

MERCURY SYSTEMS INC
Form DEF 14A
September 20, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

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

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Mercury Systems, Inc.
(Name of Registrant as Specified In Its Charter)

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

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- (1) Amount previously paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
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September 20, 2016

Dear Shareholder:

We will hold our Annual Meeting of Shareholders on October 19, 2016, beginning at 10:00 a.m., local time, at our offices at 201 Riverneck Road, Chelmsford, Massachusetts 01824. We look forward to your attending the meeting either in person or by proxy, but please note that due to security procedures you will be required to show a form of picture identification to gain access to our offices. The enclosed notice of meeting, proxy statement, and proxy card describe the proposals to be acted upon at the meeting.

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

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

Sincerely yours,

Mark Aslett,
President, Chief Executive Officer,
and Director

MERCURY SYSTEMS, INC.
201 RIVERNECK ROAD
CHELMSFORD, MA 01824
(978) 256-1300

Notice of Annual Meeting of Shareholders

To Be Held on October 19, 2016

The Annual Meeting of Shareholders of MERCURY SYSTEMS, INC. will be held on October 19, 2016, at 10:00 a.m., local time, at our offices at 201 Riverneck Road, Chelmsford, Massachusetts 01824, for the following purposes:

1. To elect two Class I directors nominated by the Board of Directors, each to serve for a three-year term and until his successor has been duly elected and qualified.
2. To approve an amendment to our 2005 Stock Incentive Plan.
3. To hold an advisory vote on the compensation of our named executive officers (the “say-on-pay” vote).
4. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2017.
5. To consider and act upon any other business that may properly come before the meeting or any adjournment or postponement of the meeting.

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

The Board of Directors has fixed the close of business on August 12, 2016 as the record date for the meeting. All shareholders of record on that date are entitled to notice of and to vote at the meeting.

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

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders To Be Held on October 19, 2016: This proxy statement and Annual Report and Form 10-K for our fiscal year ended June 30, 2016 are available at www.edocumentview.com/MRCY.

By Order of the Board of Directors

Christopher C. Cambria
Secretary

Chelmsford, Massachusetts
September 20, 2016

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MERCURY SYSTEMS, INC.
201 RIVERNECK ROAD
CHELMSFORD, MA 01824
(978) 256-1300

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Why am I receiving these materials?

We are mailing this proxy statement, with the accompanying proxy card, to you on or about September 20, 2016 in connection with the solicitation of proxies by the Board of Directors of Mercury Systems, Inc. (“Mercury”) for the annual meeting of shareholders to be held on October 19, 2016, and any adjournment or postponement of that meeting. The meeting will be held on October 19, 2016, beginning at 10:00 a.m., local time, at our offices, 201 Riverneck Road, Chelmsford, Massachusetts 01824. You are invited to attend the meeting, and we request that you vote on the proposals described in this proxy statement. You do not need to attend the meeting in person to vote your shares. You may simply complete, sign, date, and return your proxy card in order to have your shares voted at the meeting on your behalf.

What am I voting on?

There are four matters scheduled for a vote:

- election of two Class I directors, each to serve for a three-year term and until his successor has been duly elected and qualified;
- approval of an amendment to our 2005 Stock Incentive Plan (the “2005 Plan”);
- an advisory vote on the compensation of our named executive officers (the “say-on-pay” vote); and
- ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2017.

Who can attend and vote at the meeting?

Shareholders of record at the close of business on August 12, 2016 are entitled to attend and vote at the meeting. Each share of our common stock is entitled to one vote on all matters to be voted on at the meeting, and can be voted only if the record owner is present to vote or is represented by proxy. The proxy card provided with this proxy statement indicates the number of shares of common stock that you own and are entitled to vote at the meeting.

What constitutes a quorum at the meeting?

The presence at the meeting, in person or represented by proxy, of the holders of a majority of our common stock outstanding on August 12, 2016, the record date, will constitute a quorum for purposes of the meeting. On the record date, 40,363,864 shares of our common stock were outstanding. For purposes of determining whether a quorum exists, proxies received but marked “abstain” and so-called “broker non-votes” (described below) will be counted as present.

How do I vote by proxy?

If you properly fill in your proxy card and our transfer agent receives it in time to vote at the meeting, your “proxy” (one of the individuals named on your proxy card) will vote your shares as you have directed. No postage is required if your proxy card is mailed in the United States in the return envelope that has been enclosed with this proxy statement. If you sign, date, and return the proxy card but do not specify how your shares are to be voted, then your proxy will vote your shares as follows:

- FOR the election of the nominees for Class I director named below under “Proposal 1: Election of Class I Directors;”
- FOR the approval of an amendment to our 2005 Stock Incentive Plan;
- FOR the approval of, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement; and
- FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2017; and
- in the proxy’s discretion as to any other business which may properly come before the meeting or any adjournment or postponement of the meeting.

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

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

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

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

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

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

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

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

How are votes counted?

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

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

How is Mercury soliciting proxies?

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

PROPOSAL 1: ELECTION OF CLASS I DIRECTORS

Who sits on the Board of Directors?

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

The terms of the Class I, Class II, and Class III directors expire in 2016, 2017, and 2018, respectively. With the expiration of its respective term, each class is nominated for election for a subsequent three-year term. We are proposing that the Class I nominees listed below, which consist of two incumbent directors, James K. Bass and Michael A. Daniels, be elected to serve terms of three years and in each case until their successors are duly elected and qualified or until they sooner die, resign, or are removed.

