

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

**SCHEDULE TO**  
**(Rule 13e-4)**

**TENDER OFFER STATEMENT UNDER SECTION 14(d)(1) OR 13(e)(1)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**MERCURY COMPUTER SYSTEMS, INC.**

(Name of Subject Company (Issuer) and Filing Person (Offeror))

**Options to Purchase Common Stock, Par Value \$.01 Per Share, of Mercury Computer Systems, Inc.**  
(Title of Class of Securities)

**589378 10 8**

(CUSIP Number of Class of Securities (Underlying Common Stock))

**Alex A. Van Adzin, Esq.**

**Vice President, General Counsel, and Corporation Secretary**

**Mercury Computer Systems, Inc.**

**201 Riverneck Road**

**Chelmsford, Massachusetts 01824**

**(978) 256-1300**

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications on Behalf of Filing Person)

**CALCULATION OF FILING FEE**

Transaction Valuation\*

\$1,555,516

Amount of Filing Fee\*\*

\$86.80

\* Calculated solely for purposes of determining the filing fee. This amount assumes that options to purchase 430,805 shares of common stock of Mercury Computer Systems, Inc., which options have an approximate aggregate value of \$1,555,516, will be exchanged pursuant to this offer. The aggregate value of such options was calculated based on the Black-Scholes option pricing model, as of May 7, 2009.

\*\* The amount of the filing fee, calculated in accordance with Rule 0-11 under the Securities Exchange Act of 1934, as amended, equals \$55.80 per million dollars of the value of the transaction.

Check the box if any part of the fee is offset as provided in Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: Not applicable

Filing Party: Not applicable

Form or Registration No.: Not applicable

Date Filed: Not applicable

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

third party tender offer subject to Rule 14d-1.

issuer tender offer subject to Rule 13e-4.

going-private transaction subject to Rule 13e-3.

amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer:

**ITEM 1. SUMMARY TERM SHEET.**

The information set forth under the headings “Summary of Terms—Overview” and “Summary of Terms—Questions and Answers” in the Offer to Exchange, dated May 14, 2009 (the “Offer to Exchange”), attached hereto as Exhibit (a)(1)(A), is incorporated herein by reference.

**ITEM 2. SUBJECT COMPANY INFORMATION.**

(a) *Name and Address.* The name of the issuer is Mercury Computer Systems, Inc., a Massachusetts corporation (“Mercury”). Mercury’s principal executive office is located at 201 Riverneck Road, Chelmsford, Massachusetts 01824, and its telephone number is (978) 256-1300.

(b) *Securities.* This Tender Offer Statement on Schedule TO relates to an offer (the “Offer”) by Mercury to eligible option holders to exchange certain outstanding eligible options to purchase shares of Mercury’s common stock, par value \$.01 per share (“Common Stock”), that were originally granted under Mercury’s 1997 Stock Option Plan (the “1997 Plan”) and Amended and Restated 2005 Stock Incentive Plan (the “2005 Plan”), for a lesser number of shares of restricted stock (such shares of restricted stock being referred to herein as “Replacement Awards”) that will be granted under the 2005 Plan, upon the terms and subject to the conditions set forth in the Offer to Exchange. As of May 7, 2009, options to purchase approximately 430,805 shares of Common Stock were eligible for exchange in the Offer. The information set forth in the Offer to Exchange under “Summary of Terms—Overview,” “Summary of Terms—Questions and Answers,” Section 2 (“Number of Restricted Stock Awards; Expiration Date”), Section 8 (“Price Range of Our Common Stock”), and Section 9 (“Source and Amount of Consideration; Terms of Replacement Awards”) is incorporated herein by reference.

(c) *Trading and Market Price.* The information set forth in the Offer to Exchange under Section 8 (“Price Range of Our Common Stock”) is incorporated herein by reference.

**ITEM 3. IDENTITY AND BACKGROUND OF FILING PERSON.**

(a) *Name and Address.* The information set forth under Item 2(a) above and in Appendix A of the Offer to Exchange (“Information About the Directors and Executive Officers of Mercury Computer Systems, Inc.”) is incorporated herein by reference. Mercury is both the subject company (issuer) and filing person (offeror).

**ITEM 4. TERMS OF THE TRANSACTION.**

(a) *Material Terms.* The information set forth in the Offer to Exchange under “Summary of Terms—Overview,” “Summary of Terms—Questions and Answers,” “Certain Risks of Participating in the Exchange Program,” Section 1 (“Eligibility”), Section 2 (“Number of Restricted Stock Awards; Expiration Date”), Section 4 (“Procedures for Tendering Options for Exchange”), Section 5 (“Withdrawal Rights”), Section 6 (“Acceptance of Options for Exchange and Issuance of Replacement Awards”), Section 7 (“Conditions of the Exchange Program”), Section 9 (“Source and Amount of Consideration; Terms of the Replacement Awards”), Section 12 (“Status of Options Accepted by Us in the Exchange Program; Accounting Consequences of the Exchange Program”), Section 14 (“Material U.S. Federal Income Tax Consequences”) and Section 15 (“Extension of the Election Period; Termination; Amendment”) is incorporated herein by reference.

(b) *Purchases.* The information set forth in the Offer to Exchange under Section 11 (“Interests of Directors and Executive Officers; Transactions and Arrangements Concerning the Options”) is incorporated herein by reference.

**ITEM 5. PAST CONTACTS, TRANSACTIONS, NEGOTIATIONS AND AGREEMENTS.**

(e) *Agreements Involving the Subject Company’s Securities.* The information set forth in the Offer to Exchange under Section 11 (“Interests of Directors and Executive Officers; Transactions and Arrangements Concerning the Options”) is incorporated herein by reference.

**ITEM 6. PURPOSES OF THE TRANSACTION AND PLANS OR PROPOSALS.**

(a) *Purposes.* The information set forth in the Offer to Exchange under “Summary of Terms—Questions and Answers” and Section 3 (“Purpose of the Exchange Program”) is incorporated herein by reference.

(b) *Use of Securities Acquired.* The information set forth in the Offer to Exchange under Section 6 (“Acceptance of Options for Exchange and Issuance of Replacement Awards”), Section 9 (“Source and Amount of Consideration; Terms of the Replacement Awards”) and Section 12 (“Status of Options Accepted by Us in the Exchange Program; Accounting Consequences of the Exchange Program”) is incorporated herein by reference.

(c) *Plans.* The information set forth in the Offer to Exchange under Section 10 (“Information About Mercury—Other”) is incorporated herein by reference.

**ITEM 7. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.**

(a) *Source of Funds.* The information set forth in the Offer to Exchange under Section 9 (“Source and Amount of Consideration; Terms of the Replacement Awards”) and Section 12 (“Status of Options Accepted by Us in the Exchange Program; Accounting Consequences of the Exchange Program”) is incorporated herein by reference.

(b) *Conditions.* The information set forth in the Offer to Exchange under Section 7 (“Conditions of the Exchange Program”) is incorporated herein by reference.

(d) *Borrowed Funds.* Not applicable.

**ITEM 8. INTEREST IN SECURITIES OF THE SUBJECT COMPANY.**

(a) *Securities Ownership.* The information set forth in the Offer to Exchange under Section 11 (“Interests of Directors and Executive Officers; Transactions and Arrangements Concerning the Options”) is incorporated herein by reference.

(b) *Securities Transactions.* The information set forth in the Offer to Exchange under Section 11 (“Interests of Directors and Executive Officers; Transactions and Arrangements Concerning the Options”) is incorporated herein by reference.

**ITEM 9. PERSONS/ASSETS, RETAINED, EMPLOYED, COMPENSATED OR USED.**

(a) *Solicitations or Recommendations.* Not applicable.

**ITEM 10. FINANCIAL STATEMENTS.**

(a) *Financial Information.* The information set forth in the Offer to Exchange under Section 10 (“Information About Mercury”) and Section 18 (“Additional Information”), in Item 8 of Mercury’s Annual Report on Form 10-K for the fiscal year ended June 30, 2008, filed with the Securities and Exchange Commission on September 12, 2008, and in Item 1 of Mercury’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, filed with the Securities and Exchange Commission on May 11, 2009, is incorporated herein by reference. A copy of such Annual Report on Form 10-K and such Quarterly Report on Form 10-Q can be accessed electronically on the Securities and Exchange Commission’s website at [www.sec.gov](http://www.sec.gov).

(b) *Pro Forma Information.* Not applicable.

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**ITEM 11. ADDITIONAL INFORMATION.**

(a) *Agreements, Regulatory Requirements and Legal Proceedings.* The information set forth in the Offer to Exchange under Section 11 (“Interests of Directors and Executive Officers; Transactions and Arrangements Concerning the Options”) and Section 13 (“Legal Matters; Regulatory Approvals”) is incorporated herein by reference.

(b) *Other Material Information.* Not applicable.

**ITEM 12. EXHIBITS.**

The Exhibit Index included in this Schedule TO is incorporated herein by reference.

**ITEM 13. INFORMATION REQUIRED BY SCHEDULE 13E-3.**

Not applicable.

**SIGNATURE**

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

MERCURY COMPUTER SYSTEMS, INC.

Date: May 14, 2009

By: \_\_\_\_\_ /s/ ALEX A. VAN ADZIN  
Alex A. Van Adzin  
Vice President, General Counsel,  
and Corporation Secretary

**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>				<u>Filed Herewith</u>
		<u>Form</u>	<u>File No.</u>	<u>Exhibit</u>	<u>Filing Date</u>	
(a)(1)(A)	Offer to Exchange, dated May 14, 2009, including Transmittal Letter, form of Election to Participate and form of Notice of Withdrawal.					X
(a)(1)(B)	Instructions for accessing online account.					X
(a)(1)(C)	Email dated May 14, 2009 announcing the commencement of the election period for the exchange program.					X
(a)(1)(D)	Form of email reminder of exchange program expiration date.					X
(a)(1)(E)	Form of email notification of receipt of Elections to Participate.					X
(a)(1)(F)	Powerpoint presentation regarding the exchange program.					X
(a)(1)(G)	Summary regarding restricted stock awards.					X
(a)(1)(H)	Screen shots from exchange program website.					X
(a)(1)(I)	Form of email notification of completion of exchange program.					X
(a)(1)(J)	Preliminary Proxy Statement.	14A	000-23599	N/A	April 2, 2009	
(a)(1)(K)	Definitive Proxy Statement.	14A	000-23599	N/A	April 13, 2009	
(a)(1)(L)	Mercury's Annual Report on Form 10-K for the fiscal year ended June 30, 2008.	10-K	000-23599	N/A	September 12, 2008	
(a)(1)(M)	Mercury's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.	10-Q	000-23599	N/A	November 10, 2008	
(a)(1)(N)	Mercury's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008.	10-Q	000-23599	N/A	February 9, 2009	
(a)(1)(O)	Mercury's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.	10-Q	000-23599	N/A	May 11, 2009	
(b)	Not applicable.					
(d)(1)	Mercury's Amended and Restated 2005 Stock Incentive Plan.	14A	000-23599	N/A	October 17, 2008	
(d)(2)	Amendment to Mercury's Amended and Restated 2005 Stock Incentive Plan.	8-K	000-23599	N/A	April 24, 2009	
(d)(3)	Form of Stock Option Agreement under Mercury's 2005 Stock Incentive Plan.	8-K	000-23599	10.1	August 21, 2006	
(d)(4)	Form of Restricted Stock Award Agreement under Mercury's 2005 Stock Incentive Plan.	8-K	000-23599	10.3	November 16, 2005	
(d)(5)	Mercury's 1997 Stock Option Plan, as amended and restated.	8-K	000-23599	10.1	November 18, 2004	
(d)(6)	Form of Option Agreement under Mercury's 1997 Stock Option Plan.	10-Q	000-23599	10.1	November 1, 2004	
(d)(7)	Form of Change in Control Severance Agreement.	8-K	000-23599	10.1	February 23, 2006	
(g)	Not applicable.					
(h)	Not applicable.					



May 14, 2009

Dear Mercury Associate:

I am pleased to announce that Mercury's shareholders have approved the stock option exchange program proposed by our Board of Directors and first announced in April. We believe this exchange program will provide us with an opportunity to restore for eligible associates an incentive to contribute to the future growth and success of our business.

If you currently hold stock options with per share exercise prices greater than the "threshold price," then you may be eligible to participate in the exchange program and exchange those options, subject to the terms and conditions described in the enclosed Offer to Exchange, for a lesser number of shares of restricted stock in accordance with predetermined exchange ratios. The "threshold price" is the greater of (1) \$10.19 or (2) the closing price of our common stock reported on the NASDAQ Global Select Market on the date that the election period for the exchange offer expires.

**If you wish to participate in the exchange program, you will have until 12:00 midnight, Eastern Time, on June 11, 2009 to deliver your election to exchange your eligible options for replacement awards.** Although we may, in our sole discretion, extend the election period, we currently have no plans to do so. You can find instructions for making your election to participate on page B-1 of Appendix B to the Offer to Exchange, and you can view your currently outstanding options, including their exercise prices, at your online account at [www.etrade.com](http://www.etrade.com).

Before making your decision to participate in the exchange program, you are strongly advised to read the Offer to Exchange carefully, including the appendices attached to it and the documents listed in the Offer to Exchange under the heading "Additional Information," and our Tender Offer Statement on Schedule TO, including related exhibits, that has been filed with the Securities and Exchange Commission. The Schedule TO may be obtained free of charge at [www.sec.gov](http://www.sec.gov) and on the Source at HR ONE SOURCE, 2009 Stock Option Exchange, and also by contacting the Investor Relations department at 201 Riverneck Road, Chelmsford, MA 01824, telephone 978-256-1300.

If, after reviewing the Offer to Exchange, you have any questions about how the exchange program works or how to participate, please send your question in an email to [MCSSStockOptionExchange@mc.com](mailto:MCSSStockOptionExchange@mc.com).

Sincerely yours,

A handwritten signature in black ink, appearing to read "M. Aslett", written in a cursive style.

MARK ASLETT  
President and Chief Executive Officer

MERCURY COMPUTER SYSTEMS, INC.  
201 Riverneck Road  
Chelmsford, Massachusetts 01824  
OFFER TO EXCHANGE  
CERTAIN OUTSTANDING STOCK OPTIONS  
FOR RESTRICTED STOCK  
May 14, 2009  
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This document constitutes part of the Section 10(a) Prospectus relating to the Mercury Computer Systems, Inc. Amended and Restated 2005 Stock Incentive Plan, as amended.



MERCURY COMPUTER SYSTEMS, INC.  
OFFER TO EXCHANGE  
CERTAIN OUTSTANDING STOCK OPTIONS  
FOR RESTRICTED STOCK

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This offer and withdrawal rights will expire at 12:00 Midnight, Eastern Time,  
on June 11, 2009 unless we extend the expiration date.

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SUMMARY OF TERMS—OVERVIEW

Mercury Computer Systems, Inc. is offering eligible employees the opportunity to exchange, on a grant-by-grant basis, certain of their outstanding eligible options for shares of restricted stock that we will grant under our Amended and Restated 2005 Stock Incentive Plan, as amended. Eligible employees participating in the exchange program will receive restricted stock awards consisting of shares of restricted stock subject to vesting. In this document we refer to the restricted stock awards as “replacement awards.”

Please note that the Summary of Terms that appears on pages 1 through 15 of this document is intended only to give you an overview of the exchange program. **You should read this document in its entirety, including the appendices, before deciding whether to participate in the exchange program.** Throughout the Summary of Terms, we have included cross-references to the relevant sections of the document where you can find a more complete description of the topics being discussed.

**See the section entitled “Certain Risks of Participating in the Exchange Program” beginning on page 16 for a discussion of risks and uncertainties that you should consider before tendering your eligible options.**

References in this document to “Mercury,” the “Company,” “we,” “us,” or “our” mean Mercury Computer Systems, Inc. References to the “offer to exchange” mean this document and its appendices. References to the “offer” or “exchange program” mean the stock option exchange program described in the offer to exchange. References to “tendering” options mean electing to exchange options in this exchange program in accordance with the procedures described in this offer to exchange. References to the “2005 Plan” mean our Amended and Restated 2005 Stock Incentive Plan, as amended.

- **Expiration Date.** THE PERIOD DURING WHICH YOU MAY ELECT TO PARTICIPATE IN THE EXCHANGE PROGRAM (THE “ELECTION PERIOD”) EXPIRES ON THURSDAY, JUNE 11, 2009 (THE “EXPIRATION DATE”) AT 12:00 MIDNIGHT, EASTERN TIME, UNLESS WE EXTEND IT. If we extend the election period, the term “expiration date” will refer to the latest date and time at which the election period expires.
- **Eligible Employees.** You are eligible to participate in the exchange program if (1) you hold eligible options, (2) you are employed by us or one of our subsidiaries on May 14, 2009, (3) you remain an employee through the expiration date (currently June 11, 2009) and the date on which tendered options are cancelled and the replacement awards are granted, and (4) you are domiciled in the United States on each of the foregoing dates. Members of our Board of Directors and our executive officers are not eligible to participate in the exchange program.
- **Eligible Options.** Options eligible for exchange in the exchange program are outstanding options granted under our 1997 Stock Option Plan and the 2005 Plan that have exercise prices per share greater than a “threshold price,” which is the greater of (1) \$10.19, which was the 52-week high price of our common stock as of May 7, 2009, or (2) the closing price of our common stock as reported on the NASDAQ Global Select Market on the expiration date. In addition, options must have time-based

vesting to be eligible for exchange (including both the vested and unvested portions). Options with performance-based vesting will not be eligible for exchange in the exchange program.

**For purposes of the exchange program, the term “option” means a particular option grant to purchase a specified number of shares of our common stock at a specified exercise price per share.** You may tender for exchange any one or more of your eligible options or none at all. However, if you choose to tender an eligible option, you must tender the entire outstanding, unexercised portion of that option. We will not accept partial tenders of options.

- **Exchange Ratio.** The number of restricted stock awards to be granted in exchange for each eligible option tendered in the exchange program will be determined based upon the exchange ratios set forth below. The exchange ratios were established by grouping together eligible options with similar exercise prices, and then assigning an appropriate exchange ratio to each grouping. The exchange ratios are described more completely in Section 2 of this offer to exchange.

