal Revenue Service will treat the exercise of an option with previously acquired stock of the Corporation as, in effect, two (2) separate transactions. Pursuant to Section 1036 of the Code, the first transaction will be a tax-free exchange of the previously acquired shares for the same number of new shares. The new shares will retain the basis and the holding periods of the previously acquired shares. The second transaction will be the issuance of additional new shares having a value equal to the difference between the aggregate fair market value of all of the new shares being acquired and the aggregate option exercise price for those shares. Because the exercise of an incentive stock option does not result in the recognition by the optionee of income, this issuance will also be tax-free (unless the alternative minimum tax applies, as described above). The optionee's basis in these additional new shares will be zero and the optionee's holding period for these shares will commence on the date on which the shares are transferred. For purposes of the one and two-year holding period requirements that must be met for favorable incentive stock option tax treatment to apply, the holding periods of previously acquired shares are disregarded.

Non-qualified Stock Options. As in the case of incentive stock options, no income is recognized by the optionee on the grant of a non-qualified stock option. On the exercise by an optionee of a non-qualified option,

Table of Contents

generally the excess of the fair market value of the stock when the option is exercised over its cost to the optionee will be (1) taxable to the optionee as ordinary income and (2) deductible for income tax purposes by the Corporation. The optionee's tax basis in his or her stock will equal his or her cost for the stock plus the amount of ordinary income the optionee had to recognize with respect to the non-qualified stock option. Upon exercise, the optionee will also be subject to FICA (Social Security taxes) on the excess of the fair market value over the exercise price of the option.

The Internal Revenue Service will treat the exercise of a non-qualified stock option with previously acquired stock of the Corporation as two (2) transactions. First, there will be a tax-free exchange of the old shares for a like number of shares under Section 1036 of the Code, with such exchanged shares retaining the basis and holding period of the old shares. Second, there will be an issuance of additional new shares having a value equal to the difference between the fair market value of all new shares being acquired (including the exchanged shares and the additional new shares) and the aggregate option price for those shares. The employee will recognize ordinary income under Section 83 of the Code, in an amount equal to the fair market value of the additional new shares (that is, the spread on the option). The additional new shares will have a basis equal to the fair market value of the additional new shares and the optionee's holding period for the additional new shares will commence on the date on which the shares are transferred.

If the optionee holds the stock as a capital asset, upon a subsequent disposition of stock acquired upon the exercise of a non-qualified stock option, the optionee will recognize short-term or long-term capital gain or loss, depending upon the holding period of the stock equal to the difference between the amount realized upon disposition of the stock by the optionee and the optionee's basis in the stock.

Parachute Payments. The vesting of any portion of any award that is accelerated due to the occurrence of a Change of Control may cause a portion of the payments with respect to such accelerated award to be treated as "parachute payments" as defined in the Code. Any such parachute payments may be non-deductible to the Corporation, in whole or in part, and may subject the recipient to a non-deductible 20% Federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

Limitation on Corporation's Deductions. As a result of Section 162(m) of the Code, the Corporation's Federal tax deduction for certain awards under the 1997 Plan may be limited to the extent that the Chief Executive Officer or other executive officer whose compensation is required to be reported in the summary compensation table receives compensation (other than performance-based compensation) in excess of \$1,000,000 a year.

New Plan Benefits

It is not possible to state the persons who will receive options or awards under the 1997 Plan in the future, nor the amount of options or awards which will be granted thereunder because these grants are subject to the discretion of the Compensation Committee. The following table provides information with respect to options granted under the 1997 Plan in the fiscal year ended June 30, 2004. See "Summary of Other Principal Provisions of the 1997 Plan" for a description of the options which are provided for under the 1997 Plan.

Table of Contents

<u>Name and Position</u>	1997		
	Dollar	Plan	Stock
	Value (1)	Options	Exercise Price
James R. Bertelli, President and CEO	\$ 965,747	75,000	\$19.03
Robert D. Becker, Senior Vice President, Engineering and Operations	257,532	20,000	\$19.03
Douglas F. Flood, Vice President, Corporate Development	128,766	10,000	\$19.03
Barry S. Isenstein, Vice President and General Manager, Defense Electronics Group	206,026	16,000	\$19.03
Craig Lund, Vice President, Chief Technology Officer	206,026	16,000	\$19.03
All executive officers as a group	4,774,712	307,000	\$19.03-\$28.00
All non-executive officer directors	555,475	39,000	\$19.03-\$24.28
Employees as a group (excluding executive officers)	11,157,635	650,030	