Directors' Qualifications and Diversity

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

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

Recommendation

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

Information about the Directors

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

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

Name	Year First Age Elected a Director	Principal Occupation
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Class I
Directors—Nominated
for a Term Ending in
2019:

James K. Bass	59 2010	<p>Mr. Bass has served as a director of TTM Technologies, Inc., a publicly-traded global printed circuit board manufacturer, since September 2000, and as a director of Tigrent, Inc., a publicly-traded provider of information for real estate and financial investing, since May 2010. From September 2005 to June 2009, Mr. Bass served as the Chief Executive Officer and a director of Piper Aircraft, Inc., a general aviation manufacturing company. He served as the Chief Executive Officer and a director of Suntron Corporation, a provider of high mix electronic manufacturing services, from its incorporation in May 2001 until May 2005, and as Chief Executive Officer of EFTC Corporation, a subsidiary of Suntron Corporation, from July 2000 until April 2001. From 1992 to July 2000, Mr. Bass was a Senior Vice President of Sony Corporation. Prior to that, Mr. Bass spent 15 years in various manufacturing management positions at the aerospace group of the General Electric Company. Mr. Bass is one of our “audit committee financial experts.” Mr. Bass’ qualifications to serve on our Board of Directors include his extensive experience in the technology marketplace, his executive and operational experience as the Chief Executive Officer of a public company, and his broad experience with accounting and audit matters for publicly-traded companies.</p>
Michael A. Daniels	70 2010	<p>Mr. Daniels served as Chairman of the Board of Mobile 365, Inc. from May 2005 to November 2006 and served as its Chief Executive Officer from December 2005 to August 2006. Sybase acquired Mobile 365, Inc. in November 2006 and renamed it Sybase 365, Inc. Mr. Daniels was a director of Sybase, a publicly-traded global enterprise software and services company, from 2007 until its acquisition by SAP in 2010. From December 1986 to May 2004, Mr. Daniels served in a number of senior executive positions at Science Applications International Corporation (SAIC), a publicly-traded scientific, technical, and professional services firm, including Sector Vice President from February 1994 to May 2004. Mr. Daniels served as Chairman and Chief Executive Officer of Network Solutions, Inc., an internet company, from March 1995 to June 2000 when Verisign purchased Network Solutions. From June 2007 to July 2009, Mr. Daniels served on the Board of Directors of Luna Innovations, a high technology manufacturer. In May 2013, Mr. Daniels joined the Board of Directors of CACI International, a provider of information solutions and services in support of national security missions. In October 2014, Mr. Daniels joined the Board of Directors of Blackberry Limited, a global mobile communications company. Mr. Daniels’ qualifications to serve on our Board of Directors include his extensive executive experience in the technology industry and experience serving as a director of public companies, including software and technology companies.</p>

Name	Age	Year First Elected a Director	Principal Occupation
Class II Directors—Serving a Term Ending in 2017:			
Mark Aslett	48	2007	<p>Mr. Aslett has served as our President and Chief Executive Officer since November 2007. Prior to that, he was Chief Operating Officer and Chief Executive Officer of Enterasys Networks, a public technology company, from 2003 to 2006, and held various positions with Marconi plc and its affiliated companies, including Executive Vice President of Marketing, Vice President of Portfolio Management, and President of Marconi Communications—North America, from 1998 to 2002. Mr. Aslett served on the Board of Directors of Enterasys Networks from 2004 to 2006. He has also held positions at GEC Plessey Telecommunications, as well as other telecommunications-related technology firms. Mr. Aslett provides an insider’s perspective in Board discussions about the business and strategic direction of the Company with his detailed knowledge of the Company’s employees, customers, suppliers, business prospects, and markets.</p>
William K. O’Brien	72	2008	<p>Mr. O’Brien served as Executive Chairman at Enterasys Networks, a public technology company, from 2003 until his retirement in 2006. He served as Chief Executive Officer of Enterasys from 2002 to 2004, and as a member of the Board of Directors of Enterasys from 2002 to 2006. Prior to working at Enterasys, he worked for PricewaterhouseCoopers where he held several different senior management positions. Mr. O’Brien had over 33 years of experience in auditing and professional services while at PricewaterhouseCoopers. He has been a director of Virtusa Corporation, a publicly-traded company, since 2008. Mr. O’Brien is one of our “audit committee financial experts.” Mr. O’Brien’s qualifications to serve on our Board of Directors include his executive experience in the technology industry, including being the Chairman and Chief Executive Officer of a public technology company, and his strong accounting and financial expertise.</p>

Name	Age	Year First Elected a Director	Principal Occupation
Class III Directors—Serving a Term Ending in 2018:			
Vincent Vitto	75	2006	Mr. Vitto served as President and Chief Executive Officer of The Charles Stark Draper Laboratory, Inc., a research and development laboratory, from 1997 to his retirement in 2006. Prior to that, he spent 32 years of increasing responsibility at MIT Lincoln Laboratory, a research and development laboratory, rising to Assistant Director for Surface Surveillance and Communications. Mr. Vitto's qualifications to serve on our Board of Directors include his exceptional understanding of defense technology, particularly related to surveillance and communications, and experience managing major defense research laboratories.
George K. Muellner	73	2010	Mr. Muellner served as the President of Advanced Systems for the Integrated Defense Systems business unit of The Boeing Company, responsible for developing advanced cross-cutting concepts and technologies, and executing new programs, until his retirement in February 2008. Prior to this assignment, he was Vice President-General Manager of Air Force Systems at Boeing since July 2002. He joined Boeing in 1998. Prior to that, he served 31 years in the U.S. Air Force, retiring as a Lieutenant General from the position of Principal Deputy for the Office of the Assistant Secretary of the Air Force for Acquisition in Washington, D.C. A highly decorated veteran, Mr. Muellner spent most of his career as a fighter pilot and fighter weapons instructor, test pilot, and commander. Mr. Muellner's qualifications to serve on our Board of Directors include his executive experience with defense contracting, his military experience in the Company's target defense market, and his knowledge of defense and aerospace technology.
Mark S. Newman	66	2015	Mr. Newman was the Chairman and Chief Executive Officer of DRS Technologies, Inc., a publicly-traded defense electronics company, until his retirement in January 2012. He joined the DRS in 1973, four years after its founding, and became President and CEO in 1994, after serving many years as the company's Chief Financial Officer. He was named a director in 1988, and in 1995, was elected Chairman of the Board of DRS. Mr. Newman is also a director on the board of American Biltrite, Inc. Mr. Newman is one of our "audit committee financial experts." Mr. Newman's qualifications to serve on our Board of Directors include his extensive experience in defense electronics, his executive and operational experience as the Chief Executive Officer of a public company, and his broad experience with accounting and audit matters for publicly-traded companies.