<u>If the Exercise Price of an Eligible Option is:</u>	<u>The Exchange Ratio is:</u>
\$10.20 – \$14.99	1.60-to-1
\$15.00 – \$19.99	2.75-to-1
\$20.00 – \$24.99	3.00-to-1
\$25.00 and above	4.50-to-1

- **Description of Replacement Awards.** Each share of restricted stock awarded in the exchange program is a share of our common stock that is issued to you on the date the award is granted, subject to vesting through your continued employment for a specified period. Until shares of restricted stock are vested, they remain subject to (1) forfeiture if your employment terminates, and (2) restrictions on transfer. If and when the shares vest, they will be free of forfeiture conditions and restrictions on transfer, other than required tax withholding and compliance with applicable securities laws, Mercury’s securities trading policies, and other legal requirements, and as otherwise specified in the 2005 Plan. All replacement awards will be subject to the terms of the 2005 Plan and an award agreement between you and Mercury.
- **Vesting of Replacement Awards.** Restricted stock awards granted in the exchange program will vest in three equal annual installments commencing on the first anniversary of the date of grant, provided that you remain employed by us or one of our subsidiaries as of each such date.
- **Effect of Termination of Employment.** If you elect to participate in the exchange program and your employment with us or any of our subsidiaries is terminated for any reason on or before the date on which the tendered options are cancelled and the replacement awards are granted, or you have submitted your resignation or received a notice of termination of employment on or before such date, you will not receive a replacement award (see Section 1 of this offer to exchange). In such event, you will retain your eligible options subject to their existing terms.
- **Other Terms and Conditions of the Exchange Program.** We are implementing the exchange program upon the terms and subject to the conditions described in this offer to exchange, including the appendices to this offer to exchange, as the same may be amended from time to time. The exchange program is not conditioned upon a minimum number of option holders electing to participate or a minimum number of eligible options being exchanged, but is subject to other conditions described in Section 7 of this offer to exchange.
- **IMPORTANT: How to Participate in the Exchange Program.** Participation in the exchange program is voluntary, and there are no penalties for electing not to participate. If you wish to participate, you must complete, sign and deliver an election to participate (an “election”) in the form attached to this offer to exchange as [Appendix B](#) in accordance with the instructions on page B-1, and ensure that your election is received by us no later than 12:00 midnight, Eastern Time, on the expiration date. If we do not receive your completed and signed election by 12:00 midnight, Eastern

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Time, on the expiration date, you will be deemed to have elected *not* to participate in the exchange program, in which event you will not receive a replacement award and your eligible options will remain outstanding and in effect in accordance with their existing terms. If you do participate, you do not need to return your existing stock option agreements with respect to your tendered options, as they will be automatically cancelled upon the granting of your replacement award.

**Although our Board of Directors has authorized the exchange program, neither we nor our Board of Directors makes any recommendation to you as to whether or not you should participate in the exchange program. You must make your own decision as to whether or not to participate in the exchange program. In doing so, you should rely only on information contained in this offer to exchange and its appendices, the materials referenced in Section 17 of this offer to exchange, any official question and answer session organized by our Human Resources Department, or any other authorized communications from us made generally available to eligible employees, as no other representations or information have been authorized by us. You should consult with your own advisors, including your tax, financial, and legal advisors, before making any decisions regarding the exchange program.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction or passed upon the fairness or merits of this transaction or the accuracy or adequacy of the information contained in the offer to exchange. Any representation to the contrary is a criminal offense.

**WE HAVE NOT AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION ON OUR BEHALF AS TO WHETHER OR NOT YOU SHOULD TENDER YOUR ELIGIBLE OPTIONS PURSUANT TO THIS EXCHANGE OFFER. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR IN DOCUMENTS TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO GIVE YOU ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THIS EXCHANGE OFFER OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DOCUMENT OR IN THE RELATED ELECTION FORM. IF ANYONE MAKES ANY RECOMMENDATION OR REPRESENTATION TO YOU OR GIVES YOU ANY INFORMATION, YOU SHOULD NOT RELY UPON THAT RECOMMENDATION, REPRESENTATION, OR INFORMATION AS HAVING BEEN AUTHORIZED BY US.**

## SUMMARY OF TERMS—QUESTIONS AND ANSWERS

The following should answer many of the questions that you may have about the exchange program; however, please read this offer to exchange in its entirety, including the appendices, before deciding whether to tender your eligible options for exchange in the exchange program. Throughout these Questions and Answers, we have included references to the relevant sections of this offer to exchange where you can find more complete descriptions of the topics being discussed below.

### HOW THE EXCHANGE PROGRAM WORKS

#### Q1. What is the exchange program?

We are offering eligible employees (described in response to Question 2) the opportunity to exchange eligible options (described in response to Question 5) for a lesser number of shares of restricted stock (described in response to Question 11) in accordance with predetermined exchange ratios (described in response to Question 14). These shares of restricted stock (described in response to Question 11) will be subject to a new vesting schedule (described in response to Question 15), regardless of whether the options tendered in the exchange program are vested or unvested and without regard to the current vesting schedule for such options.

Participation in the exchange program is voluntary, and there are no penalties for electing not to participate. If you choose not to participate in the exchange program, you will not receive a replacement award, and your outstanding options will remain outstanding and in effect in accordance with their existing terms.

#### Q2. Who can participate in the exchange program?

Only “eligible employees” may participate in the exchange program. Generally, you are eligible to participate if you are employed by us or one of our subsidiaries on May 14, 2009, and are still an employee (either on active status or on an approved leave of absence) on the date on which the tendered options are cancelled and the replacement awards are granted. An employee whose employment terminates for any reason on or before the date on which the replacement awards are granted will not be an eligible employee. Also, in order to be eligible to participate in the exchange program, you must be domiciled in the United States on May 14, 2009 through the date on which the replacement awards are granted. Members of our Board of Directors and our executive officers are not eligible to participate in the exchange program. (See [Appendix A](#) for a list of our executive officers and members of our Board of Directors and Section 1 of this offer to exchange for further details on eligibility.)

#### Q3. Are employees outside the United States eligible to participate?

No. As described in the response to Question 2, in order to be eligible to participate in the exchange program, an employee must be domiciled in the United States on May 14, 2009 through the date on which the tendered options are cancelled and the replacement awards are granted.

#### Q4. What happens if my employment terminates before tendered options are cancelled?

If you tender eligible options in the exchange program, but before the tendered options are cancelled your employment with us or our subsidiaries terminates for any reason or you submit your resignation or receive a notice of termination, your tender will automatically be deemed to have been withdrawn and you will not participate in the exchange program. You will retain your outstanding options in accordance with their current terms and conditions, and depending on the circumstances of your termination of employment, you may be entitled to exercise them during a limited period of time following your termination date in accordance with their terms to the extent that they are vested. The exchange program does not change your status as an “at-will” employee, and your employment may be terminated by us or by you at any time, including before the election period expires, for any reason, with or without cause.

**Q5. Which options may I exchange?**

Only “eligible options” may be tendered in the exchange program. Eligible options are outstanding options granted to eligible employees under our 1997 Stock Option Plan and the 2005 Plan having per share exercise prices greater than the “threshold price.” The threshold price is the greater of (1) \$10.19, which was the 52-week high price of our common stock as of May 7, 2009, or (2) the closing price of our common stock reported on the NASDAQ Global Select Market on the date the election period expires. Any options that you previously tendered for exchange but which have an exercise price that is not greater than the threshold price will not be eligible for exchange and automatically will be excluded from the exchange program. You can view your stock option information by grant, including exercise price, at your online account at [www.etrade.com](http://www.etrade.com). In addition, options must have time-based vesting to be eligible for exchange (including both the vested and unvested portions). Options with performance-based vesting will not be eligible for exchange in the exchange program. (See Section 2 of this offer to exchange.)

**Q6. If I participate in the exchange program, what happens to my current options?**

Eligible options you elect to tender under the exchange program will be cancelled promptly following the expiration of the election period, and you will no longer have those options available for exercise. Any options you do not tender for exchange, or which are not eligible options, will not be cancelled and will remain outstanding at their existing exercise prices and subject to their existing terms. (See Sections 6 and 12 of this offer to exchange.)

**Q7. I have more than one eligible option. Do I have to exchange all of them in order to participate?**

No. You may exchange one or more of your eligible options or none at all. However, if you elect to tender an eligible option for exchange, you must tender the entire outstanding portion of that option. **For purposes of the exchange program, the term “option” means a particular option grant to purchase a specified number of shares of our common stock at a specified exercise price per share.** We will not accept partial tenders of options. If you attempt to tender for exchange less than the entire outstanding, unexercised portion of an eligible option, we will reject your tender of that particular option in its entirety. Any such rejection will not affect any other eligible option that you properly tender. (See Section 2 of this offer to exchange.)

**Q8. May I tender unvested options?**

Yes. Your eligible options do not need to be vested in order for you to participate in the exchange program. However, if you elect to tender a particular outstanding eligible option, you must tender the entire eligible option, both the vested and unvested portions.

**Q9. May I tender an option that I have already exercised in full?**

No. Only outstanding options are eligible for exchange under the exchange program. It does not apply in any way to shares you have already purchased, whether upon the exercise of options or otherwise, or whether or not you have vested in those shares. If you have exercised an option in its entirety, that option is no longer outstanding. If you have exercised an eligible option in part, the remaining unexercised portion of that option is outstanding and may be tendered for exchange. Options for which you have properly submitted an exercise notice prior to the date the election period expires will be considered exercised to that extent, whether or not you have received confirmation of exercise for the shares purchased.

**Q10. What is a stock option?**

A stock option is the right to purchase shares of stock at a specified price, regardless of the actual market price of the stock at the time the option is exercised. Typically, the specified, or “exercise,” price is the market

price of a share of the underlying stock on the date the option is granted. Due to subsequent fluctuations, at any given time following the grant of an option, the prevailing market price of the underlying stock may be greater than, equal to, or less than the specified exercise price of the option. When the market price of the underlying stock is greater than the exercise price of the option (otherwise known as an “in-the-money” option), the option holder receives value from exercising the option, because he or she is able to buy the underlying stock at less than its prevailing market price and then sell the purchased stock for the higher prevailing price. The holder of an option to purchase stock at an exercise price that is equal to or greater than the prevailing market price (otherwise known as an “out-of-the-money” option) generally would not exercise the stock option. The options eligible for exchange under the exchange program are, and have for some time been, “out of the money.”

**Q11. What is a “restricted stock award?”**

Restricted stock awards consist of shares of our common stock that will be issued on the date the awards are granted. Restricted stock awards will be subject to vesting based on continued employment for a specified period. Until shares of restricted stock have vested, they remain subject to (1) forfeiture upon termination of employment, and (2) restrictions on transfer. If and when the shares vest, they will no longer be “restricted,” and you will be free to hold, transfer, or sell them, subject to required tax withholding and compliance with applicable securities laws, Mercury’s securities trading policies, and any other legal requirements, and as otherwise specified in the 2005 Plan. Participants who are granted restricted stock awards will become Mercury shareholders on the date the restricted stock is issued to them, even though unvested, and will have all of the rights of a shareholder, including voting and dividend rights, subject to the restrictions contained in the applicable award agreement.

Participants in the exchange program will forfeit their unvested restricted stock awards if they cease to be employed by us and our subsidiaries for any reason, and participants may not sell, assign, transfer, pledge, or otherwise encumber or dispose of unvested restricted stock awards. The vesting schedule for the replacement awards is described in response to Question 15. The forfeiture provisions, transfer restrictions, and other terms of the replacement awards are set forth in the 2005 Plan and the forms of award agreements that are included as exhibits to our Tender Offer Statement on Schedule TO filed with the Securities and Exchange Commission, or “SEC” (to which this offer to exchange is also an exhibit). (See Section 9 of this offer to exchange.)

**Q12. What is the principal difference between stock options and restricted stock awards?**

The rates of a stock option’s appreciation and depreciation resulting from fluctuations in the prevailing market price of the underlying stock exceed those of restricted stock awards of equivalent value. Additionally, with respect to stock options, when the prevailing market price of the underlying stock declines below the applicable option exercise price, as it has in the case of the eligible options, the option has no realizable value. In contrast, restricted stock awards continue to have value even if the prevailing market price of the underlying stock has declined below its value at the time of grant. Essentially, the eligible options you hold (because their underlying shares are greater in number than the restricted stock awards for which they can be exchanged) may have greater potential value in the event that the price of our common stock increases significantly, but the restricted stock awards you would receive if you choose to participate in the exchange program (because they require no purchase price payment) will likely have greater value if our common stock does not increase significantly, provided that you remain employed by us or one of our subsidiaries for the applicable vesting period.

**Q13. Do I have to pay any money to receive the restricted stock awards?**

No. You will not be required to pay any money in connection with the granting of the restricted stock awards in connection with the exchange program. However, you will be responsible for paying all applicable taxes in connection with the replacement awards and the sale of shares of our common stock. (See Questions 40 through 44 below and Section 14 of this offer to exchange.)

**Q14. If I participate in the exchange program, how many restricted stock awards will I receive?**

All eligible options will be exchanged for restricted stock awards in accordance with the following exchange ratios:

<u>If the Exercise Price of an Eligible Option is:</u>	<u>The Exchange Ratio is:</u>
\$10.20 – \$14.99	1.60-to-1
\$15.00 – \$19.99	2.75-to-1
\$20.00 – \$24.99	3.00-to-1
\$25.00 and above	4.50-to-1

As an example, if you elect to exchange an eligible option representing the right to purchase 1,000 shares of common stock at an exercise price of \$15.00 per share, you would receive a replacement award consisting of 364 shares of restricted stock in exchange for the surrendered eligible option (1,000 divided by 2.75).

We will not issue any fractional restricted stock awards. Accordingly, if the sum of all restricted stock awards to be granted to you in exchange for your tendered eligible options includes a fractional share, that fractional share will be rounded (with 0.5 rounded up) to the nearest whole share. (See Question 23 and Section 2 of this offer to exchange.)

**Q15. When will my replacement award vest?**

All replacement awards granted in the exchange program will be subject to a new vesting schedule that will commence on the date on which the replacement awards are granted. Restricted stock awards granted in the exchange program will vest in three equal annual installments commencing on the first anniversary of the date of grant, provided that you remain employed by us or one of our subsidiaries as of each such date. We will grant the replacement awards promptly following the expiration of the election period in exchange for properly tendered eligible options.

The 2005 Plan provides that if your employment is terminated within six months of the consummation of a change in control (as defined in the 2005 Plan) and you have a minimum of six months of service with us (as of the effective date of the change in control), you will be entitled to the acceleration of vesting of 50% of your unvested awards or the value thereof. If the change in control is not approved by our Board of Directors, all of the outstanding awards will automatically become fully vested upon the consummation of the change in control. If you have a written change-in-control severance agreement with us and you are employed by us at the time of a change in control, then your unvested awards will be treated in accordance with the terms of such agreement. (See Section 9 of this offer to exchange.)

**Q16. What will I receive when my replacement award vests?**

With respect to your restricted stock award, you will continue to hold the same shares of our common stock, but without forfeiture conditions or restrictions on transfer, once those shares have vested. If you elect to satisfy the applicable tax withholding obligations that arise in connection with the vesting of your award through the share withholding procedure further described in response to Question 42, the number of shares you retain will be reduced by a number of whole shares whose value is equal to or less than the amount of the minimum tax withholding obligation. (See Question 42 and Sections 9 and 14 of this offer to exchange.)

**Q17. What is the source of the common stock that will be issued under my replacement award?**

The replacement awards will be granted under the 2005 Plan, and the shares of our common stock issuable in connection with such awards will be issued under that plan. As provided in the 2005 Plan, all of the shares subject to eligible options that are tendered and cancelled in the exchange program will be added to the number of shares available for issuance under the 2005 Plan. (See Sections 9 and 12 of this offer to exchange.)

**Q18. What happens if my employment terminates before my replacement award has fully vested?**

You will forfeit any portion of your replacement award that has not vested on the day you cease being employed by us and our subsidiaries for any reason. Any vested shares you hold under a restricted stock award while you are employed by us or one of our subsidiaries are yours to keep even after you leave Mercury. If you elect to keep (*i.e.*, not to tender) some or all of your eligible options, the provisions of our 1997 Stock Option Plan or the 2005 Plan (as applicable) and your option agreements generally provide that you have a limited period of time after your final day of employment with us to exercise your stock options to the extent they are vested prior to your final day of employment. If you do not exercise them within that limited time period, you will forfeit all unexercised options, whether vested or unvested, and will not receive any compensation for such forfeited options.

If you intend to retire or otherwise voluntarily terminate your employment with us before your replacement award vests, you should carefully consider whether or not to participate in the exchange program. Your options currently may be fully or partially vested. If you do not exchange them, you may be able to exercise your currently vested options for a period of time after your employment ends (as specified in our 1997 Stock Option Plan or the 2005 Plan, as applicable, and your option agreement). If you participate in the exchange program, the options you elect to exchange will be cancelled and you will forfeit any portion of your replacement award that has not vested at the time your employment ends. (See Section 9 of this offer to exchange.)

**Q19. If I participate in the exchange program, when will I receive my award agreement?**

Replacement awards will be granted promptly following the expiration of the election period for all properly tendered eligible options that we accept for cancellation and exchange. We will provide each recipient of a replacement award with a restricted stock award agreement as soon as practicable following the grant date.

**Q20. Will my restricted stock awards ever expire?**

Unlike stock options, restricted stock awards do not expire. Instead, if you receive a restricted stock award in the exchange program, a portion of the shares covered by such award will become vested on each vesting date if you are still employed by us or one of our subsidiaries on such date. (See also Questions 15, 16 and 18.)

**Q21. Are there risks that I should consider in deciding whether to participate in the exchange program?**

Yes. Exchanging your eligible options does have some risks. You should carefully review the discussion of certain of these risks in this offer to exchange under the heading “Certain Risks of Participating in the Exchange Program” beginning on page 16.

**Q22. What happens if Mercury’s stock price increases during the election period?**

**For purposes of the exchange program, the term “option” means a particular option grant to purchase a specified number of shares of our common stock at a specified exercise price per share.**

If our stock price increases during the election period, you may want to exercise some of your options or even decide that you do not want to participate in the exchange program. If you want to exercise some of your eligible options and still participate in the exchange program with respect to other eligible options, you can do so by exercising them before you make an election to participate. After you have submitted an election to participate in the exchange program, you cannot exercise eligible options subject to that election unless you previously withdraw your previous election. If you withdraw and then exercise some of your eligible options and want to exchange the rest, you can do so by again following the procedures in Section 4 of this offer to exchange.



### Q23. Why should I consider participating in the exchange program?

If you participate in the exchange program, you will surrender eligible options in exchange for a lesser number of shares of restricted stock in accordance with predetermined exchange ratios.

The exchange ratios are designed to result in a fair value, for accounting purposes, of the replacement awards. That aggregate fair value is approximately equal to the aggregate fair value of the eligible options that are surrendered in the exchange based on valuation assumptions made shortly before the offer to exchange commenced. We calculated the fair value of the eligible options using the Black-Scholes option valuation model, which is a valuation methodology that recognizes a number of factors in valuing stock options, including the relevant stock price and its volatility, the exercise price of the option, a risk-free interest rate and the remaining life of the option.

The aggregate fair value (determined as of the commencement of the election period by the Black-Scholes method) of the eligible options is approximately equal to the assumed aggregate value (determined as of the commencement of the election period by the prevailing market price of our stock) of the replacement stock awards that the eligible employees will receive if they participate in the exchange program. (See Section 2 of this offer to exchange.) However, your eligible options might never be “in the money” (see Question 10) and, consequently, may never have any actual value to you. On the other hand, you should recognize that, while the replacement awards have a much greater likelihood of having value when (and if) you sell the underlying shares of our common stock, you will run a risk of not vesting in the replacement awards before you want to sell the underlying shares.

Consider the following examples:

- If you have a fully vested eligible option for 1,000 shares at an exercise price of \$15.00 per share, with a remaining contractual term of approximately five years, you could elect to surrender this option and receive 364 unvested shares of restricted stock. Based on the vesting schedule for the restricted stock, you would not be able to sell any shares until the first anniversary of the grant date, when one-third of the covered shares would vest. At that time, if the market price of our common stock is, for example, \$14.00 per share, you could sell the vested shares for \$1,694 (*i.e.*, 121 shares x \$14.00). If the market price remains the same throughout the vesting period, you could sell the remaining two-thirds of the covered shares for a total of an additional \$3,402 on the remaining annual vesting dates.
- If you chose to retain your option rather than exchange it for restricted stock awards under this scenario, you would not have been able to exercise the option for any value because, with an exercise price of \$15.00, it would have remained “out of the money.” It is possible that the price of our common stock will never rise above \$15.00 for the life of the option. If that happens, you will not be able to exercise and sell the underlying shares at a profit. However, if at the end of the same three-year period used in the example above, the market price of our common stock increases to \$25.00, rather than \$14.00, your unexercised option would be worth \$10,000 (*i.e.*, 1,000 shares x (\$25.00– \$15.00)). Assuming the same facts, if you exchanged this option for shares of restricted stock at the 2.75-to-1 exchange ratio, and have not sold the covered shares, they would be worth only \$9,100 (*i.e.*, 364 shares x \$25.00) at the end of the three-year period.

The foregoing examples assume that you remain employed by us or one of our subsidiaries through the applicable vesting dates. In addition, none of the foregoing takes into account the tax effects of any of the transactions, which are described in the responses to Questions 40 through 44. Finally, the market prices for our common stock used in the above examples are for illustrative purposes only and are not meant to be indicative of the future market price of our common stock.

Again, you should keep in mind that, if you choose to participate in the exchange program, you will be exchanging stock options that may be already vested in part or in full for restricted stock awards that will be completely unvested at the time they are granted and will not vest in full until three years following the date of grant. (See Question 15.)

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To illustrate the significance of vesting on the replacement awards, consider the first example above in which the price of our common stock remains at \$14.00 per share throughout the three-year vesting period of the replacement award. As explained above, the replacement award would yield more than the stock options, since the options, with an exercise price of \$15.00 per share, would remain “out of the money” for the entire period, while the shares covered by the replacement award could be sold for a total of \$5,096 (*i.e.*, 364 shares x \$14.00). However, now assume that the stock price rises to \$25.00 per share prior to the first vesting date following the exchange, and then, prior to such vesting date, declines to \$14.00 per share for the remainder of the three-year vesting period. Under those assumptions, you would have lost the opportunity to realize \$10,000 (1,000 shares x (\$25.00 – \$15.00)) for your stock options (assuming you exercised them and sold the stock at \$25.00 per share), in exchange for a replacement award that is only worth \$5,096 when fully vested. Moreover, if you cease to be employed by us and our subsidiaries prior to the time your replacement award vests in full, you will not realize any value from the unvested portion of the award, which you will forfeit.

In evaluating the exchange program, you should keep in mind that the future performance of our common stock will depend upon, among other factors, the future overall economic environment, the performance of the overall stock market and companies in our sector, the performance of our own business, and the risks and uncertainties set forth in our filings with the SEC. You should read our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2008, December 31, 2008 and March 31, 2009, each of which has been filed with the SEC and is available at [www.sec.gov](http://www.sec.gov), as well as all other documents incorporated by reference in our Tender Offer Statement on Schedule TO filed with the SEC (to which this offer to exchange is also an exhibit).

### **Q24. Are there conditions to the exchange program?**

Yes. The exchange program is subject to a number of conditions that are described in Section 7 of this offer to exchange. The exchange program is not conditioned on a minimum number of options being tendered or upon a minimum number of option holders electing to participate. Participation in the exchange program is completely voluntary.

## **BACKGROUND AND PURPOSE OF THE EXCHANGE PROGRAM**

### **Q25. Why is Mercury making the exchange program available at this time?**

Our stock price has experienced a significant decline and volatility during the past several years as a result of a number of factors affecting our business. In particular, over the past 16 months, we have been engaged in a strategic turnaround effort. In fiscal year 2008, our Advanced Computing Solutions (ACS) defense business performed relatively well, but we continued to see substantial revenue declines in the ACS commercial space due to a weakening of the market. We also experienced material operating losses in several of our non-core businesses. We believe that these declines and losses have obscured the value at the heart of our company. To unlock more of this value, we initiated a substantial restructuring effort aimed at (1) rationalizing our portfolio of unprofitable and non-core businesses, (2) redirecting our resources toward strengthening our defense business, (3) developing new products to facilitate future design wins, and (4) expanding our markets and repositioning our business for long-term growth.

We believe that we have made progress toward these goals. For instance, we executed a cost-reduction program in ACS in the fourth quarter of fiscal year 2008 to help focus and sustain this business on a going-forward basis. In addition, we have made progress in rationalizing our portfolio of businesses in fiscal year 2008, and also earlier this year, by discontinuing and/or selling certain of these businesses. Despite this progress, our efforts have not yet yielded a sustained improvement in our stock price, which remains at a relatively low level. In addition, the profound economic downturn has negatively impacted these efforts and imposed downward pressure on the price of our stock as well as the stock of many other companies. As a result, many of our employees hold options with exercise prices that are significantly higher than the current market price of our

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common stock. As of May 7, 2009, eligible employees held eligible options for 430,805 shares with exercise prices ranging from \$12.80 per share to \$42.00, while the closing price of our common stock on the NASDAQ Global Select Market on that date was \$8.86. We believe that these out-of-the-money options are no longer effective as performance and retention incentives.

Moreover, many of the eligible options have been out of the money for an extended period of time and, therefore, have not been exercised by our employees. Coupled with periodic grants of options and other equity-based awards to new and continuing employees, the number of shares subject to outstanding stock options and other unvested equity awards has contributed to our equity award “overhang.” Under the exchange program, participating employees will receive significantly fewer shares of restricted stock than the number of shares subject to the tendered options. Because participating employees will exchange a greater number of options for a lesser number of shares of restricted stock, the number of shares of stock subject to all outstanding stock options and other unvested equity awards would be reduced, thereby reducing the equity award overhang.

### **Q26. Why did Mercury choose to exchange options for restricted stock awards instead of repricing options or granting new options?**

The Compensation Committee of our Board of Directors considered a variety of alternatives to address the issues of the significant number of “out-of-the-money” options and the equity award “overhang.” We also retained a compensation consulting firm to provide us with independent advice in this regard. Ultimately, the Compensation Committee recommended to the Board, and the Board determined, that some option holders may benefit from the opportunity to choose between the more certain benefit associated with restricted stock awards and the potentially more valuable, though less certain, benefit those holders may realize by retaining their stock options. Additionally, by exchanging stock options according to the terms of the exchange program, we would reduce the number of shares of our common stock subject to equity awards, thereby reducing the equity award “overhang” and the potential dilution to our shareholders represented thereby.

### **Q27. How did Mercury determine what the exchange ratios would be?**

We considered the potential benefits of a number of alternatives, as well as their related costs, and determined that the predetermined exchange ratios (as set forth in greater detail in Section 2 of this offer to exchange) could provide value and incentives in a manner that we believe is fair to our employees and will further the interests of our shareholders. We determined that a more favorable plan to employees would be inconsistent with one of the principal goals of our equity compensation programs, which is to align the interests of our employees with those of our shareholders. Similar to our option holders, many of our shareholders have suffered significant declines in the value of their shareholdings in Mercury, and there is no way to compensate them for their losses other than through rebuilding our stock price. We believe the exchange program provides our employees with incentives to accomplish this objective while keeping costs to the Company of doing so at what we believe to be an acceptable level.

### **Q28. Why are there new vesting requirements on the replacement awards when I already held my options through the required vesting periods?**

Two of the principal purposes of our equity programs are to align the interests of our employees with those of our shareholders and to retain the services of our employees. We believe that anything shorter than a three-year vesting schedule would not adequately allow us to further these objectives. You should carefully consider the risks of exchanging vested options for unvested replacement awards. (See Questions 15 and 23.)

### **Q29. Will there be additional equity awards in the future?**

Our practice has been to grant equity awards annually to a portion of our employees. We believe that an equity stake in the success of the Company is a critical component of our compensation, incentive and retention

programs. Our equity program will be evaluated periodically by the Compensation Committee of our Board of Directors, and future equity awards will be subject to the discretion of the Committee.

**Q30. Is it likely that a similar exchange program will be adopted in the future?**

While the Compensation Committee evaluates our compensation programs periodically, it has no current intention to implement any similar option exchange program in the future. Any such similar program would require the approval of our shareholders. As a result, it may be prudent to make your decision on the assumption that, if you do not tender your eligible options in accordance with the terms of this exchange program (including the deadlines stated in this offer to exchange), you will not have a similar opportunity in the future.

**Q31. Does the Mercury Board of Directors have a recommendation about the exchange program?**

Our Board of Directors is not making a recommendation about the exchange program. Although our Board, based on the recommendation of its Compensation Committee, approved the exchange program, the Board recognizes that the decision to participate or not participate in the exchange program is an individual one that should be based on a variety of factors, including your own personal circumstances and preferences. You should consult with your personal advisors if you have questions about your financial, legal, or tax situation. No recommendation to employees as to whether or not to participate in the exchange program is being made by us, our Board of Directors, or its Compensation Committee.

**Q32. Is there any information regarding Mercury that I should be aware of?**

Yes. Your decision whether to participate or not participate in the exchange program should take into account the factors described in this document, as well as the various risks and uncertainties inherent in our business. These risks include, but are not limited to, those risks set forth in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, as well as the risks set forth in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2008, December 31, 2008, and March 31, 2009. In addition, before making your decision to participate in the exchange program, you should carefully review the information about Mercury discussed in this offer to exchange under the heading "Certain Risks of Participating in the Exchange Program" and in Section 10 of this offer to exchange. See Section 17 for an explanation of where you can find additional important information about us.

**DURATION OF THE ELECTION PERIOD**

**Q33. How long will the election period remain open? Can the election period be extended, and if so, how will I know if it has been extended?**

The election period begins on May 14, 2009 and is scheduled to expire on June 11, 2009, at 12:00 midnight, Eastern Time. No exceptions will be made to this deadline, unless we extend it. Although we do not currently intend to do so, we may, in our sole discretion, extend the election period at any time. If we extend the election period, we will publicly announce the extension no later than 9:00 a.m., Eastern Time, on the next business day after the last previously scheduled or announced expiration date. (See Section 15 of this offer to exchange.)

**Q34. If the election period is extended, how will the extension affect the date on which the replacement awards will be granted?**

If we extend the election period and you elect to participate in the exchange program, you must properly tender any eligible option you wish to exchange before the expiration of the extended election period. Your properly tendered eligible options will be accepted and cancelled, and your replacement award will be granted, promptly following the extended expiration date.

**HOW TO ELECT TO PARTICIPATE**

**Q35. What do I need to do to participate in the exchange program?**

You will be required to timely submit your election to participate by completing, signing and delivering an election in the form attached to this document as [Appendix B](#) in accordance with the instructions on page B-1. Your election to participate in the exchange program will be effective only after you have properly submitted an election before the expiration of the election period. (See Section 4 of this offer to exchange.)

**Q36. Do I have to return the election or any other document if I do not want to participate in the exchange program?**

No. You do not have to return any documents to us if you do not wish to participate in the exchange program. If you do not submit an election, you will not participate in the exchange program. The exchange program is completely voluntary, and there are no penalties for electing not to participate in the exchange program.

**Q37. If I elect to participate in the exchange program by submitting an election, may I change my mind?**

Yes. If you decide to participate in the exchange program and then decide to withdraw or change some or all of the eligible options you tendered, you may do so at any time before the expiration date. If you submitted an election and you want to change that election, whether you decide to exchange additional eligible options, withdraw eligible options you previously elected to exchange, or substitute certain eligible options for others, you must submit a new election listing all of the eligible options you now wish to exchange in accordance with the instructions on page B-1. Your new election must be received by us before the expiration of the election period, and the latest election received by us in accordance with the above-referenced delivery instructions will supersede and replace all prior elections. (See Section 4 of this offer to exchange.)

You may withdraw all your tendered eligible options by submitting to us a notice of withdrawal in the form attached to this document as [Appendix C](#) in accordance with the instructions on page C-1. If you then decide to participate in the exchange program after all, you must complete and submit a new election to do so. Your notice of withdrawal must be received by us before the expiration of the election period. If we have not accepted your tendered eligible options by July 9, 2009, you will also have the right to withdraw them after that date until we accept your tendered eligible options. (See Section 5 of this offer to exchange.)

**Q38. Will Mercury accept all eligible options tendered for exchange?**

We will accept all eligible options that are properly tendered for exchange unless the exchange program is terminated. If we terminate the exchange program without accepting tendered eligible options for exchange, we will promptly communicate this to you, which communication may be made by written or electronic notice or by public announcement. (See Sections 6 and 15 of this offer to exchange.)

**Q39. What happens to my options if I do not participate in the exchange program or if my options are not accepted for exchange?**

Nothing. If you do not elect to participate in the exchange program, or if we do not accept options that have been tendered for exchange, you will keep all of your current options and will not receive a replacement award. The exchange program is not expected to result in any changes to the terms of your current options. (See Question 43 and Sections 4 and 14 of this offer to exchange.)

**U.S. FEDERAL INCOME TAX CONSIDERATIONS**

**Q40. Will I have to pay U.S. federal income taxes at the time of the exchange if I participate in the exchange program?**

We believe that our employees who are subject to U.S. income taxation will incur no immediate U.S. federal income tax consequences as a result of either electing to retain their eligible options or electing to exchange their eligible options for shares of restricted stock. However, see the response to Question 41 for the U.S. federal income tax consequences of your restricted stock award.

**Q41. What are the U.S. federal income tax consequences of my restricted stock award?**

Employees subject to U.S. federal income taxation will generally recognize no taxable income upon the receipt of shares of restricted stock (*i.e.*, shares that are subject to a substantial risk of forfeiture and are not transferable). You will, however, recognize ordinary income (like salary) at the time the shares vest in an amount equal to the fair market value of those shares, unless you file an election under Section 83(b) of the Internal Revenue Code no later than 30 days after the date of grant of the restricted stock award. If you file a Section 83(b) election within the 30-day period, you will recognize ordinary income in an amount equal to the fair market value of all the shares underlying the restricted stock award determined on the date of grant rather than on the date on which shares vest. We will determine the fair market value of the shares based on the closing price of our common stock as reported on the NASDAQ Global Select Market on the applicable date. The ordinary income resulting from the vesting of shares of restricted stock (or the acquisition of shares of restricted stock if a Section 83(b) election is properly filed) will be reflected in the Form W-2 reported to the Internal Revenue Service for the year of the vesting or acquisition of the shares, as the case may be. At the time you recognize ordinary income, you will have an income and employment withholding tax obligation with respect to that income, much like the obligation that arises when we pay you salary. (See Question 42 and Section 14 of this offer to exchange.)

The decision to make a Section 83(b) election is a highly technical one, and should include, among other considerations, the availability to you of cash sufficient to cover the tax withholding obligation before the date on which the shares will vest and you will be permitted to sell them, your assessment of the potential future market value changes in our common stock, and the risk that events may prevent your continued employment with us and corresponding vesting of your shares. If your shares of restricted stock never vest for any reason, you would have paid taxes on shares that are forfeited, and would not be entitled to a refund of, or an offsetting deduction for, the taxes you paid. You are advised to consult with your personal financial and tax advisors before making a Section 83(b) election. If you decide to make a Section 83(b) election, you must do so through an appropriate filing with the U.S. Internal Revenue Service no later than 30 days after the date of grant of your replacement award.

Upon a sale of shares acquired under a restricted stock award by employees subject to U.S. federal income taxation, any gain or loss, based on the difference between the sale price and the fair market value of the shares on their vesting date (or on their grant date if the employee properly filed a Section 83(b) election), will be taxed as a capital gain or loss. Such gain or loss will be long-term if the employee held the shares for more than one year following their vesting date (or their grant date if the employee properly filed a Section 83(b) election).

**Q42. How will U.S. income and employment tax withholding be handled?**

For our employees who are subject to U.S. taxation, as your shares of restricted stock vest over time (or on the date of grant if you properly file a Section 83(b) election as described in response to Question 41), you will be required to recognize taxable income. This means that we will have an obligation to withhold income and employment taxes, much like the obligation that arises when we pay your salary. Until you have satisfied these tax withholding requirements, we have no obligation to release the shares to you.

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Pursuant to the terms of the award agreement for the replacement awards, you will be able to elect to have the required minimum tax withholding obligation satisfied, in whole or in part, by (1) authorizing us to withhold from the shares of stock that are vesting a number of shares with an aggregate fair market value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (2) transferring to us shares of our common stock that you otherwise own with an aggregate fair market value (as of the date the withholding is effected) that would satisfy the withholding amount due. Otherwise, you may elect to pay the withholding amount due by delivering cash or a personal check to us. We will provide more detailed information about alternative methods of satisfying the tax withholding obligation reasonably in advance of the dates on which these amounts become due.

If you choose to file a Section 83(b) election with respect to your replacement award, you will be required to so certify to us and submit to us a copy of your Section 83(b) election filed with the Internal Revenue Service. At the time you file your Section 83(b) election, you will also be required to make a one-time payment (by cash or personal check) to us to cover the income and employment withholding tax due based on the fair market value of all of the shares subject to your replacement award.