CORPORATE GOVERNANCE

Independence

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

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

How are nominees for the Board selected?

Our Nominating and Governance Committee is responsible for identifying and recommending nominees for election to the Board. The committee will consider nominees recommended by a shareholder if the shareholder submits the nomination in compliance with applicable requirements. The committee did not receive any shareholder nominations for election of directors at this year’s meeting. With respect to the nominees for Class I director standing for election at the meeting, Messrs. Bass and Daniels were each most recently elected as a Class I director at 2013 Annual Meeting of Shareholders.

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

Shareholders who wish to submit director candidates for consideration should send such recommendations to our Secretary at our executive offices not less than, unless a lesser time period is required by applicable law, 120 days nor more than 150 days prior to the anniversary date of the immediately preceding annual meeting of stockholders or special meeting in lieu of an annual meeting. Such recommendations must include the following information as to each person whom the shareholder proposes to nominate for election or reelection as a director:

- the name and address of the shareholder and each of his or her nominees;
- a description of all arrangements or understandings between the shareholder and each such nominee;

such other information as would be required to be included in a proxy statement soliciting proxies for the election of the nominees of such shareholder; and
the consent of each nominee to serve as a Director if so elected.

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

the number of all shares of Mercury stock held of record, owned beneficially (directly or indirectly) and represented by proxy by such shareholder as of the date of such notice and as of one year prior to the date of such notice;

a description of all arrangements or understandings between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such shareholder;

a description of any derivative position held or beneficially held (directly or indirectly) by such shareholder with respect to Mercury stock;

a description of any proxy, contract, arrangement, understanding, or relationship between such shareholder and any other person or persons (including their names and addresses) in connection with the nomination or nominations to be made by such shareholder or pursuant to which such shareholder has a right to vote any Mercury stock; and

a description of any proportionate interest in Mercury stock or derivative positions with respect to Mercury held, directly or indirectly, by a general or limited partnership in which such shareholder is a general partner or, directly or indirectly, beneficially owns an interest in such a general partner.

We may require any proposed nominee to furnish such other information as may reasonably be required by us to determine the eligibility of such proposed nominee to serve as a director. Shareholders must also submit any other information regarding the proposed director candidate that is required to be included in a proxy statement filed pursuant to SEC rules. See also the information contained elsewhere in this proxy statement under the heading "Shareholder Proposals for the 2017 Annual Meeting."

Can I communicate with Mercury's directors?

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

What committees has the Board established?

The Board of Directors has standing Audit, Compensation, and Nominating and Governance Committees. As described above under the heading "Independence," all of the members of the Audit, Compensation, and Nominating and Governance Committees are deemed to be independent directors. Each of these committees acts under a written charter, copies of which can be found on our website at www.mrcy.com on the "Investor Relations" page (which appears under the heading "About Us") under "Corporate Governance."

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

Audit Committee

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

which reports directly to the Audit Committee. The Audit Committee also is responsible for reviewing and approving related-person transactions in accordance with our Code of Business Conduct and Ethics and the Audit Committee charter.

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Compensation Committee

The Compensation Committee is responsible for:

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

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

The Compensation Committee may delegate to the CEO the authority to grant equity awards under the 2005 Plan to individuals who are not subject to the reporting and other requirements of Section 16 of the Exchange Act or "covered employees" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Compensation Committee may also delegate the administration of the health, benefit, and welfare plans within the scope of its oversight to our human resources and finance departments and to outside service providers, as appropriate. The Compensation Committee's independent compensation consultant provide input to the Compensation Committee regarding compensation for non-employee directors. The Compensation Committee then recommends any changes in the compensation and benefits for non-employee directors to the full Board for its consideration and approval.

The Compensation Committee is authorized to obtain advice and assistance from independent compensation consultants, outside legal counsel, and other advisors as it deems appropriate, at our expense. The Compensation Committee has engaged Aon Consulting/Radford ("Radford") since 2005 to assist the committee in applying our compensation philosophy for our executive officers and non-employee directors, analyzing current compensation conditions in the marketplace generally and among our peers specifically, and assessing the competitiveness and appropriateness of compensation levels for our executive officers. Representatives of Radford periodically attend meetings of the Compensation Committee, both with and without members of management present, and interact with members of our human resources department with respect to its assessment of the compensation for our executive officers. In addition, at the direction of the Compensation Committee, Radford may assist management in analyzing the compensation of our non-executive employees. For fiscal 2016, Radford's services included providing compensation survey data for non-employee directors, executives, and non-executive employees.

Nominating and Governance Committee

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

Ad Hoc M&A Review Committee

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

How often did the Board and Committees meet during fiscal 2016?

The Board of Directors met eight times during fiscal 2016. The table below reports information about the committees during fiscal 2016:

Name	Audit Committee(1)	Compensation Committee	Nominating and Governance Committee	Ad Hoc M&A Review Committee
James K. Bass	X			Alternate
Michael A. Daniels		Chairman	X	X
George K. Muellner		X		Chairman
Mark S. Newman	X			
William K. O'Brien	Chairman		X	X
Vincent Vitto		X	Chairman	
Number of Meetings During Fiscal 2016	10	5	3	8

(1) The Board has determined that each of Messrs. Bass, Newman, and O'Brien qualifies as an "audit committee financial expert" under SEC rule.

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

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

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

Directors are encouraged to attend the annual meeting of shareholders, or special meeting in lieu thereof; however, we do not have a formal policy with respect to attendance at shareholder meetings. One of the directors then in office attended the 2015 annual meeting of shareholders.

Does Mercury have stock ownership guidelines for directors?

Each non-employee director is expected to own or control, directly or indirectly, shares of the Company's common stock equal to five times the value of the annual director cash retainer within five years of first becoming a non-employee director, or within five years of April 22, 2014, whichever is later. Each non-employee director is expected to retain such investment in the Company as long as he or she is a non-employee director. Exceptions to this stock ownership guideline may be approved from time to time by the Board as it deems necessary to address individual circumstances.