### **Q43. If I have incentive stock options, what happens if I elect not to exchange them in the exchange program?**

Based on our review of the Internal Revenue Code, we believe that it is unlikely that the exchange program will change any of the terms of your eligible incentive stock options if you elect not to surrender them in the exchange program unless the offer is open for 30 days. If the offer is open for 30 or more days, the Internal Revenue Service may characterize the exchange program as a “modification” of those incentive stock options, even if you elect not to surrender them in the exchange program. A successful assertion by the Internal Revenue Service that the options are modified would extend the period of time that you are required to hold the shares purchased under those options to qualify for favorable tax treatment and could cause a portion of your incentive stock options to be treated as non-qualified stock options. However, any assertion by the Internal Revenue Service, even if successful, would not affect the exercise price or vesting schedule of your options. (See Section 14 of this offer to exchange.)

### **Q44. Are there other tax consequences to which I may be subject?**

Depending on where you live, there may be additional state or local tax imposed on your replacement award. You should consult your personal tax advisor if you have questions about your individual tax situation.

## **HOW TO GET MORE INFORMATION**

### **Q45. Whom can I contact if I have questions about the exchange program?**

For additional information or assistance, you should send your request by email to [MCStockOptionExchange@mc.com](mailto:MCStockOptionExchange@mc.com).

Any communications that we may issue in response to such requests will not be a solicitation or make any recommendation whatsoever with respect to the exchange program. For example, we will not be able to answer questions about your personal situation or otherwise provide an assessment of the merits of the exchange program. You should consult your personal advisors if you have questions about your financial or tax situation.

## CERTAIN RISKS OF PARTICIPATING IN THE EXCHANGE PROGRAM

*Participation in the exchange program involves a number of risks, including those described below. You should carefully consider the risks described below and the risk factors described under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, as well as in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2008, December 31, 2008, and March 31, 2009. You should consider these risks and are encouraged to speak with a financial and tax advisor, as necessary, before deciding whether or not to participate in the exchange program. In addition, you should read carefully this offer to exchange in its entirety, including the appendices and other documents to which we have referred you before deciding whether or not to participate in the exchange program.*

### ECONOMIC RISKS

**The methodology used to validate the exchange ratios is based on the Black-Scholes option valuation model and does not necessarily reflect the actual value of the options.**

Our objective in establishing the exchange ratios was to ensure that, to the extent practicable, the replacement awards granted in connection with the exchange program will have an aggregate value approximately equal to the aggregate value of the stock options surrendered. As such, the ratios were designed with the goal of making the grant of replacement awards substantially a value-to-value exchange for participating employees, structured to avoid any incremental accounting charge to Mercury, to the extent practicable at the time that the ratios were established.

We calculated the fair value of the eligible options using the Black-Scholes option valuation model. The Black-Scholes model is a common method used for estimating the fair value of a stock option, and we use this model for determining stock-based compensation in our consolidated financial statements (although the assumptions used for purposes of validating the exchange ratios were different from those used for the preparation of our consolidated financial statements that are included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009). For purposes of determining the fair value of an eligible option under the Black-Scholes model, the following assumptions were used:

- the option's exercise price;
- an assumed value of \$8.86 per share of our common stock, which was the closing price per share of our common stock as reported on the NASDAQ Global Select Market on May 7, 2009;
- an expected volatility of our common stock of 86%;
- the remaining contractual life of the stock option;
- risk-free interest rates ranging from 0.16% to 2.96%; and
- no expected dividends.

We then compared that value to an assumed \$8.86 per share value for each share of restricted stock to be issued in the exchange program, which was the closing price per share of our common stock as reported on the NASDAQ Global Select Market on May 7, 2009. Following this comparison, we established the exchange ratios at or above the cost-neutral rate, with the value of the restricted stock awards in each grouping representing from approximately 88% to 100% of the value of the eligible options based on the above assumptions.

You should be aware that option valuation is not an exact science. Although the Black-Scholes model is a standard and accepted model for determining the value of options, the utilization of different assumptions in the Black-Scholes option pricing model can produce significantly different results for the ultimate value of an option.



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**If our stock price increases after the date your tendered options are cancelled, your cancelled options might have been worth more than the restricted stock awards that you receive in exchange for them.**

We cannot predict the market price of our common stock. It is possible over time that options you tender for exchange would have a greater value or lesser value than the restricted stock awards you receive in the exchange program. We may engage in transactions in the future with business partners or other companies which could significantly change our structure, ownership, organization, or management or the composition of our Board of Directors, and which could significantly affect the price of our common stock.

**Your replacement award will have a new vesting schedule.**

Regardless of the vested status of the eligible options you tender for exchange in the exchange program, your replacement award will be subject to a new vesting schedule as described in this offer to exchange and the applicable award agreement. All replacement awards will be completely unvested upon grant. Therefore, subject to the terms of the applicable award agreement and the terms of the 2005 Plan, if you cease to be employed by us and our subsidiaries for any reason following the date of grant of the replacement awards, either voluntarily or involuntarily, your replacement award may be completely forfeited or you may have a smaller vested interest in your replacement award at the time your employment is terminated as compared to your vested interest in the eligible options you exchanged and which were cancelled in the exchange program.

**We will not grant a replacement award to you if we are prohibited by applicable laws and regulations.**

Even if we accept your tendered options, we will not grant a replacement award to you if we are prohibited by applicable laws, rules, regulations or policies from doing so. Such a prohibition could result from, among other things, changes in U.S. laws, SEC rules, regulations or policies or NASDAQ Stock Market listing requirements or if you move to a jurisdiction in which we are prohibited or prevented from granting restricted stock awards. In any such case, your tender will be deemed to have been withdrawn, and you will retain such options subject to their existing terms.

## **TAX-RELATED RISKS**

### **General**

When the shares of our common stock granted to you under your restricted stock award vest, you will generally recognize ordinary income equal to the fair market value of the vested shares. Any excess of the proceeds on a subsequent sale of the shares over their fair market value on the vesting date will be a capital gain, although you will be eligible for favorable long-term capital gain treatment only if you have held the shares for more than 12 months from the vesting date.

### **Tax Withholding**

In most cases, at the time the shares of restricted stock vest, you will be responsible for FICA taxes. This generally would mean that 1.45% of the fair market value of the restricted stock at the time of vesting would have to be withheld in payment of Medicare tax. While you are also potentially subject to the larger old age and survivor component of FICA, this is true only to the extent your salary does not exceed the Social Security taxable wage base for that year (\$106,800 for 2009). In addition, you will have an income tax withholding obligation with respect to ordinary income you must recognize on the shares' vesting date, much like the obligation that arises when we pay you your salary. You may satisfy these withholding obligations by one of the methods described in response to Question 42 and in Section 14 of this offer to exchange.

The income tax withholding may be insufficient to cover your final income tax liability with respect to the vesting of your shares. You should consult with your own tax advisor to determine whether you should make estimated tax payments for each year in which your shares vest.

**Even if you elect not to participate in the exchange program, to the extent your eligible options are incentive stock options, those options may be affected.**

You should note that, if you are subject to taxation in the United States and the offer is open for 30 or more days, there is a risk that any eligible options you hold which are incentive stock options may be affected, even if you do not participate in the exchange program. We believe that you will not be subject to current U.S. federal income tax if you elect not to participate in the exchange program. We also believe that the exchange program will not change the U.S. federal income tax treatment of subsequent grants if you do not participate in the exchange program.

However, if the offer is open for 30 or more days, the Internal Revenue Service may characterize the exchange program as a “modification” of those incentive stock options, even if you decline to participate. A successful assertion by the Internal Revenue Service of this position could, in some cases, cause an option to cease to qualify as an incentive stock option. In other cases, such a successful assertion by the Internal Revenue Service could extend the option’s holding period necessary to qualify for favorable tax treatment. Accordingly, to the extent you dispose of shares you acquire by exercising an incentive stock option you do not surrender for exchange in the exchange program prior to the lapse of the new extended holding period, your incentive stock option could be taxed similarly to a non-qualified stock option.

You should review Section 14 of this offer to exchange carefully for a more detailed discussion of the potential consequences of participating in the exchange program. We recommend that you consult with your personal tax advisor before deciding whether or not to participate in the exchange program with respect to the tax consequences relating to your specific circumstances.

**BUSINESS-RELATED RISKS**

For a description of risks related to our business, operations and prospects, we direct you to the discussion under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, as well as in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2008, December 31, 2008, and March 31, 2009.

## THE EXCHANGE PROGRAM

### Section 1. Eligibility.

Employees are “eligible employees” if they are both domiciled in the United States and employed by us or one of our subsidiaries on the date the election period for the exchange program commences and on the date on which the tendered options are cancelled and the replacement awards are granted. However, members of our Board of Directors and our executive officers are not eligible to participate in the exchange program. Employees who are on worker’s compensation, medical, maternity, paternity, military or other statutorily protected leave of absence or an approved personal leave of absence are eligible to participate in the exchange program. However, if you submit your resignation or receive a notice of termination at any time on or before the date on which the tendered options are cancelled and the replacement awards are granted, you will not be eligible to participate in the exchange program. The exchange program does not change your status as an “at-will” employee, and your employment may be terminated by us or by you at any time, including before the election period expires, for any reason, with or without cause.

### Section 2. Number of Restricted Stock Awards; Expiration Date.

We are offering to exchange restricted stock awards, which will result upon vesting in the release to participants of shares of Mercury’s common stock, par value \$.01 per share, for options to purchase our common stock held by eligible employees that were granted under our 1997 Stock Option Plan and the 2005 Plan and that have (a) exercise prices greater than a “threshold price” and (b) time-based vesting. We refer to such options as “eligible options.” The threshold price is the greater of (1) \$10.19, which was the 52-week high price of our common stock as of May 7, 2009, or (2) the closing price of our common stock reported on the NASDAQ Global Select Market on the date the election period expires. Any options that you previously tendered for exchange but which have an exercise price that is not greater than the threshold price will not be eligible for exchange and will be automatically excluded from the exchange program. In addition, options must have time-based vesting to be eligible for exchange (including both the vested and unvested portions). Options with performance-based vesting will not be eligible for exchange in the exchange program. The exchange program is subject to the terms and conditions described in this offer to exchange, including its appendices.

Eligible employees participating in the exchange program will receive restricted stock awards consisting of shares of restricted stock, which we also refer to as “replacement awards.” Each share of restricted stock awarded in the exchange program is a share of our common stock that is issued to you on the date the award is granted, subject to vesting through your continued employment for a specified period. Until shares of restricted stock are vested, they remain subject to (1) forfeiture if your employment terminates, and (2) restrictions on transfer.

As of May 7, 2009, options to purchase approximately 3,416,637 shares of our common stock were outstanding under all of our equity compensation plans. Of these, options to purchase 430,805 shares of common stock, having exercise prices ranging from \$12.80 to \$42.00, are potentially eligible for exchange in the exchange program. All such eligible options were issued under our 1997 Stock Option Plan and the 2005 Plan. Assuming all such options remain eligible to participate in the exchange program following the determination of the closing price of our common stock on the date the election period expires and are properly surrendered for exchange, we would issue approximately 165,092 shares of restricted stock in the exchange program.

You may tender for exchange any or all of your eligible options. However, if you elect to tender an eligible option, you must tender for exchange the entire outstanding, unexercised portion of that option. **For purposes of the exchange program, the term “option” means a particular option grant to purchase a specified number of shares of our common stock at a specified exercise price per share.** In other words, you will not be permitted to exchange part but not all of any particular option grant. For example, if you have received two discrete option grants, both of which remain outstanding in their entirety, consisting of (1) an option to purchase 1,000 shares of common stock at an exercise price of \$15.00, and (2) an option to purchase 1,500 shares of common stock at an exercise price of \$18.00, you may elect to exchange *all* or *none* of the option to purchase

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1,000 shares with the \$15.00 exercise price, and you may separately elect to exchange *all or none* of the option to purchase 1,500 shares with the \$18.00 exercise price. In this example, whichever option(s) you elect to exchange, you may not choose to exchange less than the total number of shares subject to either grant. In other words, you may not elect to exchange one-half of the option to purchase 1,000 shares of common stock (*i.e.*, 500 shares) having an exercise price of \$15.00 and keep the option to exercise the remaining 500 shares. We will not accept partial tenders of options. If you attempt to tender for exchange less than the entire outstanding, unexercised portion of an eligible option, we will reject your election to tender that particular option in its entirety. Any such rejection will not affect any other eligible option that you properly tender.

All eligible options will be exchanged for restricted stock awards in accordance with the exchange ratios set forth below. As an example, if you elect to exchange an eligible option representing the right to purchase 1,000 shares of common stock with an exercise price of \$15.00, you will receive a replacement award consisting of 364 shares of restricted stock. We will not issue any fractional restricted stock awards. Accordingly, if the sum of all restricted stock awards to be granted to you in exchange for your tendered eligible options includes a fractional share, that fractional share will be rounded (with 0.5 rounded up) to the nearest whole share. All replacement awards will be subject to the terms of the 2005 Plan and an award agreement between you and Mercury. The exchange ratios are as follows:

<u>If the Exercise Price of an Eligible Option is:</u>	<u>The Exchange Ratio is:</u>
\$10.20 – \$14.99	1.60-to-1
\$15.00 – \$19.99	2.75-to-1
\$20.00 – \$24.99	3.00-to-1
\$25.00 and above	4.50-to-1

The exchange ratios were established by grouping together eligible options with similar exercise prices, and then assigning an appropriate exchange ratio to each grouping. Our objective in establishing the exchange ratios was to ensure that, to the extent practicable, the replacement awards granted in the exchange program will have an aggregate value approximately equal to the aggregate value of the stock options surrendered. As such, the ratios were designed with the goal of making the grant of replacement awards substantially a value-to-value exchange for participating employees, structured to minimize any incremental accounting charge to Mercury, to the extent practicable at the time that the ratios were established.

We calculated the fair value of the eligible options using the Black-Scholes option valuation model. The Black-Scholes model is a common method used for estimating the fair value of a stock option, and we use this model for determining stock-based compensation in our financial statements (although the assumptions used for purposes of validating the exchange ratios were different from those used for the preparation of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009). For purposes of determining the fair value of an eligible option under the Black-Scholes model, the following factors were used:

- the option's exercise price;
- an assumed value of \$8.86 per share of our common stock, which was the closing price per share of our common stock as reported on the NASDAQ Global Select Market on May 7, 2009;
- an expected volatility of our common stock of 86%;
- the remaining contractual life of the stock option;
- risk-free interest rates ranging from 0.16% to 2.96%; and
- no expected dividends.

We then compared that value to an assumed \$8.86 per share value for each share of restricted stock to be issued in the exchange program, which was the closing price per share of our common stock as reported on the NASDAQ Global Select Market on May 7, 2009. Following this comparison, we established the exchange ratios at or above the cost-neutral rate, with the value of the restricted stock awards in each grouping representing from approximately 88% to 100% of the value of the eligible options based on the above assumptions.

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According to these calculations, if all of the eligible options as of the commencement of the exchange program are exchanged for shares of restricted stock in accordance with the exchange ratios, options to purchase approximately 430,805 shares, having an aggregate fair value of approximately \$1,555,516, will be surrendered and cancelled in exchange for approximately 165,092 shares of restricted stock having an assumed fair market value of approximately \$1,462,715 (based on the assumed per share value of \$8.86 described above).

Because option valuation is inherently speculative and imprecise, in addition to considering the relationship between the value of your eligible options and the value of the replacement award that you would receive in the exchange program, you should also consider the other matters discussed or referenced in this document as part of your overall determination of whether or not to participate in the exchange program.

The period during which you may elect to participate in the exchange program (the "election period") will expire on the expiration date. The "expiration date" means 12:00 midnight, Eastern Time, on June 11, 2009, unless we, in our discretion, extend the election period. If we extend the election period, the term "expiration date" will mean the latest time and date at which the election period expires. See Section 15 of this offer to exchange for a description of our rights to extend, delay, terminate and amend the election period and the exchange program.

### **Section 3. Purpose of the Exchange Program.**

We are currently engaged in an effort to restructure the Company and turn around our business. In order to heighten our chances of success, we believe that (1) we must strengthen our retention of employees who are key to this effort, and (2) employee retention and performance incentives are essential elements in maintaining the turnaround momentum that we have achieved to date.

We have granted stock options annually to a portion of our employees. When the Compensation Committee approves the grant of a stock option, it establishes the exercise price that the employee must pay to purchase shares of common stock and the period over which the option vests. The per share exercise price is set at the market price of a share of our common stock on the date the option is granted. Thus, an employee receives value for an option grant only if the price of our common stock increases after the date of grant and after the option has vested so that he or she can exercise the option and sell the purchased shares at a price that exceeds the option's exercise price. The granting of stock options is intended to align the interests of our employees with those of our shareholders in terms of increasing the value of our common stock.

Our stock price has experienced a significant decline and volatility during the past several years as a result of a number of factors affecting our business. In particular, over the past 16 months, we have been engaged in a strategic turnaround effort. In fiscal year 2008, our Advanced Computing Solutions (ACS) defense business performed relatively well, but we continued to see substantial revenue declines in the ACS commercial space due to a weakening of the market. We also experienced material operating losses in several of our non-core businesses. As a result, many of our employees hold options with exercise prices significantly higher than the current market price of our common stock. As of May 7, 2009, eligible employees held options for 430,805 shares with exercise prices ranging from \$12.80 to \$42.00 per share, while the closing price of our common stock on the NASDAQ Global Select Market on that date was \$8.86.

We believe that these "out-of-the-money" options are no longer effective as performance and retention incentives, and that to enhance long-term shareholder value we need to maintain competitive employee compensation, incentive, and retention programs. An equity stake in the success of the Company is a critical component of these programs. We believe the exchange program will provide us with an opportunity to restore for eligible employees an incentive to remain with us and contribute to the future growth and success of our business.