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

The CEO is expected to own or control, directly or indirectly, shares of Mercury common stock with a value of at least five times the CEO's base salary. The CEO is expected to meet this guideline within five years of first becoming CEO, or within five years of April 22, 2014, whichever is later, and is expected to retain such investment in the Company as long as he or she is the CEO. Prior to meeting the five times holding requirement per this guideline, after applicable tax withholding on the vesting of an equity award, the CEO is required to retain 50% of the net, after tax award until he or she is in compliance with the stock ownership guideline. Exceptions to this stock ownership guideline may be approved from time to time by the Board as it deems necessary to address individual circumstances.

Does Mercury have a Code of Business Conduct and Ethics?

Yes. We have adopted a Code of Business Conduct and Ethics applicable to our officers, directors, and employees. This code is posted on our website at www.mrcy.com on the "Investor Relations" page under "Corporate Governance." We intend to satisfy our disclosure requirements regarding any amendment to, or waiver of, a provision of our Code of Business Conduct and Ethics by disclosing such matters on our website. Shareholders may request a copy of our Code of Business Conduct and Ethics free of charge by writing to Mercury Systems, Inc., 201 Riverneck Road,

Chelmsford, Massachusetts 01824, attention: Secretary.

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

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

Does Mercury have a clawback policy?

Yes. We have adopted a clawback policy applicable to our executive officers. This policy is posted on our website at www.mrcy.com on the "Investor Relations" page under "Corporate Governance." Pursuant to our policy, the Board of Directors shall, in all appropriate circumstances, require reimbursement of any annual incentive payment or long-term incentive payment to an executive officer where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a substantial restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines the executive engaged in intentional misconduct that caused or substantially caused the need for the substantial restatement; and (3) a lower payment would have been made to the executive based upon the restated financial results.

Does Mercury have a short sale and hedging policy?

Yes. Pursuant to our insider trading policy, no executive officer or director may at any time sell any securities of Mercury that are not owned by such person at the time of the sale. Also, no such executive officer or director may buy or sell puts, calls, or other derivative securities of Mercury at any time, except with the prior approval of the Chief Financial Officer or, in the case of directors, the Audit Committee of the Board of Directors. In addition, no such executive officer or director may hold Mercury securities in a brokerage margin account.

Does Mercury have a shareholder rights agreement?

No, Mercury does not have a shareholder rights agreement or other "poison pill".

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

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

In addition to discussions at regular Board meetings, the Audit Committee focuses on risks related to accounting, internal controls, financial and tax reporting, and related-party transactions; the Compensation Committee focuses on

risks associated with our executive compensation policies and practices; the Nominating and Governance Committee focuses on risks associated with non-compliance with SEC and NASDAQ requirements for director independence and the implementation of our corporate governance policies; and the ad hoc M&A Review Committee focuses on risks related to our acquisition activities.

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

Our Board Policy provides that the Chairman of the Board will be elected from among the independent directors, barring the Board's specific determination otherwise. If, in its judgment the Board determines that election of a non-independent Chairman would best serve the Company at a particular time, such a Chairman would be excluded from executive sessions of

the independent directors. In such case, a Lead Independent Director, as appointed from time to time, would preside over executive sessions and would perform such other duties as might be determined from time to time by the Board. The Board has determined that having a separate Chairman and Chief Executive Officer is the most appropriate leadership structure for the Board of Directors at this time. However, the roles of Chairman and CEO may be filled by the same or different individuals. This allows the Board of Directors flexibility to determine whether the two roles should be combined in the future based upon the Company's needs and the Board of Directors' assessment of the Company's leadership from time to time.

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

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

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

Although any compensation program can create incentives that may prove to be inappropriate to future circumstances, or that may encourage behavior that proves to be risky for the organization, the Compensation Committee believes that our programs, for both executives and other employees, do not create a reasonable likelihood of material adverse effects for the Company. In reaching this conclusion, the Compensation Committee has considered the following:

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

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

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

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

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

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

DIRECTOR COMPENSATION

How are the directors compensated?

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

Cash Compensation for Non-Employee Directors

Directors who are also our employees receive no additional compensation for serving on the Board of Directors. During fiscal 2016, our non-employee directors received an annual cash retainer of \$55,000 and the following positions received additional cash retainers:

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

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

Equity Compensation for Non-Employee Directors

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

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

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

How were the non-employee directors compensated for fiscal 2016?

The compensation paid to the non-employee members of the Board of Directors with respect to fiscal 2016 was as follows:

Non-Employee Director Compensation—Fiscal 2016

Name	Fees Earned	Restricted Stock Awards \$(1)	Total
James K. Bass	\$ 55,000	\$ 104,954	\$ 159,954
Michael A. Daniels	70,000	104,954	174,954
George K. Muellner	55,000	104,954	159,954
Mark S. Newman (2)	55,000	—	55,000
William K. O'Brien	74,000	104,954	178,954
Vincent Vitto	110,500	104,954	215,454

(1) This column represents the grant date fair value of restricted stock awards for fiscal 2016 in accordance with FASB ASC Topic 718. The grant date fair value of the restricted stock awards granted to non-employee directors in fiscal 2016 has been calculated by multiplying the number of shares granted by the closing price of our common stock as reported on the NASDAQ Global Select Market on the date of grant.

(2) Mr. Newman was elected to the Board of Directors in June 2015 and accordingly received a new director restricted stock award in fiscal 2015. Non-employee directors who are first elected to the Board during the second half of Company's fiscal year are not be eligible to receive their first annual restricted stock award until the second fiscal year following the fiscal year in which they are first elected to the Board.

EQUITY COMPENSATION PLANS

The following table sets forth information as of June 30, 2016 with respect to existing compensation plans under which our equity securities are authorized for issuance.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in the first column)	(4)
Equity compensation plans approved by shareholders (2)	258,003	(3)	\$ 13.340	3,208,558	(4)
Equity compensation plans not approved by shareholders	—		—	—	
TOTAL	258,003		\$ 13.340	3,208,558	

(1) Does not include outstanding unvested restricted stock awards.