Moreover, many of the eligible options have been out of the money for an extended period of time and, therefore, have not been exercised by our employees. Coupled with periodic grants of options and other equity-

based awards to new and continuing employees, the number of shares subject to outstanding stock options and other unvested equity awards has steadily increased as a percentage of our total shares of common stock outstanding, creating a significant equity award “overhang.” The exchange program provides that participating employees will receive fewer restricted stock awards than the number of shares subject to options tendered. Because participating employees will exchange a greater number of options for a lesser number of restricted stock awards, the number of shares of stock subject to all outstanding stock options and other unvested equity awards will be reduced, thereby reducing the equity award overhang. If all of the eligible options as of the commencement of the exchange program are exchanged for restricted stock awards in accordance with the predetermined exchange ratios, eligible options for 430,805 shares will be surrendered and cancelled, while approximately 165,092 shares of restricted stock will be granted, resulting in a net reduction in the equity award overhang by approximately 265,713 shares, or approximately 1.2% of the number of shares of our common stock outstanding as of May 7, 2009. All eligible options that are not exchanged will remain outstanding and in effect in accordance with their existing terms.

#### **Section 4. Procedures for Tendering Options for Exchange.**

##### ***Proper Tender of Options.***

To properly tender your options for exchange, you must properly complete, sign, date, and deliver to us the election to participate attached as [Appendix B](#) hereto (“election”) in accordance with the instructions set forth on page B-1 (you may request additional copies of the election using the contact information in this Section 4). Delivery of the election must be made by one of the following methods:

- regular or overnight mail to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, Attn: Option Exchange;
- by hand to the drop box labeled “Option Exchange” in the Human Resources department at the foregoing address; or
- by fax to: 978-256-1746, Attn: Option Exchange.

**We are not required to, and may not, send individual confirmations of receipt. Please keep copies of the documents you send. If you submit your election by fax, we request that you send a confirmatory copy by regular or overnight mail to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, Attn: Option Exchange.**

##### ***Changing Your Election.***

If you submitted an election and you want to change that election, whether because you decide to exchange additional eligible options, withdraw eligible options you previously elected to exchange, or substitute certain eligible options for others, **you must submit a new election listing all of the eligible options you now wish to exchange.** For example, if you initially submit an election indicating you want to exchange your eligible options A and B, and then decide that you do not want to exchange eligible option B but want to exchange eligible option C, you must submit a new election that lists A and C as the eligible options you want to exchange. **The latest election received by us in accordance with the delivery instructions above will supersede and replace all prior elections, so you should be sure to follow the foregoing instructions carefully.** As discussed in Section 1, you may exchange eligible options only on a whole grant-by-grant basis.

**The method of delivery of all documents, including the election, is at your election and risk. Delivery of your election will be effective only upon receipt.** If delivery is by mail, we recommend that you use certified mail with return receipt requested. In all cases, you should allow sufficient time to ensure we receive your election in time. Your eligible options will not be considered properly tendered unless we receive the necessary documentation prior to the expiration of the election period.

***Determination of Validity; Rejection of Options; Waiver of Defects; No Obligation to Give Notice of Defects.***

We will determine, in our discretion, all questions as to the number of shares subject to eligible options, and the validity, form, eligibility (including time of receipt) of submitted elections (including any changes of elections), and acceptance of any tender of options. Our determination of these matters will be final and binding on all parties, subject to remedies that may be available under applicable law. We may reject any submitted elections or any options tendered for exchange to the extent that we determine they are not properly completed or to the extent that we determine it is unlawful to accept the options for exchange. We may waive any defect or irregularity in a submitted election. No eligible options will be properly tendered for exchange until all defects or irregularities have been cured by the option holder or waived by us. Neither we nor any other person is obligated to give notice of any defects or irregularities in any submitted election, and no one will be liable for failing to give notice of any defects or irregularities.

***Your Choosing to Participate and Our Accepting Your Options Constitute an Agreement.***

If you elect to exchange your options by submitting an election in accordance with the procedures described above, you will have accepted the terms and conditions of the exchange program. If we accept the eligible options that you properly tendered for exchange, there will be a binding agreement between you and Mercury on the terms and subject to the conditions of the exchange program. Subject to our rights to extend, terminate, and amend the exchange program, we currently expect that we will accept promptly after the expiration of the election period all properly tendered eligible options that have not been validly withdrawn.

***Effect of Exchange of Options.***

If you elect to exchange your eligible options and we accept such options for exchange, effective upon our acceptance, the eligible options you tendered for exchange will be cancelled and the stock option agreement(s) evidencing them will be deemed null and void. You will be required to enter into an award agreement governing the terms of your replacement award. If you do not elect to exchange your eligible options, you properly withdraw a previously submitted election, or any of the options you tender for exchange are not eligible for any reason (e.g., their exercise price is not greater than the threshold price, they are subject to performance-based vesting, or the exchange is prohibited by applicable law), you will not participate in the exchange program with respect to such options, and you will retain your options at their current exercise price(s) and subject to their current terms.

***Questions About the Exchange Program.***

You can ask questions about the exchange program or request assistance, additional copies of this document, and copies of the form of election by sending an email to [MCSSStockOptionExchange@mc.com](mailto:MCSSStockOptionExchange@mc.com).

**Section 5. Withdrawal Rights.**

You may only withdraw your options tendered for exchange in accordance with the provisions of this Section 5. **This Section 5 applies only if you want to completely withdraw your participation in the exchange program as to all of your eligible options that you have previously tendered for exchange.** If you still intend to participate in the exchange program but want to change your previous election (whether to exchange additional eligible options, withdraw eligible options you previously elected to exchange, or substitute certain eligible options for others), you must follow the instructions under the heading “Changing Your Election” in Section 4 above, rather than the instructions in this Section 5.

The following examples are designed to assist you in determining whether to submit a notice of withdrawal in accordance with Section 5 or a new election in accordance with Section 4.

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**Example 1:** You hold eligible options A and B. You submit an election to exchange eligible options A and B. Later, you decide you do not want to exchange eligible option B. You must follow the procedures set forth in Section 4 under the heading “Changing Your Election” and submit a new election listing only eligible option A as the option you wish to exchange. This new election will replace and supersede any previous election you submitted.

**Example 2:** You hold eligible options A and B. You submit an election to exchange eligible option A. Later, you decide you do not want to exchange eligible option A, and you still do not want to exchange eligible option B either. Since you no longer wish to participate in the exchange program at all, you must submit a notice of withdrawal according to the procedures described below in this Section 5, which will terminate your participation in the exchange program with respect to all of your eligible options that you previously submitted for exchange. **You should only submit a notice of withdrawal if you have decided not to exchange any of your previously tendered eligible options for exchange.**

You may withdraw the eligible options you tendered for exchange at any time before 12:00 midnight, Eastern Time, on June 11, 2009, the currently scheduled expiration date of the election period. If the election period is extended by us beyond that time, you may withdraw your tendered options at any time until the expiration of the extended election period. In addition, if we have not accepted your tendered options for exchange before 12:00 midnight, Eastern Time, on July 9, 2009, you may withdraw your options at any time thereafter.

To withdraw your options tendered for exchange, you must properly complete, sign, date, and deliver to us the notice of withdrawal attached as [Appendix C](#) to this offer to exchange in accordance with the instructions set forth on page C-1 (you may request additional copies of the notice of withdrawal using the contact information in this Section 5). Delivery of the notice of withdrawal must be made by one of the following methods:

- regular or overnight mail to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, Attn: Option Exchange;
- by hand to the drop box labeled “Option Exchange” in the Human Resources department at the foregoing address; or
- by fax to: 978-256-1746, Attn: Option Exchange.

**We are not required to, and may not, send individual confirmations of receipt. Please keep copies of the documents you send. If you submit your election by fax, we request that you send a confirmatory copy by regular or overnight mail to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, Attn: Option Exchange.**

Eligible options you withdraw will thereafter be deemed not properly tendered for purposes of the exchange program, unless you properly re-tender those options prior to the expiration of the election period by following the procedures described in Section 4 above.

Neither we nor any other person is obligated to give you notice of any defects or irregularities in any notice of withdrawal, nor will anyone incur any liability for failure to give you any such notice. We will determine, in our discretion, all questions as to the form and validity, including time of receipt of notices of withdrawal. Our determination of these matters will be final and binding, subject to remedies that may be available under applicable law.

**The method of delivery of your notice of withdrawal is at your election and risk. Delivery of your notice of withdrawal will be effective only upon receipt.** If delivery is by mail, we recommend that you use certified mail with return receipt requested. In all cases, you should allow sufficient time to ensure we receive your notice of withdrawal in time. Your properly tendered eligible options will not be considered withdrawn unless we receive the necessary documentation prior to the expiration of the election period.



## Section 6. Acceptance of Options for Exchange and Issuance of Replacement Awards.

Upon the terms and subject to the conditions of the exchange program and promptly following the expiration date, we will accept for exchange all eligible options properly tendered and not validly withdrawn before the expiration of the election period. All options accepted by us pursuant to the exchange program will be cancelled as of the date of acceptance, and you will no longer have any rights under those options. Replacement awards will be granted as of the date of our acceptance. If we accept and cancel options properly tendered for exchange after June 11, 2009, or if we extend the date by which we must accept and cancel options properly tendered for exchange, the time in which the replacement awards will be granted will be similarly delayed.

We will not accept partial tender of an eligible option. However, you may tender the remaining portion of an eligible option that you have partially exercised.

For purposes of the exchange program, we will be deemed to have accepted for exchange eligible options that are validly tendered and not validly withdrawn when we give notice to option holders of our acceptance. We will give notice of our acceptance, which may be by email, facsimile, or press release, promptly following the expiration date.

All replacement awards will be granted under the 2005 Plan and will be subject to the terms and conditions of an award agreement between you and Mercury. As promptly as practicable after the grant date, we will send you an award agreement (in the appropriate form filed as an exhibit to our Tender Offer Statement on Schedule TO but with all the blanks filled in). The agreement will be effective from and as of the grant date.

**If your employment with us and our subsidiaries is terminated for any reason on or before the date on which the tendered options are cancelled and the replacement awards are granted, or you have submitted your resignation or received a notice of termination of employment on or before such date, your election to participate in the exchange program will automatically be deemed to have been withdrawn and you will retain your eligible options subject to their existing terms.**

## Section 7. Conditions of the Exchange Program.

If one or more of the conditions described below occur, we will not be required to accept any eligible options that you have tendered for exchange. We may terminate the exchange program, or postpone our acceptance and cancellation of any eligible options that you elect to exchange (in each case, at any time on or after the commencement of the election period, and not later than the expiration of the election period) if we determine that any condition described below has occurred that, in our reasonable judgment, makes it inadvisable for us to proceed with the exchange program or to accept and cancel eligible options that you elect to exchange. These conditions are as follows:

- any action or proceeding by any government agency, authority or tribunal, or any other person, domestic or foreign, is threatened or pending before any court, authority, agency, or tribunal, which directly or indirectly challenges the making of this offer to exchange eligible options, the acquisition of some or all of the tendered eligible options, the granting of the replacement awards, or otherwise relates to the exchange program, or which, in our reasonable judgment, could materially and adversely affect our business, financial condition, results of operations, assets, liabilities, or prospects;
- any action is pending or taken, or any approval is withheld, or any statute, rule, regulation, judgment, order, or injunction is proposed, sought, promulgated, enacted, entered, amended, enforced or deemed to be applicable to the exchange program or us or any of our subsidiaries, by any court or any authority, agency, or tribunal, domestic or foreign, which, in our reasonable judgment, would:
  - make the acceptance for exchange of, or the issuance of restricted stock awards for, some or all of the options illegal or otherwise restrict or prohibit the exchange program;

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- delay or restrict our ability, or render us unable, to accept for exchange, or issue replacement awards for, some or all of the tendered options; or
- materially and adversely affect our business, financial condition, results of operations, assets or liabilities, or otherwise materially impair in any way the contemplated future conduct of our business;
- there is:
  - any general suspension of trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market;
  - the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, whether or not mandatory;
  - the commencement or escalation of a war or other national or international calamity directly or indirectly involving the United States, which could reasonably be expected to affect materially and adversely, or to delay materially, the completion of the exchange offer; or
  - a material loss or interference in our business or properties from fire, explosion, flood or other casualty, whether or not covered by insurance;
- a tender or exchange offer (other than the exchange offer) with respect to some or all of our capital stock, or a merger or acquisition proposal for us, shall have been proposed, announced or publicly disclosed, or we shall have learned that:
  - any person, entity or “group” within the meaning of Section 13(d)(3) of the Exchange Act has acquired more than 5% of our outstanding common stock, other than a person, entity or group which had publicly disclosed such ownership with the SEC prior to the date of commencement of the exchange offer;
  - any such person, entity or group which had publicly disclosed such ownership prior to such date has acquired additional common stock constituting more than 1% of our outstanding shares; or
  - any new group has been formed that beneficially owns more than 5% of our outstanding common stock that in our judgment in any such case, and regardless of the circumstances, makes it inadvisable to proceed with the offer or with such acceptance for exchange of eligible options;
- the suspension of trading in our common stock by the SEC or the NASDAQ Stock Market;
- a substantial decline or increase in our stock price or significant volatility in the market price of our stock resulting from any number of factors, including without limitation fluctuations in our operating results, announcements of technological innovations or new products, announcements of developments in proprietary rights, or general market conditions;
- any change, development, clarification or position taken in generally accepted accounting principles that could or would require us to record for financial reporting purposes compensation expense against our earnings in connection with the exchange offer, other than as contemplated as of the commencement date of the exchange offer;
- any of the situations described above existed at the time of commencement of the exchange offer and that situation, in our reasonable judgment, deteriorates materially after the commencement of the exchange offer; or
- any change occurs in our business, financial condition, results of operations, assets, liabilities or prospects, which, in our reasonable judgment, is or may be material to us, or materially impairs or may materially impair the benefits, or materially increases the burdens, of the exchange offer to us.

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These conditions are for our benefit. We may assert any of these conditions in our discretion prior to the expiration date. We may waive them, in whole or in part, at any time and from time to time prior to the expiration date, in our discretion, whether or not we waive any other conditions to the exchange program. Our failure at any time prior to the expiration date to exercise any of these rights will not be deemed to be a waiver of any rights. The waiver of any of these rights with respect to particular facts or circumstances will not be deemed to be a waiver with respect to any other facts or circumstances. Any determination or judgment we make concerning the events described in this section will be final and binding upon all persons, subject to any order or decision by a court of competent jurisdiction.

### **Section 8: Price Range of Our Common Stock.**

There is no established market for the eligible options. The securities underlying the eligible options are shares of our common stock, which is quoted on the NASDAQ Global Select Market under the trading symbol "MRCY." The following table sets forth, for the periods indicated, the high and low closing sales prices per share of our common stock as reported by the NASDAQ Global Select Market.

	<u>High</u>	<u>Low</u>
<i>Fiscal 2009:</i>		
Fourth Quarter (through May 7, 2009)	\$ 10.07	\$ 5.78
Third Quarter	\$ 7.25	\$ 4.04
Second Quarter	\$ 9.25	\$ 2.21
First Quarter	\$ 10.12	\$ 6.64
<i>Fiscal 2008:</i>		
Fourth Quarter	\$ 9.45	\$ 5.78
Third Quarter	\$ 15.78	\$ 4.57
Second Quarter	\$ 16.43	\$ 10.40
First Quarter	\$ 13.57	\$ 10.27

On May 7, 2009, the closing sale price per share of our common stock as reported by the NASDAQ Global Select Market was \$8.86.

Our stock price has experienced, and may continue in the future to experience, significant volatility. The trading price of our common stock has fluctuated significantly in the past and is expected to continue to do so in the future, as a result of a number of factors, some of which are outside of our control. In addition, the stock market has experienced significant price and volume fluctuations that have affected the market price of many companies (including technology companies), and that have often been unrelated or disproportionate to the operating performance of these companies.

**We recommend that you obtain the current market price of our common stock before deciding whether to participate in the exchange program.**

### **Section 9. Source and Amount of Consideration; Terms of Replacement Awards.**

**Consideration.** All eligible options tendered (and accepted) for exchange will be exchanged for shares of restricted stock in accordance with the following exchange ratios:

<u>If the Exercise Price of an Eligible Option is:</u>	<u>The Exchange Ratio is:</u>
\$10.20 – \$14.99	1.60-to-1
\$15.00 – \$19.99	2.75-to-1
\$20.00 – \$24.99	3.00-to-1
\$25.00 and above	4.50-to-1

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As an example, if you elect to exchange an eligible option to purchase 1,000 shares with an exercise price of \$15.00 per share, you would receive 364 shares of restricted stock in exchange for the surrendered eligible option (1,000 divided by 2.75).

We will not issue any fractional restricted stock awards. Accordingly, if the sum of all restricted stock awards to be granted to you in exchange for your tendered eligible options includes a fractional share, that fractional share will be rounded (with 0.5 rounded up) to the nearest whole share.

All replacement awards will be granted under the 2005 Plan, and the shares of our common stock issuable in connection with such awards will be issued under that plan. As provided in the 2005 Plan, all of the shares subject to the eligible options that are tendered and cancelled in the exchange program will be added to the number of shares available for issuance under the 2005 Plan.

As of May 7, 2009, options to purchase approximately 3,416,637 shares of our common stock were outstanding under all of our equity compensation plans. Of these, options to purchase 430,805 shares of common stock, having exercise prices ranging from \$12.80 to \$42.00, are held by eligible employees and are eligible for exchange in the exchange program. If all of the eligible options as of the commencement of the exchange program are exchanged for shares of restricted stock in accordance with the exchange ratios set forth above, eligible options for 430,805 shares will be surrendered and cancelled, while approximately 165,092 shares of restricted stock will be granted, which new grants represent less than 1% of the total number of our shares outstanding as of May 7, 2009.

**Terms of the Replacement Awards.** All replacement awards will be subject to the terms of the 2005 Plan and an award agreement between you and Mercury. As promptly as practicable after the grant date, we will send to each recipient of a replacement award a restricted stock award agreement. The terms of the replacement awards will vary from the terms of the options tendered for exchange. You must sign and return the replacement award agreement to be entitled to your replacement award. This agreement will be effective from and as of the grant date. The following description of the replacement awards to be granted under the 2005 Plan is a summary of the material terms of these awards.

**Important Note:** The description below of the 2005 Plan and the replacement awards to be granted in the exchange program is intended to be a summary only. Any statements are subject to, and are qualified in their entirety by reference to, all provisions of the 2005 Plan and the applicable form of agreement evidencing the replacement awards. These documents have been included as exhibits to our Tender Offer Statement on Schedule TO filed with the SEC (of which this offer to exchange is also an exhibit).