(2) Consists of our 2005 Stock Incentive Plan ("2005 Plan") and our 1997 Employee Stock Purchase Plan ("ESPP").

(3) Does not include purchase rights under the ESPP, as the purchase price and number of shares to be purchased is not determined until the end of the relevant purchase period.

(4) Includes 397,688 shares available for future issuance under the ESPP and 2,810,870 shares available for future issuance under the 2005 Plan.

PROPOSAL 2: APPROVAL OF AMENDMENT TO 2005 STOCK INCENTIVE PLAN

In September 2016, the Board adopted, subject to the approval of our shareholders, an amendment and restatement of our 2005 Stock Incentive Plan (the “2005 Plan”). The amendment and restatement increases the aggregate number of shares authorized for issuance under the 2005 Plan by 1,100,000 shares and includes such other changes as are summarized below.

Summary of Changes

As of August 19, 2016, there were 1,146,800 shares available for future grants under the 2005 Plan. Also as of that date, there were options to purchase a total of 251,753 shares outstanding under our equity compensation plans, with a weighted average exercise price of \$13.35 and a weighted remaining contractual term of 0.92 years. In addition, as of August 19, 2016, 1,893,207 restricted stock awards were outstanding.

In order to be able to make anticipated grants, the Board has amended the 2005 Plan to increase the number of shares authorized for issuance under the 2005 Plan by an additional 1,100,000 shares. Based solely on the closing price of our common stock as reported on the NASDAQ Global Select Market on August 19, 2016, the maximum aggregate market value of the additional 1,100,000 shares that could potentially be issued under the 2005 Plan is \$25.5 million. If the shareholders approve the proposed amendment and restatement of the 2005 Plan, the additional shares to be issued under the 2005 Plan will be authorized but unissued shares.

In addition, we have revised the 2005 Plan language regarding minimum vesting requirements for restricted stock awards and deferred stock awards to clarify that no portion of any such awards granted to employees may vest prior to the first anniversary of the grant date.

Burn Rate Disclosure

Fiscal Year	Stock Options Granted	Time-Based Awards Granted (1)	Performance-Based Awards Earned	Total Granted/Earned	Weighted Average Common Shares Outstanding	Burn rate (2)
2016	0	402,152	55,837	457,989	34,241,000	2.68%
2015	0	656,566	NA	656,566	32,114,000	4.09%
2014	0	952,469	NA	952,469	31,000,000	6.14%

(1) Excludes 114,669 time-based restricted shares which constitute substitute equity awards to former Microsemi employees who joined Mercury in the fiscal 2016 acquisition of the Microsemi Carve-Out Business.

(2) The burn rate calculation treats each restricted share (both time-based grants and earned performance-based awards) as two option shares for purposes of the burn rate calculation.

Summary of the Amended 2005 Plan

The following is a summary of certain major features of the 2005 Plan. This summary is subject to the specific provisions contained in the full text of the 2005 Plan, which is attached as Appendix A to this proxy statement. Plan Administration. The Compensation Committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the 2005 Plan. The Compensation Committee may delegate to our CEO or any other executive officers the authority to grant awards at fair market value to employees who are not subject to the reporting and other provisions of Section 16 of the Exchange Act.

Eligibility and Limitations on Grants. Persons eligible to participate in the 2005 Plan will be those full or part-time officers, employees, non-employee directors, and other key persons (including consultants and prospective officers) of Mercury and its subsidiaries as selected from time to time by the Compensation Committee. As of August 19, 2016,

2016, approximately 958 individuals were eligible to participate in the 2005 Plan.

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

adjustment for stock splits and similar events) to any one such individual in any performance cycle.

Effect of Grants. The grant of any award other than a stock option or a stock appreciation right will reduce the number of shares of common stock available for issuance under the 2005 Plan by 2.0 shares of common stock for each such share actually subject to the award and will be deemed as an award of 2.0 shares of common stock for each such share actually subject to the award. The grant of a stock option or a stock appreciation right will be deemed as an award of one share of common stock for each such share actually subject to the award.

Stock Options. The 2005 Plan permits the granting of (1) options to purchase common stock intended to qualify as incentive stock options under Section 422 of the Code and (2) options that do not so qualify. Options granted under the 2005 Plan will be non-qualified options if they fail to qualify as incentive options or exceed the annual limit on incentive stock options. Non-qualified options may be granted to any persons eligible to receive incentive options and to non-employee directors and key persons. The option exercise price of each option will be determined by the Compensation Committee but may not be less than 100% of the fair market value of the common stock on the date of grant. The 2005 Plan provides for 11,892,264 shares that can be granted in the form of incentive stock options.

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

Upon exercise of options, the option exercise price must be paid in full (1) in cash, by certified or bank check, or other instrument acceptable to the Compensation Committee, (2) by delivery (or attestation to the ownership) of shares of common stock that are beneficially owned by the optionee, (3) subject to applicable law, by a broker pursuant to irrevocable instructions to the broker from the optionee, or (4) by net exercise.

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

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

Restricted Stock. The Compensation Committee may award shares of common stock to participants subject to such conditions and restrictions as the Compensation Committee may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with Mercury through a specified restricted period. However, in the event awards made to employees have a performance-based goal, the restriction period will be at least one year, and in the event any awards made to employees have a time-based restriction, the restriction period will be at least three years, but vesting can occur incrementally over the three-year period. No portion of any restricted stock award granted to employees may vest prior to the first anniversary of the grant date.

Deferred Stock Awards. The Compensation Committee may award phantom stock units as deferred stock awards to participants. Deferred stock awards are ultimately payable in the form of shares of common stock and may be subject to such conditions and restrictions as the Compensation Committee may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with Mercury through a specified vesting period. However, in the event awards made to employees have a performance-based goal, the restriction period will be at least one year, and in the event any awards have a time-based restriction, the restriction period will be at least three years, but vesting can occur incrementally over the three-year period. No portion of any deferred stock award granted to employees may vest prior to the first anniversary of the grant date. In the Compensation Committee's sole discretion and subject to the participant's compliance with the procedures established by the Compensation Committee and requirements of Section 409A of the Code, it may permit a participant to make an advance election to receive a portion of his or her future cash compensation otherwise due in the form of a deferred

stock award.