- **General.** The 2005 Stock Incentive Plan was originally adopted by our Board of Directors on September 14, 2005, and became effective upon receiving approval of our shareholders on November 14, 2005. On October 10, 2008, our Board of Directors adopted an amendment and restatement of the 2005 Plan that became effective upon receiving shareholder approval, which was obtained on November 17, 2008. The 2005 Plan was further amended by the Board of Directors on April 22, 2009. As of May 7, 2009, there were approximately 1,413,575 shares of our common stock available for future grants under the 2005 Plan. As provided in the 2005 Plan, all of the shares subject to the eligible options that are tendered and cancelled in the exchange program will be added to the number of shares available for issuance under the 2005 Plan. The 2005 Plan permits the Compensation Committee to grant a variety of equity-based awards, including the restricted stock awards to be granted in the exchange program.
- **Plan Administration.** The 2005 Plan is generally administered by the Compensation Committee of our Board of Directors. The Compensation Committee has full power to select, from among 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 the chief executive officer

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 Securities Exchange Act of 1934, or the “Exchange Act.”

- **Restricted Stock Awards.** Each restricted stock award consists of shares of our common stock that will be issued to you at the time the award is granted. The 2005 Plan permits, and the award agreement will provide, that the shares of restricted stock will be issued and held by our transfer agent in book-entry form, and your name will be entered as the shareholder of record on our books. The book entry for the shares of restricted stock will bear an appropriate legend to the effect that such shares are subject to restrictions as set forth in the award agreement and in the 2005 Plan. At such time as the shares vest, if at all, the restrictions will lapse and thereafter such vested shares will be delivered to you. During the period in which the shares of restricted stock remain unvested, you will nevertheless have certain rights of a Mercury shareholder, including the right to vote the shares and receive any dividends that we may pay. Between the date on which the restricted stock award is granted and the date on which the shares subject to the award vest, the value of the award will fluctuate based on the prevailing market price of our common stock, although you will have no right to sell or otherwise transfer such shares until they have vested. No monetary payment (other than applicable tax withholding, if any) will be required as a condition to being granted a restricted stock award or having the shares subject thereto delivered to you upon vesting.
- **Detrimental Activity.** The Compensation Committee may cancel, rescind, suspend, or otherwise limit any award under the 2005 Plan to a participant if the participant engages in detrimental activities, including rendering services to one of our competitors, disclosing confidential information without permission, refusing to assign inventions to us, soliciting our employees or customers, engaging in an activity that results in a termination for cause, materially violating any of our internal policies, or being convicted of, or pleading guilty to, a crime.
- **Vesting.** All replacement awards granted in the exchange program will be subject to a new vesting schedule that will commence on the date on which the replacement awards are granted, provided that you remain employed by us or one of our subsidiaries as of each such date. We will grant the replacement awards promptly following the expiration of the election period in exchange for properly tendered eligible options.  
Restricted stock awards granted in the exchange program will vest in three equal annual installments commencing on the first anniversary of the date of grant, provided that you remain employed by us or one of our subsidiaries as of each such date.
- **Delivery of Shares of Our Common Stock.** Upon vesting, shares of restricted stock previously issued to you in book-entry form will be delivered to you on a one-for-one basis, through the issuance of shares of our common stock to you.
- **Termination of Employment.** You will forfeit any portion of your replacement award that has not vested on the day you cease being employed by us or one of our subsidiaries for any reason.
- **Transfer Restrictions.** Until they have vested, your shares of restricted stock may not be sold, assigned, transferred, pledged, or otherwise disposed of or encumbered.
- **Voting and Dividend Rights.** You will have the right to vote and receive any dividends that we may pay with respect to the shares of restricted stock that are subject to your restricted stock award.
- **Adjustments upon Certain Events.** If our capital structure changes because of a stock dividend, reorganization, or similar event, the Compensation Committee will make an appropriate and proportionate adjustment in the number and kind of shares or other securities subject to any then outstanding awards under the 2005 Plan.
- **Change-in-Control Provisions.** The 2005 Plan provides that if your employment is terminated within six months of the consummation of a change in control (as defined in the 2005 Plan) and you have a

minimum of six months of service with us (as of the effective date of the change in control), you will be entitled to the acceleration of vesting of 50% of your unvested awards or the value thereof. If the change in control is not approved by our Board of Directors, all of the outstanding awards will automatically become fully vested upon the consummation of the change in control. If you have a written change-in-control severance agreement with us and you are employed by us at the time of a change in control, then your unvested awards will be treated in accordance with the terms of such agreement.

- **Amendments and Termination.** Our Board of Directors may at any time amend or discontinue the 2005 Plan, and the Compensation Committee may at any time amend or cancel any outstanding award for the purpose of satisfying changes in the law or for any other lawful purpose. However, no such action may adversely affect any rights under any outstanding award without the holder's consent.
- **Registration of Shares.** The shares of our common stock underlying the replacement awards have been registered under the Securities Act of 1933 on a registration statement on Form S-8 filed with the SEC. Unless you are considered an "affiliate" of Mercury, you will generally be able to sell the vested shares you receive pursuant to your replacement award free of any transfer restrictions under applicable U.S. securities laws.
- **Tax Consequences.** You should refer to Section 14 for a discussion of the material U.S. federal tax consequences of the acquisition, holding, and vesting of shares of restricted stock in the exchange program. We recommend that you consult with your own tax advisor to determine the tax and social insurance consequences of the exchange program.

#### **Section 10. Information About Mercury.**

**General.** Mercury Computer Systems, Inc. is incorporated in the Commonwealth of Massachusetts. Our principal executive offices are located at 201 Riverneck Road, Chelmsford, Massachusetts 01824, and our telephone number at that address is 978-256-1300.

We design, manufacture, and market high-performance computer, signal and image processing systems and software for embedded and other specialized computing markets. In doing so, we work closely with customers to architect comprehensive, purpose-built solutions that capture, process, and present data for defense electronics, homeland security, and other computationally challenging commercial markets. Our largest business unit is our Advanced Computing Solutions, or ACS, business unit, which is focused on specialized high performance computing solutions with key market segments that include: aerospace and defense—which includes systems for radar, electronic warfare, sonar, C4I (Command, Control, Communications, Computers, and Intelligence), and electro-optical; and semiconductor—which includes systems for semiconductor wafer inspection, reticle inspection and mask writing. Our other businesses include Mercury Federal Systems, which is part of our long-term strategy to expand our software and services presence and pursue growth in markets adjacent to defense computing.

**Certain Financial Information.** Set forth below is a summary of our financial information. This information is derived from and qualified by reference to our publicly available audited consolidated financial statements for the fiscal years ended June 30, 2008 and 2007 and unaudited consolidated financial statements for the nine months ended March 31, 2009 and 2008, and should be read in conjunction with such financial statements, related notes, and other financial information included in Item 8 on pages 52 through 92 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, and Item 1 on pages 3 through 23 of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, which are incorporated herein by reference.

**Summary Consolidated Balance Sheet Data**  
(in thousands)

	March 31,	June 30,	
	2009	2008	2007
Current assets	\$ 98,288	\$ 185,843	\$ 193,751
Non-current assets	131,601	152,707	166,514
Total assets	229,889	338,550	360,265
Current liabilities	83,201	179,758	53,071
Non-current liabilities	9,445	12,280	138,537
Total liabilities	92,646	192,038	191,608
Total shareholders' equity	137,243	146,512	168,657
Total liabilities and shareholders' equity	229,889	338,550	360,265

During fiscal 2009, we sold our Biotech business and our Visage Imaging ("VI") business. We currently expect to sell our Visualization Science Group ("VSG") business by the end of the fourth quarter of fiscal 2009. As a result of these sales and expected sale, the operating results of these businesses have been classified as discontinued operations in the financial information below for the nine months ended March 31, 2009 and 2008. The financial information below for the years ended June 30, 2008 and 2007 have not been recast to reflect these businesses as discontinued operations.

**Summary Consolidated Statements of Operations Data**  
(in thousands, except per share data)

	Nine Months Ended		Years Ended	
	March 31,		June 30,	
	2009	2008	2008(1)	2007
Net revenues	\$ 140,497	\$ 140,572	\$ 209,903	\$ 217,218
Gross profit	79,514	82,961	126,070	122,162
Income (loss) from continuing operations	4,838	(3,498)	(35,399)	(40,120)
Net loss	(10,218)	(15,034)	(35,413)	(37,820)
Income (loss) per share from continuing operations:				
Basic	\$ 0.22	\$ (0.16)	\$ (1.64)	\$ (1.89)
Diluted	\$ 0.22	\$ (0.16)	\$ (1.64)	\$ (1.89)
Net loss per share:				
Basic	\$ (0.46)	\$ (0.70)	\$ (1.64)	\$ (1.78)
Diluted	\$ (0.46)	\$ (0.70)	\$ (1.64)	\$ (1.78)
Weighted average shares outstanding				
Basic	22,113	21,590	21,639	21,221
Diluted	22,374	21,590	21,639	21,221

- (1) On a pro forma basis, giving effect for the presentation of Biotech, VI and VSG as discontinued operations, our financial results for the year ended June 30, 2008 would have been summarized as follows (in thousands, except per share): Net revenues of \$190,208; Gross profit of \$109,937; Loss from continuing operations of \$(3,869), or \$(0.18) per share; Net loss of \$(35,413), or \$(1.64) per share.

**Ratio of Earnings to Fixed Charges**  
(unaudited)

	Nine Months Ended		Years Ended	
	March 31,		June 30,	
	2009	2008	2008(1)	2007
Ratio of earnings to fixed charges	2.6	0.5	(6.0)	(6.2)

- (1) On a pro forma basis, giving effect for the presentation of Biotech, VI and VSG as discontinued operations, our ratio of earnings to fixed charges for the year ended June 30, 2008 would have been 0.8.

The ratio of earnings to fixed charges is calculated by dividing (a) earnings before taxes and fixed charges by (b) fixed charges. Fixed charges include interest expense under operating leases we deem a reasonable approximation of the interest factor.

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Mercury's book value per share as of March 31, 2009 was \$6.17. Book value per share is computed by dividing shareholders' equity by the number of shares of our common stock outstanding at March 31, 2009.

**Other.** Except as otherwise disclosed in this offer to exchange or in our filings with the SEC, we presently have no plans or proposals and are not engaged in negotiations that relate to or would result in:

- any extraordinary transaction, such as a merger, reorganization or liquidation, involving us or any of our subsidiaries;
- any purchase, sale, or transfer of a material amount of our assets or the assets of any of our subsidiaries;
- any material change in our present dividend rate or policy, indebtedness or capitalization;
- any change in our present Board of Directors or management, including a change in the number or the term of directors or to fill any existing board vacancies or to change any material term of the employment contract of any executive officer;
- any other material change in our corporate structure or business;
- our shares being delisted from the NASDAQ Global Select Market;
- our shares becoming eligible for termination of registration pursuant to Section 12(g)(4) of the Exchange Act;
- the suspension of our obligation to file reports pursuant to Section 15(d) of the Exchange Act;
- the acquisition by any person of any of our securities or the disposition of any of our securities; or
- any change in our articles of organization or bylaws or other actions which may impede the acquisition of control of us by any person.

We cannot assure you that we will not plan, propose, or engage in negotiations with respect to the above-noted matters during the election period or after consummation of the exchange program.

### **Section 11. Interests of Directors and Executive Officers; Transactions and Arrangements Concerning the Options.**

A list of our executive officers and members of our Board of Directors is attached to this offer to exchange as [Appendix A](#). Members of our Board of Directors and our executive officers are not eligible to participate in the exchange program.

For information with respect to the beneficial ownership of our common stock by members of our Board of Directors, our named executive officers for fiscal year 2008 who remain with our company, and all of our directors and executive officers as a group, please refer to our definitive proxy statement for our special meeting of shareholders held on May 8, 2009, filed with the SEC on April 13, 2009.

Other than transactions in our securities in the ordinary course under our equity plans with persons who are neither executive officers nor directors of Mercury, neither we nor any of our subsidiaries nor, to our knowledge, our executive officers, directors or affiliates have effected transactions in options to purchase our common stock or in shares of our common stock during the 60 days prior to May 14, 2009.

Except as described in this offer to exchange and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008 filed with the SEC, and other than outstanding options and other awards granted from time to time to certain of our employees (including our executive officers) and our directors under our compensation and incentive plans, neither we nor, to our knowledge, any of our directors or executive officers, is a party to any contract, arrangement, understanding, or relationship with any other person with respect to any of our securities (including any contract, arrangement, understanding, or relationship concerning the transfer or voting of securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss, or the giving or withholding of proxies, consents, or authorizations).



**Section 12. Status of Options Accepted by Us in the Exchange Program; Accounting Consequences of the Exchange Program.**

Properly tendered eligible options that are accepted by us in the exchange program will be cancelled, and all of the shares subject to such options (approximately 430,805 shares if all eligible options as of the commencement of the exchange program are exchanged) will be added to the pool of shares available for the replacement awards and for future grants of equity-based awards under the 2005 Plan. Under the terms of the 2005 Plan, the grant of restricted stock awards reduces the number of shares of common stock available for issuance under the plan by one and thirty-six hundredths (1.36) shares of common stock for each share of restricted stock subject to an award. Assuming that all of the eligible options as of the commencement of the exchange offer are exchanged for shares of restricted stock in the exchange program, a net of approximately 206,280 shares would be added to the pool of shares available for future grants under the 2005 Plan following the grant of the replacement awards.

On July 1, 2005, we adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123R, or "SFAS 123R", on accounting for share-based payments. Under SFAS 123R, we expect to recognize the unamortized compensation cost of the surrendered options as well as any incremental compensation cost of the replacement awards granted in the exchange program. The incremental compensation cost will be measured as the excess, if any, of the fair value of each replacement award granted to employees in exchange for surrendered stock options, measured as of the date such awards are granted, over the fair value of the original stock option grants exchanged for such awards, measured immediately before the exchange. The incremental and remaining compensation expense associated with the exchange program will be recognized over the three-year service period of such awards. If any portion of the replacement awards is forfeited prior to completion of the service condition due to termination of employment, the compensation cost for the forfeited portion of the replacement award will be reversed and will not be recognized; however, we would recognize any unamortized compensation expense from the surrendered options which would have been recognized under the original vesting schedules.

**Section 13. Legal Matters; Regulatory Approvals.**

We are not aware of any license or regulatory permit that appears to be material to our business, which might be adversely affected by the exchange program, or of any approval or other action by any government or regulatory authority or agency that is required for the acquisition or ownership of the options or restricted stock awards described in this offer to exchange. If any other approval or action should be required, we presently intend to seek that approval or take that action. This could require us to delay the acceptance of options surrendered for exchange. We cannot assure you that we would be able to obtain any required approval or take any other required action. Our failure to obtain any required approval or take any required action might result in harm to our business. Our obligation under the exchange program to accept options tendered for exchange or to issue replacement awards is subject to the conditions described in Section 7 of this offer to exchange.

**Section 14. Material U.S. Federal Income Tax Consequences.**

The following is a description of the material U.S. federal tax consequences of the exchange program. This discussion is based on the Internal Revenue Code of 1986, as amended, its legislative history, Treasury Regulations thereunder, and administrative and judicial interpretations thereof, as of the date of this offer to exchange, all of which are subject to change (possibly on a retroactive basis). This description does not discuss all the tax consequences that may be relevant to you in light of your particular circumstances, and it is not intended to be applicable in all respects to all categories of option holders.

If you are living or working in the United States, but are also subject to the tax laws in another country, you should be aware that there may be other tax and social insurance consequences that may apply to you. You should consult your own tax advisor to discuss the consequences to you of participating in the exchange program.

**You should consult your own tax advisor with respect to the consequences of participating in the exchange program under state, local, and non-U.S. tax laws, as well as any federal tax consequences arising from your particular circumstances.**

**Option Exchange and Grant of Restricted Stock.** We believe that you will not be subject to current U.S. federal income taxation if you elect to keep your eligible options. We do not believe that there will be any immediate U.S. federal income tax consequences of receiving a restricted stock award in exchange for your eligible options if you are subject to U.S. income taxation, unless you elect to file an election under Section 83(b) of the Internal Revenue Code, as described below.

**Vesting of Restricted Stock.** When shares of restricted stock granted to you vest, you will generally recognize ordinary income equal to the fair market value of the shares that become vested. We will determine the fair market value of the shares based on the closing price of our common stock as reported on the NASDAQ Global Select Market on the applicable vesting date, or if not reported on such date, on the last day such closing price was reported. Generally, we will be entitled to a tax deduction equal to the amount recognized as ordinary income by you with respect to your vested restricted stock.

**Election under Section 83(b).** You may elect to be taxed at the time that shares of restricted stock are awarded to you as if the shares were not subject to vesting conditions by filing an election with the Internal Revenue Service under Section 83(b) of the Internal Revenue Code no later than 30 days after the date of grant of the award. If you properly file a Section 83(b) election, you will generally recognize ordinary income equal to the fair market value of the shares determined on the date of grant.

**Subsequent Sale of Shares.** Your tax basis in the shares granted to you will be equal to the fair market value on the date of vesting (that is, equal to the amount of ordinary income you recognize), and the capital gain holding period will commence upon the day following the date on which the shares vested. However, if you filed a Section 83(b) election, your tax basis will be equal to the fair market value of the shares on the date they were awarded to you, and the capital gain holding period will commence on the date of grant. Your subsequent disposition of the stock will ordinarily result in a capital gain or loss in an amount equal to the difference between the amount you realize on the disposition and your tax basis in the shares that are disposed of. If you dispose of shares of common stock after you have held the shares for more than one year from the date of vesting or the date of grant if a Section 83(b) election was filed, such capital gain or loss will be long-term capital gain or loss. Long-term capital gains recognized by individuals are subject to a more favorable rate of tax (currently, a maximum rate of 15%) than ordinary income. There are limitations imposed on the ability of individuals to deduct capital losses against their ordinary income.

**Tax Withholding.** At the time you recognize ordinary income, we will have an income and employment tax (*e.g.*, FICA) withholding obligation with respect to that income, much like the obligation that arises when we pay you your salary. This ordinary income resulting from the vesting of your restricted stock (or the granting of your restricted stock award if you file a Section 83(b) election) will be reflected on your year-end W-2 reported to the Internal Revenue Service. The income tax withholding may be insufficient to cover your final income tax liability with respect to the shares issued to you. You should consult with your own tax advisor to determine whether you should make estimated tax payments for the year in which you recognize ordinary income under your restricted stock award.

As a condition to our delivering vested shares of common stock to you, you must make arrangements with us to satisfy your income and employment tax obligations.

Pursuant to the terms of the restricted stock award agreement for the replacement awards, you will be able to elect to have the required minimum tax withholding obligation satisfied, in whole or in part, by (1) authorizing us to withhold from the shares of stock that are vesting a number of shares with an aggregate fair market value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (2) transferring to

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us shares of our common stock that you otherwise own with an aggregate fair market value (as of the date the withholding is effected) that would satisfy the withholding amount due. Otherwise, you may elect to pay the withholding amount due by delivering cash or a personal check to us. We will provide more detailed information about alternative methods of satisfying the tax withholding obligation reasonably in advance of the dates on which these amounts become due.

If you choose to file a Section 83(b) election with respect to your restricted stock award, you will be required to so certify to us and submit to us a copy of your Section 83(b) election filed with the Internal Revenue Service. At the time you file your Section 83(b) election, you will also be required to make a one-time payment (by cash or personal check) to us to cover the income and employment withholding tax due based on the fair market value of all of the shares subject to your restricted stock award.

**Considerations With Respect to Incentive Stock Options.** You should note that there is a risk that any eligible options you hold which are incentive stock options may be affected, even if you do not participate in the exchange program, if the offer is open for 30 or more days. We believe that you will not be subject to current U.S. federal income tax if you elect not to participate in the exchange program. We also believe that the exchange program will not change the U.S. federal income tax treatment of subsequent grants if you do not participate in the exchange program.

However, if the offer is open for 30 or more days, the Internal Revenue Service may characterize the exchange program as a “modification” of those incentive stock options, even if you decline to participate. A successful assertion by the Internal Revenue Service of this position could, in some cases, cause an option to cease to qualify as an incentive stock option. In other cases, such a successful assertion by the Internal Revenue Service could extend the option’s holding period necessary to qualify for favorable tax treatment. Accordingly, to the extent you dispose of shares you acquire by exercising an incentive stock option you do not surrender for exchange in the exchange program prior to the lapse of the new extended holding period, your incentive stock option could be taxed similarly to a non-qualified stock option.

### **Section 15. Extension of the Election Period; Termination; Amendment.**

We may, at any time prior to the expiration date, extend the election period and delay accepting any tendered eligible options by announcing the extension and giving oral or written notice of the extension to eligible employees.

We may, at any time prior to the expiration date, terminate, postpone, or amend the exchange program. To postpone acceptance or cancellation of eligible options, we must announce the postponement and give oral or written notice of the postponement to eligible employees. Notwithstanding the foregoing, we will pay the consideration offered or return tendered eligible options promptly after termination or withdrawal of the exchange program.

Subject to applicable law, we further reserve the right, in our discretion, and regardless of whether any event set forth in Section 7 of this offer to exchange has occurred or is deemed by us to have occurred, to amend the terms of the exchange program in any respect.

Amendments to the terms of the exchange program may be made at any time and from time to time. In the case of any extension, the amendment will be announced no later than 9:00 a.m., Eastern Time, on the next business day after the last previously scheduled or announced expiration date. Any amendment of the terms of the exchange program will be disseminated promptly in a manner reasonably designed to inform eligible employees of the change. Without limiting the manner in which we may choose to disseminate any amendment of the terms of the exchange program, except as required by law, we have no obligation to publish, advertise, or otherwise communicate any dissemination.

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If we materially change the terms of the exchange program or the information about the exchange program, or if we waive a material condition of the exchange program, we will extend the election period. Except for a change in the amount of consideration or change in the percentage of securities sought, the amount of time by which we will extend the election period following a material change in the terms of the exchange program or the information about the exchange program will depend on the facts and circumstances, including the relative materiality of the information. If we decide to take any of the following actions, we will notify you and extend the expiration date to the tenth business day after the date of the notice (unless the expiration date as originally scheduled is already on or after the tenth business day):

- we increase or decrease the per share exchange value of the options (*i.e.*, we increase or decrease what we will give you for your options);
- we change the type of options eligible to be exchanged; or
- we increase the number of eligible options such that the common shares underlying the increased number of eligible options exceed 2% of the common shares issuable upon exercise of the eligible options immediately prior to the increase.

A “*business day*” means any day other than a Saturday, Sunday, or federal holiday and consists of the period from 12:01 a.m. through 12:00 midnight, Eastern Time.

### **Section 16. Fees and Expenses.**

We will not pay any fees or commissions to any broker, dealer, or other person for asking eligible employees to exchange eligible options in the exchange program.

### **Section 17. Additional Information.**

We have filed with the SEC a Tender Offer Statement on Schedule TO, of which this offer to exchange is a part, with respect to the exchange program. This offer to exchange does not contain all of the information contained in the Schedule TO and the exhibits to the Schedule TO. We recommend that you review the Schedule TO, including its exhibits, before deciding whether or not to participate in the exchange program.

In addition, we are subject to the informational filing requirements of the Exchange Act, and, in accordance with that act, are obliged to file reports, proxy statements, and other information with the SEC relating to our business, financial condition, and other matters. We recommend that you review such reports, proxy statements, and other information, which include the following:

- our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, filed with the SEC on September 12, 2008;
- our Quarterly Reports on Form 10-Q for the fiscal quarters ended September 30, 2008, December 31, 2008, and March 31, 2009, filed with the SEC on November 10, 2008, February 9, 2009, and May 11, 2009, respectively;
- our Current Reports on Form 8-K filed with the SEC on July 30, 2008 (accepted at 17:25:04), September 18, 2008, October 24, 2008, November 20, 2008, January 6, 2009, January 28, 2009 (accepted at 07:17:18), February 2, 2009, February 4, 2009, and April 24, 2009;
- our definitive proxy statement for our special meeting in lieu of annual meeting of shareholders held on November 17, 2008, filed with the SEC on October 17, 2008;
- our definitive proxy statement for our special meeting of shareholders held on May 8, 2009, filed with the SEC on April 13, 2009;

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- the description of our common stock contained in our registration statement on Form 8-A, filed with the SEC on January 7, 1998, including any amendment or report filed for the purpose of updating such description; and
- a description of our preferred stock purchase rights contained in our registration statement on Form 8-A, filed with the SEC on December 15, 2005, including any amendment or report for the purpose of updating such description.

The Schedule TO and other filings listed above, our other annual, quarterly, and current reports and proxy statements, and our other SEC filings may be examined at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, or on the Internet at [www.sec.gov](http://www.sec.gov). You may obtain information on the operation of the Public Reference Room by calling the SEC at 800-732-0330.

We will also provide without charge to each person to whom this document is delivered, upon the written or oral request of such person, a copy of any or all documents to which we have referred above, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into such documents). Requests should be directed to:

Investor Relations  
Mercury Computer Systems, Inc.  
201 Riverneck Road  
Chelmsford, Massachusetts 01824  
Phone: 978-256-1300

The information contained in this offer to exchange about Mercury should be read together with the information contained in the other documents to which we have referred you.

### **Section 18. Forward-Looking Statements.**

This offer to exchange and the other documents referred to above include forward-looking statements. You can identify these statements by our use of the words "may," "will," "should," "plans," "expects," "anticipates," "continue," "estimate," "project," "intend," and similar expressions. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, the effects of the exchange program on employee incentives and retention, general economic and business conditions, including unforeseen weakness in our markets, effects of continued geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in completing engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, continued funding of defense programs, the timing of such funding, changes in the U.S. Government's interpretation of federal procurement rules and regulations, market acceptance of our products, shortages of components, production delays due to performance quality issues with outsourced components, inability to fully realize the expected benefits from acquisitions or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, timing and costs associated with disposing of businesses, and difficulties in retaining key customers. These risks and uncertainties also include such additional risk factors as are discussed in our recent filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, and our Quarterly Reports on Forms 10-Q for the quarters ended September 30, 2008, December 31, 2008, and March 31, 2009. You should not place undue reliance upon any such forward-looking statements, which speak only as of the date made. We do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, except as otherwise required by applicable federal securities laws.

**APPENDIX A**  
**INFORMATION ABOUT THE DIRECTORS AND EXECUTIVE OFFICERS OF**  
**MERCURY COMPUTER SYSTEMS, INC.**

The directors and executive officers of Mercury Computer Systems, Inc., and their positions and offices as of May 14, 2009, are set forth in the following table. None of the directors or executive officers is eligible to participate in the exchange program.

<u>Name</u>	<u>Positions and Offices Held</u>
Mark Aslett	President, Chief Executive Officer, and Director
Robert E. Hult	Senior Vice President, Chief Financial Officer, and Treasurer
Craig A. Saline	Senior Vice President, Human Resources
Didier M.C. Thibaud	Senior Vice President and General Manager, Advanced Computing Solutions
Karl D. Noone	Vice President, Controller
Alex A. Van Adzin	Vice President, General Counsel, and Corporation Secretary
Dr. Albert P. Belle Isle	Director
George W. Chamillard	Director
Russell K. Johnsen	Chairman of the Board of Directors
William K. O'Brien	Director
Lee C. Steele	Director
Vincent Vitto	Director
Dr. Richard P. Wishner	Director

The address of each director and executive officer is c/o Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824. The telephone number for each director and executive officer is 978-256-1300.

**APPENDIX B**  
**INSTRUCTION SHEET TO ELECTION TO PARTICIPATE**

Instructions if you wish to participate in the exchange program by tendering your eligible options for exchange:

1. Complete this election to participate (the "election") and sign ALL SIGNATURE PAGES (pages B-2 and B-4) of the election and deliver pages B-2 through B-4 by one of the following methods:
  - regular or overnight mail to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, Attn: Option Exchange;
  - by hand to the drop box labeled "Option Exchange" in the Human Resources department at the foregoing address; or
  - by fax to: 978-256-1746, Attn: Option Exchange.

If you submit your election by fax, we request that you send a confirmatory copy by regular or overnight mail to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, Attn: Option Exchange.

**We are not required to, and may not, send individual confirmations of receipt. Please keep copies of the documents you send. This election must be received by Mercury as specified above before 12:00 midnight, Eastern Time, on June 11, 2009, unless the election period is extended by Mercury, in which case this election must be received by the extended expiration date.** Your eligible options will not be considered tendered for exchange unless a properly completed and signed copy of this election is timely received by Mercury as specified above. The method of delivery is at your own option and risk. You are responsible for making sure that this election is timely received as specified above. You must allow for delivery time based on the method of delivery that you choose to ensure that we receive your election on time.

2. You must designate the eligible options you wish to exchange by filling in the grant number(s) on page B-3 of the election. The grant number is listed at your online account at [www.etrade.com](http://www.etrade.com) under the column heading "Number," and may be preceded by "0000." You do *not* have to provide the number of shares subject to the options you are electing to exchange.
3. Except as described in the following sentence, this election must be signed by the eligible employee who holds the eligible options to be tendered for exchange exactly as such person's name appears on the notice of grant for such options previously delivered to such person. If the signature is by an attorney-in-fact or another person acting in a fiduciary or representative capacity, the signer's full title and proper evidence of the authority of such person to act in such capacity must be identified on this election.

*You must follow the foregoing instructions if you are changing your election in accordance with Section 4 of the offer to exchange (see the heading "Changing Your Election"). If you wish to withdraw from participation in the exchange program as to all of your eligible options that you have previously tendered for exchange, you must fill out and submit a notice of withdrawal in accordance with the instructions on page C-1 of Appendix C to the offer to exchange.*

**Mercury Computer Systems, Inc.**  
**ELECTION TO PARTICIPATE**  
**in Stock Option Exchange Program**

*Note: This election to participate is a part of, and must be read in conjunction with, the offer to exchange dated May 14, 2009, including the appendices thereto.*

Name: \_\_\_\_\_  
(Name of eligible employee – please print)

I have received the offer to exchange dated May 14, 2009 (as amended or supplemented from time to time, the “offer to exchange”), relating to the offer being made by Mercury Computer Systems, Inc. (“Mercury”) to eligible employees to tender their outstanding options to purchase shares of Mercury’s common stock having (a) an exercise price per share greater than a “threshold price” and (b) time-based vesting (“eligible options”), in exchange for certain awards of restricted stock, as described in the offer to exchange (“replacement awards”), which will be granted under Mercury’s Amended and Restated 2005 Stock Incentive Plan (the “exchange program”). The “threshold price” is the greater of (1) \$10.19, or (2) the closing price of Mercury’s common stock on the date the election period expires.

Mercury has informed me that I am eligible to tender eligible options in the exchange program only if I am actively employed by Mercury or one of its subsidiaries or on an approved leave of absence as of May 14, 2009, and through the date on which the tendered eligible options are cancelled and the replacement awards are granted, which will be promptly following the expiration of the election period. Mercury has further informed me that I am eligible to participate in the exchange program only if I am domiciled in the United States on May 14, 2009, through the date on which the replacement awards are granted.

**For purposes of the exchange program, the term “option” means a particular option grant to purchase a specified number of shares of our common stock at a specified exercise price per share.** Mercury has informed me that I may tender for exchange in the exchange program only eligible options, and that if I choose to tender an eligible option, I must tender the entire outstanding, unexercised portion of that option. Mercury has informed me that if I have more than one eligible option, I may tender for exchange one eligible option and choose not to tender another eligible option.

Mercury has informed me that, upon the terms and subject to the conditions of the exchange program, in exchange for those eligible options that I properly tender and which are accepted and cancelled, Mercury will grant me a replacement award consisting of a number of shares of restricted stock determined in accordance with the exchange ratios described in the offer to exchange. Mercury has informed me that the sum of all restricted stock awards to be granted to me as replacement awards will be rounded to the nearest whole share (with 0.5 rounded up). Accordingly, replacement awards will not be granted for fractional shares.

**ELIGIBLE OPTIONS TENDERED FOR EXCHANGE**

*Note: Please refer to your online account at [www.etrade.com](http://www.etrade.com) to obtain the grant number(s) for your eligible option(s) (see instructions).*

I hereby tender the following eligible options for exchange pursuant to the terms of the offer to exchange, including the appendices thereto:

Grant number:	Grant number:
Grant number:	Grant number:
Grant number:	Grant number:

Signed:

\_\_\_\_\_  
[Signature of Eligible Employee]



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Mercury has informed me that I may change my election shown above (whether to add, subtract, or substitute eligible options) by submitting a new election in accordance with the instructions on page B-1, and that the latest election I properly and timely submit in accordance with such instructions will supersede and replace any and all elections I previously submitted. Mercury has further informed me that if I wish to withdraw my participation in the exchange program as to all of my eligible options previously tendered, I must submit a notice of withdrawal in accordance with the instructions on page C-1 of Appendix C to the offer to exchange.

Mercury has informed me that the replacement awards will be granted under, and will be subject to the terms and conditions of, Mercury's Amended and Restated 2005 Stock Incentive Plan, as amended, and that an award agreement will be provided to me as promptly as practicable after the grant date.

Mercury has informed me that the replacement award will be unvested as of its grant date and will have a new vesting schedule. Mercury has further informed me that I must continue to provide service to Mercury or one of its subsidiaries through the required vesting periods in order to become entitled to receive or retain the underlying shares of common stock vesting at the end of each vesting period.

Mercury has informed me that, under certain circumstances described in the offer to exchange, Mercury may terminate or amend the exchange program or postpone its acceptance and cancellation of any options tendered for exchange. Mercury has further informed me that, in any such event, the options tendered for exchange but not accepted will remain in effect in accordance with their terms.

I acknowledge that (1) the exchange program is a discretionary program established by Mercury and may be suspended, modified, or terminated by Mercury at any time, as provided in the offer to exchange, (2) the replacement awards to be granted under the exchange program are discretionary in nature, and such grant does not create any contractual or other right to receive future equity or cash compensation, payments, or benefits, (3) participation in the exchange program shall not create a right to continued employment or additional severance payments in the event of termination of service, (4) I am voluntarily participating in the exchange program, (5) I authorize Mercury and/or its subsidiaries to withhold all income tax, social insurance, payroll tax, or other tax-related withholding related to the exchange legally payable by me from my wages or other cash payment paid to me by Mercury and/or its subsidiaries or from proceeds of the sale of shares, and (6) I have read the offer to exchange carefully, including the sections regarding legal and tax consequences of participating in the exchange program.

Mercury has informed me that in order to tender eligible options for exchange in the exchange program, I must sign and complete this election, including listing in the spaces indicated the grant number(s) of the eligible options I wish to tender for exchange, and timely deliver this completed election to Mercury as specified in the instructions on page B-1.

Effective as of the grant date of the replacement awards, I hereby give up my entire right, title, and interest in and to the eligible options that I have tendered pursuant to this election and which are accepted by Mercury for exchange and cancellation pursuant to the exchange program. Mercury has informed me, and I acknowledge and agree, that all such eligible options that I tender and which are accepted by Mercury for exchange and cancellation pursuant to the exchange program, and any notices, agreements, certificates, or other documentation evidencing such option(s), will automatically become null and void as of the grant date of the replacement awards. I acknowledge that this election to tender eligible options for exchange is entirely voluntary, and that I may withdraw this election using the notice of withdrawal that has been provided to me at any time until 12:00 midnight, Eastern Time, on the expiration date, which is currently expected to be June 11, 2009. **I also acknowledge that, except as otherwise stated in the offer to exchange, this election will be irrevocable from and after the expiration date.**

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Upon the terms and subject to the conditions of the exchange program, I hereby tender for exchange and cancellation the eligible options listed on page B-2. I represent that I have full power and authority to tender such options so specified for exchange and cancellation.

\_\_\_\_\_  
Employee's Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Employee's Name (please print or type)

\_\_\_\_\_  
Employee's Social Security Number

APPENDIX C

INSTRUCTION SHEET TO NOTICE OF WITHDRAWAL

1. If you previously submitted an election to tender for exchange and cancellation some or all of your eligible options pursuant to the offer to exchange dated May 14, 2009 (as amended or supplemented from time to time, the “offer to exchange”), and you wish to withdraw your tender of all of such eligible options, you must complete and sign the attached notice of withdrawal and deliver it by one of the following methods:

- regular or overnight mail to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, Attn: Option Exchange;
- by hand to the drop box labeled “Option Exchange” in the Human Resources department at the foregoing address; or
- by fax to: 978-256-1746, Attn: Option Exchange.

If you submit your election by fax, we request that you send a confirmatory copy by regular or overnight mail to Mercury Computer Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824, Attn: Option Exchange.

**We are not required to, and may not, send individual confirmations of receipt. Please keep copies of any documents you send. This notice of withdrawal must be received by Mercury as specified above before 12:00 midnight, Eastern Time, on June 11, 2009, unless the election period is extended by Mercury, in which case this notice of withdrawal must be received by the extended expiration date.** Your tendered options will not be considered withdrawn unless a properly completed and signed copy of this notice of withdrawal is timely received by Mercury as specified above. The method of delivery is at your own option and risk. You are responsible for making sure that this notice of withdrawal is timely received as specified above. You must allow for delivery time based on the method of delivery that you choose to ensure that we receive your notice of withdrawal on time.