Performance-Based Awards. To ensure that certain awards granted under the 2005 Plan, including awards of restricted stock and deferred stock, to a “covered employee” (as defined in the Code) qualify as “performance-based compensation” under Section 162(m) of the Code, the 2005 Plan provides that the Compensation Committee may require that the vesting of such awards be conditioned on the satisfaction of one or more of the performance criteria. Subject to adjustments for stock

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splits and similar events, the maximum award of restricted stock or deferred stock (or combination thereof) granted to any one individual that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code will not exceed 300,000 shares of common stock (subject to adjustments for stock splits and similar events) for any performance cycle.

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

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

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

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

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

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

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

New Plan Benefits

It is not possible to state the persons who will receive options or awards under the 2005 Plan in the future or the amount of options or awards that will be granted under the 2005 Plan. The following table provides information with respect to awards granted under the 2005 Plan in the fiscal year ended June 30, 2016. This table does not include any grants made following the end of fiscal year 2016 as described in “Compensation Discussion and Analysis.”

Name and Position	Stock Options		Restricted Stock	
	Dollar Value	Average Exercise Price	Dollar Value(1)	Number
Mark Aslett, President and Chief Executive Officer	\$—	\$	—\$1,431,581	90,894
Gerald M. Haines II, EVP, Chief Financial Officer, and Treasurer	—	—	429,471	27,268
Didier M.C. Thibaud, EVP, Chief Operating Officer	—	—	429,471	27,268
Charles A. Speicher, VP, Controller, Chief Accounting Officer, and Assistant Treasurer	—	—	214,736	13,634
All executive officers as a group	—	—	2,505,258	159,064
All non-employee directors as a group	—	—	524,768	31,125
Employees as a group (excluding executive officers)	—	—	6,021,088	366,542

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

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

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

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

Required Vote

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

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

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

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

Recommendation

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

PROPOSAL 4: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed KPMG LLP (“KPMG”) as our independent registered public accounting firm for the fiscal year ending June 30, 2017. We are asking shareholders to ratify this appointment. Although ratification by shareholders is not required by law or by our by-laws, the Audit Committee believes that submission of its selection to shareholders is a matter of good corporate governance. Even if the selection is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time if the Audit Committee believes that such a change would be in the best interests of Mercury and our shareholders. If our shareholders do not ratify the selection of KPMG, the Audit Committee will take that fact into consideration, together with such other factors it deems relevant, in determining its next selection of an independent registered public accounting firm.

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

Required Vote

Approval of the ratification of the appointment of KPMG as our independent registered public accounting firm for fiscal 2017 requires the affirmative “FOR” vote of a majority of the votes cast on the proposal. Unless marked to the contrary, proxies received will be voted “FOR” approval of the ratification of the appointment.

Recommendation

The Board of Directors recommends a vote “FOR” the ratification of the appointment of KPMG as our independent registered public accounting firm for fiscal 2017.

VOTING SECURITIES

Who owns more than 5% of our stock?

On August 12, 2016, there were 40,363,864 shares of our common stock outstanding. On that date, to our knowledge, there were four shareholders who owned beneficially more than 5% of our common stock. The table below contains information, as of the dates noted below, regarding the beneficial ownership of these persons or entities. The "Percent of Class" was calculated using the number of shares of our common stock outstanding as of August 12, 2016. Unless otherwise indicated, we believe that each of the persons or entities listed below has sole voting and investment power with respect to all of the shares of common stock indicated.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
BlackRock, Inc. (1)	3,209,628	8.0 %
Royce & Associates LLC (2)	2,155,546	5.3
Barrow, Hanley, Mewhinney & Strauss, LLC (3)	2,449,409	6.1
The Vanguard Group (4)	2,431,928	6.0

Based on a Schedule 13G/A filed by Black Rock, Inc. with the SEC on January 26, 2016, reporting beneficial (1) ownership as of December 31, 2015. The reporting entity's address is 55 East 52nd Street, New York, New York 10022.

Based on a Schedule 13G/A filed by Royce & Associates LLC with the SEC on January 19, 2016, reporting (2) beneficial ownership as of December 31, 2015. The reporting entity's address is 745 Fifth Avenue, New York, New York 10151.

Based on a Schedule 13G filed by Barrow, Hanley, Mewhinney & Strauss, LLC with the SEC on February 2, 2016, (3) reporting beneficial ownership as of December 31, 2015. The reporting entity's address is 2200 Ross Avenue, 3rd Floor, Dallas, Texas 75201.

Based on a Schedule 13G/A filed by Vanguard Group, Inc. with the SEC on February 10, 2016, reporting (4) beneficial ownership as of December 31, 2015. The reporting entity's address is 100 Vanguard Boulevard, Malvern, PA 19355.

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

The following information is furnished as of August 12, 2016, with respect to common stock beneficially owned by:

(1) our directors (including our chief executive officer); (2) our chief financial officer and the three most highly compensated executive officers other than the chief executive officer and the chief financial officer; and (3) all directors and executive officers as a group. Unless otherwise indicated, the individuals named below held sole voting and investment power over the shares listed.

Name and Address of Beneficial Owner*	Number of Shares Beneficially Owned (1)	Percent of Class (1)
Mark Aslett (2)	665,390	1.6 %
James K. Bass (3)	68,227	**
Michael A. Daniels (4)	68,227	**
George K. Muellner (5)	68,227	**
Mark S. Newman (6)	11,831	**
William K. O'Brien (7)	91,375	**
Vincent Vitto (8)	115,892	**
Christopher C. Cambria (9)	—	**
Gerald M. Haines II (10)	232,591	**
Charles A. Speicher (11)	56,969	**

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Didier M.C. Thibaud (12)	379,112	0.9
All directors and executive officers as a group (11 persons) (13)	1,757,841	4.3

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

** Less than 1.0%.

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- (1) The number and percent of the shares of common stock with respect to each beneficial owner are calculated by assuming that all shares which may be acquired by such person within 60 days of August 12, 2016 are outstanding. Includes (a) 363,197 shares owned by Mr. Aslett individually; and (b) 302,193 restricted shares awarded to
- (2) Mr. Aslett under our stock-based plans (as to which Mr. Aslett has sole voting power, but which are subject to restrictions on transfer).
Includes (a) 50,115 shares owned by Mr. Bass individually; (b) 15,000 shares which may be acquired by Mr. Bass within 60 days of August 12, 2016 through the exercise of stock options; and (c) 3,112 restricted shares awarded to
- (3) Mr. Bass under our stock-based plans (as to which Mr. Bass has sole voting power, but which are subject to restrictions on transfer).
Includes (a) 50,115 shares owned by Mr. Daniels individually; (b) 15,000 shares which may be acquired by
- (4) Mr. Daniels within 60 days of August 12, 2016 through the exercise of stock options; and (c) 3,112 restricted shares awarded to Mr. Daniels under our stock-based plans (as to which Mr. Daniels has sole voting power, but which are subject to restrictions on transfer).
Includes (a) 50,115 shares owned by Mr. Muellner individually; (b) 15,000 shares which may be acquired by
- (5) Mr. Muellner within 60 days of August 12, 2016 through the exercise of stock options; and (c) 3,112 restricted shares awarded to Mr. Muellner under our stock-based plans (as to which Mr. Muellner has sole voting power, but which are subject to restrictions on transfer).
Includes (a) 5,916 shares owned by Mr. Newman individually; and (b) 5,915 restricted shares awarded to
- (6) Mr. Newman under our stock-based plans (as to which Mr. Newman has sole voting power, but which are subject to restrictions on transfer).
Includes (a) 72,263 shares owned by Mr. O'Brien individually; (b) 16,000 shares which may be acquired by
- (7) Mr. O'Brien within 60 days of August 12, 2016 through the exercise of stock options; and (c) 3,112 restricted shares awarded to Mr. O'Brien under our stock-based plans (as to which Mr. O'Brien has sole voting power, but which are subject to restrictions on transfer).
Includes (a) 50,780 shares owned by Mr. Vitto individually; (b) 62,000 shares which may be acquired by Mr. Vitto within 60 days of August 12, 2016 through the exercise of stock options; and (c) 3,112 restricted shares awarded to
- (8) Mr. Vitto under our stock-based plans (as to which Mr. Vitto has sole voting power, but which are subject to restrictions on transfer).
- (9) Mr. Cambria joined the company on August 1, 2016; however, his restricted stock award was granted effective as of August 15, 2016 and is therefore not reflected in the table.
Includes (a) 115,795 shares owned by Mr. Haines individually; and (b) 116,796 restricted shares awarded to
- (10) Mr. Haines under our stock-based plans (as to which Mr. Haines has sole voting power, but which are subject to restrictions on transfer).
Includes (a) 23,801 shares owned by Mr. Speicher individually; and (b) 33,168 restricted shares awarded to
- (11) Mr. Speicher under our stock-based plans (as to which Mr. Speicher has sole voting power, but which are subject to restrictions on transfer).
Includes (a) 216,774 shares owned by Mr. Thibaud individually; (b) 30,000 shares which may be acquired by
- (12) Mr. Thibaud within 60 days of August 12, 2016 through the exercise of stock options; and (c) 132,338 restricted shares awarded to Mr. Thibaud under our stock-based plans (as to which Mr. Thibaud has sole voting power, but which are subject to restrictions on transfer).
Includes (a) 998,871 shares owned by directors and executive officers individually; (b) 153,000 shares which may be acquired within 60 days of August 12, 2016 through the exercise of stock options; and (c) 605,970 restricted
- (13) shares awarded to the directors and executive officers under our stock-based plans (as to which each has sole voting power, but which are subject to restrictions on transfer).

EXECUTIVE OFFICERS

Who are Mercury's executive officers?

The following persons are our executive officers:

Name	Position
Mark Aslett	President and Chief Executive Officer
Christopher C. Cambria	Senior Vice President, General Counsel, and Secretary
Gerald M. Haines II	Executive Vice President, Chief Financial Officer, and Treasurer
Charles A. Speicher	Vice President, Controller, Chief Accounting Officer, and Assistant Treasurer
Didier M.C. Thibaud	Executive Vice President, Chief Operating Officer

Our executive officers are appointed to office by the Board of Directors at the first board meeting following the Annual Meeting of Shareholders or at other board meetings as appropriate, and hold office until the first board meeting following the next Annual Meeting of Shareholders and until a successor is chosen, subject to prior death, resignation or removal. Information regarding our executive officers as of the date of filing of this proxy statement is presented below.

Mark Aslett, age 48, joined Mercury in 2007 and has served as the President and Chief Executive Officer since then, and served as a member of the Board since 2007. Prior to joining Mercury, he was Chief Operating Officer and Chief Executive Officer of Enterasys Networks from 2003 to 2006, and held various positions with Marconi plc and its affiliated companies, including Executive Vice President of Marketing, Vice President of Portfolio Management, and President of Marconi Communications-North America, from 1998 to 2002. Mr. Aslett has also held positions at GEC Plessey Telecommunications, as well as other telecommunications-related technology firms.

Christopher C. Cambria, age 58, joined Mercury in August 2016 as Senior Vice President, General Counsel and Secretary. Prior to joining Mercury, he was Vice President, General Counsel, and Secretary of Aerojet Rocketdyne Holdings, Inc. from 2012 to 2016 and Vice President, General Counsel from 2011 to 2012. He was with L-3 Communications Holdings, Inc. from 1997 through 2009 serving as Senior Vice President and Senior Counsel, Mergers and Acquisitions from 2006 to 2009, Senior Vice President, Secretary and General Counsel from 2001 to 2006, and Vice President, General Counsel and Secretary from 1997 to 2001. Prior to L-3, Mr. Cambria was an Associate with Fried, Frank, Harris, Shriver & Jacobson from 1994 to 1997.