PLEASE NOTE: *If you intend to participate in the exchange program and simply wish to change your election (whether to add, subtract, or substitute eligible options), you should not fill out and submit this notice of withdrawal.* Instead, you must fill out and submit a new election in accordance with Section 4 of the offer to exchange (see the heading “*Changing Your Election*”) and the instructions on page B-1 of Appendix B to the offer to exchange.

2. Except as described in the following sentence, this notice of withdrawal must be signed by the eligible employee who holds the eligible options to be withdrawn exactly as such person’s name appears in the notice of grant for such options previously delivered to such person. If the signature is by an attorney-in-fact or another person acting in a fiduciary or representative capacity, the signer’s full title and proper evidence of the authority of such person to act in such capacity must be identified on this notice of withdrawal.

**Mercury Computer Systems, Inc.**  
**NOTICE OF WITHDRAWAL**  
**Of Tender of Eligible Options pursuant to the Stock Option Exchange Program**

*Note: This notice of withdrawal is a part of, and must be read in conjunction with, the offer to exchange dated May 14, 2009, including the appendices thereto.*

To Mercury Computer Systems, Inc.:

I previously received a copy of the offer to exchange dated May 14, 2009 (as amended or supplemented from time to time, the “offer to exchange”), and the related election to participate (“election”). I signed and returned one or more election(s) whereby I tendered for exchange certain eligible options pursuant to the offer to exchange. I now wish to withdraw my tender with respect to all of such eligible options.

Mercury has informed me, and I acknowledge, that by withdrawing my previously tendered eligible options, I will not be granted any replacement awards in exchange for such previously tendered options, and I will retain such eligible options with their existing exercise price(s), term(s), vesting schedule(s), and other terms and conditions. Mercury has also informed me, and I acknowledge, that all such options will continue to be governed by the terms of Mercury’s 1997 Stock Option Plan or its Amended and Restated 2005 Stock Incentive Plan, as amended, as applicable, and the form(s) of option agreement(s) previously provided to me in connection with the grant(s) of such options.

I hereby withdraw all of the eligible options that I previously tendered for exchange and cancellation pursuant to the exchange program. I have, therefore, completed this notice of withdrawal in accordance with the instructions on page C-1 and have signed exactly as my name appears on the notice of stock option award for such options previously delivered to me.

\_\_\_\_\_  
Employee’s Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Employee’s Name (please print or type)

\_\_\_\_\_  
Employee’s Social Security Number

PLEASE NOTE: *If you intend to participate in the exchange program and simply wish to change your election (whether to add, subtract, or substitute eligible options), you should not fill out and submit this notice of withdrawal.* Instead, you must fill out and submit a new election in accordance with Section 4 of the offer to exchange (see the heading “*Changing Your Election*”) and the instructions on page B-1 of Appendix B to the offer to exchange.

**Instructions for Accessing Online Account**

Here are some of the steps necessary to activate and use your on-line E\*Trade brokerage account:

**Step 1 – Activate your E\*Trade Account**

To activate your account at E\*Trade you can either follow the instructions in the email from E\*TRADE Financial or go directly to <https://activation.etrade.com/e/t/rtaa/ActivateBegin> and click the “Activate Now” button (for assistance, click on the “Read our Quick Start Guide” prior to clicking the “Activate Now” button). To begin the activation process, you will need your authentication code originally provided in the email sent from E\*Trade. If you cannot locate your authentication code or your code expired, then you will need to request a new authentication code by clicking on the “Need a new authentication code” link located under the “Tell us about yourself” section. If you prefer or do not have access to the internet, you may complete the paper activation forms via the mail that you may request by contacting E\*Trade Customer Service at 800-838-0908. The E\*Trade Complete Investment Account Application form can also be found under the Forms and Applications on the E\*Trade website.

*Important Note: Please be careful when selecting the type of account you wish to open, “Individual” or “Joint,” as this will affect your ability to transfer MRCY shares into your E\*Trade account. If you select “Individual” and you wish to deposit shares registered in your and your spouse’s names, you will have to complete a new paper application form as a “Joint” account, and you must handwrite at the top that it is a “Registration Change.” Otherwise, they will open a new account. Once the account has been updated, you can start the transfer process.*

**Tips on completing your account activation:**

- Do not wait until the last minute to activate your account as it can take up to 24 hours until you are able to sell after completing the activation exercise.
- Mercury’s stock symbol is MRCY.
- When asked to input your Social Security number or Account ID into the assigned fields, please fill in one field or the other, but not both. (Both your SS# and Account ID are the same.)
- When asked “Are you employed by a registered broker-dealer, a securities exchange, or the NASD?” the answer is “No”.
- When asked “Are you an officer or director of a publicly held company?” the answer is “No” unless you are an individual subject to Section 16 of the Securities and Exchange Act. If you are subject to Section 16, you would be notified by the company.
- If you already have an existing account, you can link it to your Mercury E\*Trade account.

**Step 2 – Use E\*Trade**

- Go to <http://www.etrade.com>.
- Log on by typing your E\*Trade ID and Password.
- Explore your Stock Plan Information and perform real-time Exercise/Sale Transactions.

**Email Dated May 14, 2009 Announcing the Commencement of the Election Period for the Exchange Program**

Date: May 14, 2009

From: Mark Aslett

Subject: Stock Option Exchange Program

I am pleased to announce that our shareholders have approved a stock option exchange program that was previously authorized by Mercury's Board of Directors. This exchange program will allow eligible associates to exchange certain stock options having exercise prices greater than the "threshold price" per share for a lesser number of shares of restricted stock in accordance with four tiers of exchange ratios that are assigned to various groupings of stock options with similar exercise prices. The "threshold price" is the greater of (1) \$10.19, or (2) the closing price of our common stock reported on the NASDAQ Global Select Market on the date on which the exchange program's election period expires.

You may be eligible to participate in the stock option exchange program. To see the terms and conditions of the exchange program, please go to the Source, click on HR ONE SOURCE, and then click on the heading "2009 Stock Option Exchange" in the left margin of the webpage. **You should carefully review the entire Offer to Exchange and the other documents to which the Offer to Exchange refers before making a decision on whether to participate in the exchange program. If you desire to participate, please follow the instructions on how to return the Election to Participate. There is a deadline for participating in the exchange.** Please note that Mercury cannot make recommendations or give advice as to whether you should participate in the exchange program.

Mercury is also filing a Tender Offer Statement on Schedule TO with the Securities and Exchange Commission, and other related materials are being filed as exhibits to that Schedule. Upon filing, these materials will be available free of charge on the SEC's website at [www.sec.gov](http://www.sec.gov) and on the Source at HR ONE SOURCE, 2009 Stock Option Exchange, and also by contacting the Investor Relations department at 201 Riverneck Road, Chelmsford, MA 01824, telephone (978) 256-1300.

**Form of Email Reminder of Exchange Program Expiration Date**

Subject: Stock Option Exchange Program Reminder

Our records indicate that you have not returned an Election to Participate in the stock option exchange program described in the Offer to Exchange that was transmitted to you on May , 2009.

This is to remind you that the election period for the exchange program is scheduled to expire on , 2009, at 12:00 midnight, Eastern Time. We currently have no plans to extend the expiration date. If you wish to exchange any of your eligible options, you must complete, sign, and date the form of election included in Appendix B of the Offer to Exchange and return it to us so that we *receive* it before the expiration of the election period. Additional copies of the form of election are available on the Source at HR ONE SOURCE, 2009 Stock Option Exchange.

ALL ELECTIONS MUST BE RETURNED BEFORE 12:00 MIDNIGHT, EASTERN TIME, ON , 2009, UNLESS WE EXTEND THIS DEADLINE. THERE WILL BE NO EXCEPTIONS. IF YOU DO NOT PROPERLY SUBMIT AN ELECTION, NONE OF YOUR ELIGIBLE OPTIONS WILL BE EXCHANGED AND YOUR ELIGIBLE OPTIONS WILL REMAIN OUTSTANDING AT THEIR CURRENT PRICE AND TERMS.

You should carefully review the Offer to Exchange and the other documents to which the Offer to Exchange refers before making a decision on whether to participate in the exchange program. For additional information or assistance, you should send your request by email to [MCStockOptionExchange@mc.com](mailto:MCStockOptionExchange@mc.com).

**Form of Email Notification of Receipt of Elections to Participate**

To:

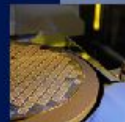
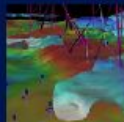
This is to acknowledge receipt of your Election to Participate with respect to the exchange of certain of your stock options for shares of restricted stock according to the Offer to Exchange that was transmitted to you on May , 2009.

This acknowledgment should not, however, be construed to imply that Mercury has accepted your stock options for exchange. Our obligation to accept tendered eligible options is subject to the terms and conditions set forth in the Offer to Exchange. Additional copies of the Offer to Exchange are available on the Source at HR ONE SOURCE, 2009 Stock Option Exchange.

For additional information or assistance, you should send your request by email to *MCSStockOptionExchange@mc.com*.



Computer Systems, Inc.  
**MERCURY**  
*Challenges Drive Innovation*



## **Stock Option Exchange Program- May/June 2009**

- Equity Compensation Philosophy
- Program Overview
- Key Dates
- Eligibility
- Things To Consider
- What You Need to Do
- Questions and Answers

- Equity Compensation is a reward based on the long term future performance of the company.
- Equity Compensation should align the actions and behaviors of Mercury associates with the interests of Mercury shareholders.
- Equity Compensation should foster a sense of ownership among Mercury participants.
- Equity Compensation should be cost efficient.
- This is a voluntary program.

- Eligible associates can elect to exchange certain underwater stock options for replacement awards to be granted promptly after the close of the election period.
- Elections to participate must be done on a grant-by-grant basis. Grants cannot be partially exchanged.
- Options are eligible to be exchanged if their per share exercise price is greater than the “threshold price.”
- The “threshold price” is the greater of (1) \$10.19, or (2) the closing price of our common stock reported on the Nasdaq Global Select Market on the date the election period for the exchange program expires.
- Options must also have time-based vesting in order to be eligible for exchange.

- All eligible options will be exchanged for shares of restricted stock in accordance with four tiered exchange ratios, each with a range of similar exercise prices.
- | If the Exercise Price of an Eligible Option is: | The Exchange Ratio is: |
|---|------------------------|
| \$10.20 – \$14.99                               | 1.60-to-1              |
| \$15.00 – \$19.99                               | 2.75-to-1              |
| \$20.00 – \$24.99                               | 3.00-to-1              |
| \$25.00 and above                               | 4.50-to-1              |
- As an example, if you elect to exchange an eligible option grant representing the right to purchase 1,000 shares of common stock that had an exercise price of \$18.00 per share, you will receive a replacement award consisting of 364 shares of restricted stock. We will not issue any fractional shares of restricted stock.
- Restricted stock means shares of common stock that are subject to certain restrictions.

- Restricted stock awards consist of shares of our common stock that will be issued on the date the awards are granted. Restricted stock awards will be subject to vesting based on continued employment for a three-year period. Until shares of restricted stock have vested, they remain subject to (1) forfeiture upon termination of employment and (2) restrictions on transfer. If you hold shares of restricted stock, you can vote and receive dividends .
- All replacement awards will be granted under our 2005 Stock Incentive Plan as amended & restated and will be subject to the terms of that plan and an award agreement between you and us.

Date	Milestone
May 14	Election Period begins
June 11	Election Period Ends/Expiration Date
Week of June 15	Estimated Replacement Award Grant Date

- Employees are “eligible employees” if they are employed by Mercury on the date the election period commences *and* on the date on which the tendered options are cancelled and the replacement awards are granted.
- Members of our Board of Directors and our six executive officers are not eligible to participate in the exchange program.
- You must also be domiciled in the United States upon commencement of the exchange program through the date on which the tendered options are cancelled and the replacement awards are granted in order to participate.
- In general, employees on approved leaves of absence are eligible.
- If you submit your resignation or receive a notice of termination of your employment on or before the replacement award grant date, you will not be eligible to participate. In these cases you will retain your outstanding options subject to their existing terms.



- Mercury is not able to advise you on what course of action is right for you.
- Participation in this program is voluntary.
- See Questions 40-44, Risk Factors, and Section 14 of the Offer to Exchange for a description of certain tax consequences of the exchange program. These descriptions do not discuss all the tax consequences that may be relevant to you in light of your particular circumstances and are not intended to be applicable in all respects to all categories of option holders.
- You should check with your personal financial/tax advisor prior to deciding whether to participate.

- Read all materials provided to you.
- Review your option holdings on-line via your eTrade account.
- Consult with your own tax advisors, including tax, financial, and legal advisors, before making any decisions regarding the exchange program.
- If you choose to participate, complete and submit the Election Form on or before midnight “Boston Time” on the expiration date. Follow the instructions in Appendix B of the Offer to Exchange.
- You may change or revoke your election at any time prior to midnight “Boston Time” on the expiration date. Follow the instructions in Appendix B or C, as applicable, of the Offer to Exchange.
- Additional copies of the Offer to Exchange, the Election Form and the Notice of Withdrawal are available at the Source, HR ONE SOURCE, 2009 Stock Option Exchange.

- You can find the materials relating to the Stock Option Exchange Program by going to the Source, clicking on HR ONE SOURCE, and clicking on 2009 Stock Option Exchange.
- If you have questions that have not been answered during this presentation, please refer to the Q&A section of the Offer to Exchange.
- You can also ask additional questions by sending an e-mail to [mcsstockoptionexchange@mc.com](mailto:mcsstockoptionexchange@mc.com).

## Summary Regarding Restricted Stock Awards

### Restricted Stock 101

What is Restricted Stock?

**Stock** is ownership of a company. When that stock has limitations on it, it is said to be **restricted**.

Organizations grant restricted stock for several reasons:

- **Recognition.** As with all compensation programs, restricted stock should recognize the contributions of associates. Stock compensation is unique in that the reward is partially based on future/potential contributions to Mercury's success as opposed to cash compensation plans which reward associates based on past or present contribution.
- **Retention.** Because the employee does not receive the entire award of restricted stock until the restrictions have been met, restricted stock is a valuable retention tool.
- **Return on Investment.** With the adoption of FAS 123(R), companies need different instruments to deliver equity-based compensation that work in up, down, and flat growth periods.
- **Goal Alignment.** Many organizations feel that the move to restricted stock provides better alignment of the goals between recipients and the long-term investor.

How does a restricted stock award differ from a stock option grant?

These awards have a few things in common. They both have vesting schedules. They both are forfeited in the event your employment is terminated prior to vesting. The primary difference is that stock options represent the right to purchase stock at a price set when the options were granted. Restricted stock is a grant of actual stock the ownership of which transfers to the recipient on vesting.

Will Mercury issue stock options in the future?

The company may use either restricted stock or stock options or may make grants where associates receive some of each. The decision will be done on a grant-by-grant basis.

#### How This Affects You

In an exchange of stock options for restricted stock, Mercury will grant a set number of shares. If you elect to participate in the exchange program, you will receive grant documents in the mail shortly following the expiration of the election period and grant of the restricted stock awards. This grant will vest over a three-year period, with one third of the grant vesting on each of the first, second, and third anniversary dates of the grant, subject to your employment by Mercury on each such date.

Tax Treatment: **The value of the restricted stock is taxed to the individual as ordinary income on vesting** similar to how the spread on nonqualified options also would be taxed as ordinary income on exercise.

Note: Associates can make a Section 83(b) election within 30 days of the date of grant, which is not available in a typical stock option grant. The Summary and Prospectus document that accompanies your award package covers U.S. federal income tax consequences in Section 26 starting on page 12. **Mercury recommends that you seek the advice of an accountant or other qualified tax advisor if you wish to consider making an 83(b) election.**

During the vesting period, the employee is treated as the owner of the stock with regard to voting rights and dividends; however, the employee may not sell, assign, transfer, or pledge any unvested restricted stock awards.

**You should carefully review the Offer to Exchange and the other documents to which the Offer to Exchange refers before making a decision on whether to participate in the exchange program.** If you have questions, please contact Maria Sirigos, your HR Manager (Bill Munzert or Bobbi O'Rourke), Craig Saline, or Alex Van Adzin.



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Mercury Computer Systems, Inc.

## MERCURY COMPUTER SYSTEMS, INC.

### 2009 STOCK OPTION EXCHANGE PROGRAM

This web page contains documents that will provide eligible Mercury Associates with information about the Mercury Computer Systems, Inc. ("Mercury") 2009 Stock Option Exchange Program (the "Exchange Program").

The **first document** is the actual Offer to Exchange, including its Appendices.

- Appendix A contains information about the Directors and Executive Officers of Mercury.
- Appendix B contains an Election to Participate and attached instructions.
- Appendix C contains a Notice of Withdrawal and attached instructions.

The **second document** is Schedule TO (Tender Offer), which Mercury has filed with the U.S. Securities and Exchange Commission in connection with the Exchange Program.

The **third document** contains instructions for activating and using E\*Trade brokerage accounts.

If you have any questions about the Exchange Program, please send your questions to [MCSStockOptionExchange@mc.com](mailto:MCSStockOptionExchange@mc.com).

**Form of Email Notification of Completion of Exchange Program**

Subject: Completion of Option Exchange Program

The election period for the option exchange program expired on \_\_\_\_\_, 2009, at 12:00 midnight, Eastern Time. Pursuant to the exchange program, Mercury accepted for exchange options to purchase an aggregate \_\_\_\_\_ shares of our common stock, representing approximately \_\_\_\_\_ % of the shares subject to all options that were eligible for exchange as of that date. Subject to the terms and conditions of the exchange program, on \_\_\_\_\_, we granted replacement awards for an aggregate \_\_\_\_\_ shares of restricted stock in exchange for such tendered options.

Eligible associates who participated in the exchange program are receiving restricted stock awards in exchange for their tendered options.

You do not need to return your existing stock option agreements with respect to options that were tendered and accepted as they will be automatically cancelled upon the granting of your replacement award.

Replacement awards are subject to the terms of our Amended and Restated 2005 Stock Incentive Plan, as amended, and an award agreement between you and us. Beginning shortly and continuing over the next several weeks, we will be sending you a replacement award package containing, among other information, your award agreement, which you will be required to sign and return to us in accordance with the instructions that will be provided.

Please send your questions by email to [MCSStockOptionExchange@mc.com](mailto:MCSStockOptionExchange@mc.com).