Gerald M. Haines II, age 53, joined as Senior Vice President of Corporate Development and in 2014 was appointed Executive Vice President, CFO and Treasurer. Prior to Mercury, from 2008 to 2010 he served as Executive Vice President at Verenum Corporation, a publicly traded company engaged in the development and commercialization of biofuels and specialty enzymes, where he oversaw various corporate development, corporate finance, and joint venturing activities. Previously, Mr. Haines served as Executive Vice President of Strategic Affairs of Enterasys Networks, Inc., a publicly traded network communications company, Senior Vice President of Cabletron Systems, Inc., the predecessor of Enterasys Networks, and Vice President of Applied Extrusion Technologies, a large manufacturer of plastic films and packaging. He began his career at J.P. Morgan. Mr. Haines holds a bachelor's degree in Business Administration, magna cum laude, from Boston University, and a law degree from Cornell Law School.

Charles A. Speicher, age 57, joined Mercury in 2010 as Vice President, Controller, and Chief Accounting Officer. Prior to joining Mercury, Mr. Speicher held various positions at Virtusa Corporation, a publicly-traded global IT services company, including Vice President of Global Accounting Operations and Corporate Controller from 2001 to 2009. Mr. Speicher was Corporate Controller at Cerulean Technologies Inc., a private software product company, from 1996 to 2000 prior to its sale to Aether Systems Inc. where he served as Division Controller of Aether Mobile Government from 2000 to 2001. Prior to joining Cerulean Technology, Mr. Speicher held positions with Wyman-Gordon Company, Wang Laboratories and Arthur Andersen & Company, LLP. Mr. Speicher is a CPA licensed in Massachusetts.

Didier M.C. Thibaud, age 55, joined Mercury in 1995, and has served as our Executive Vice President, Chief Operating Officer since January 2016. Prior to that he was President of our Mercury Commercial Electronics business unit since 2012. Prior to that, he was President of our Advanced Computing Solutions business unit since 2007. Prior to that, he was Senior Vice President,

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Defense & Commercial Businesses from 2005 to June 2007 and Vice President and General Manager, Imaging and Visualization Solutions Group, from 2000 to 2005 and served in various capacities in sales and marketing from 1995 to 2000.

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Fiscal 2016 Business Review

Mercury concluded a strong fiscal 2016 with a very busy fourth quarter. During the fourth quarter we closed our \$300 million acquisition of the embedded security, radio frequency and microwave, and custom microelectronics businesses of the Power and Microelectronics Group of Microsemi Corporation (the "Carve-Out Business"), the largest acquisition in Mercury's history, and we successfully completed a debt financing and follow-on common stock offering to support this acquisition and future strategic initiatives. For fiscal 2016, including the results of the Carve-Out Business, Mercury's revenues grew 15% year-over-year. GAAP income from continuing operations increased 37%, and adjusted EBITDA was up 29%. Bookings increased 11% and year-end backlog increased 38% to a new Company record of \$288 million. Our 12-month forward revenue coverage remains strong, positioning us well for fiscal 2017.

Fiscal 2016 was also a strong year organically. We continued to scale the core business while delivering well above industry-average growth and profitability, in line with our target business model. Organic revenue for fiscal 2016 grew 8% year-over-year, exceeding the top end of our guidance. Organic backlog grew 9% year-over-year. Adjusted EBITDA increased 18% organically, exceeding guidance.

Executive Bonus Program

In July 2015, the Compensation Committee established our fiscal 2016 executive bonus program in conjunction with the Board of Directors approving our fiscal 2016 strategic operating plan. For fiscal 2016, the Compensation Committee targeted total cash compensation (i.e., base salary plus cash bonus opportunity) around the 50th percentile of a composite index of data from our peer group and the Radford Global Technology Survey. For our fiscal 2016 executive bonus program, 80% of the total value was based on achieving corporate financial performance objectives and 20% was for achieving individual management-by-results ("MBR") performance objectives. The corporate financial performance portion of our fiscal 2016 executive bonus plan was split into two halves, with specific financial performance targets addressing the first half and the second half of the fiscal year. We use two semi-annual performance periods with two different performance targets in order to align our cash incentive program with our strategic operating plan ("SOP") review and midyear SOP update. We determine the potential total size of the annual cash incentive bonuses at the beginning of the fiscal year as well as set the first half financial performance target, and then set the second half performance target in connection with our midyear SOP update. Over-achievement awards, if any, are based on exceeding a total annual revenue target and also exceeding the sum of the two half-year corporate financial performance objectives. Based on the level of performance achieved relative to our fiscal 2016 targets, we paid 100% of the corporate financial performance portion of our executive bonuses for both the first and second halves of fiscal 2016. While our fiscal 2016 adjusted EBITDA was above the threshold to begin to earn over-achievement awards, we did not reach the minimum organic revenue threshold for the payment of over-achievement awards under our fiscal 2016 bonus plan, and accordingly no over-achievement awards were earned.

In addition, our executives earned the MBR portion of their annual bonus based upon their individual results measured against their individual goals established by the Compensation Committee. For fiscal 2016, our named executive officers achieved between 89% and 99% of their individual MBR performance goals for fiscal 2016.

Subsequent to fiscal 2016, we implemented our fiscal 2017 executive bonus program. For fiscal 2017, 100% of the total value of executive bonuses will be based on achieving corporate financial performance objectives.

Executive Equity Awards

In July 2015, the Compensation Committee approved our fiscal 2016 restricted stock awards. The fiscal 2016 restricted stock awards granted to our named executive officers approximated the 50th percentile of a market

composite consensus. Half of our fiscal 2016 executive equity awards were in the form of performance-based restricted shares, with executives earning the awards based on achieving target levels of a ratio of adjusted EBITDA to revenue. For the time-based vesting half of the fiscal 2016 awards, one-third vests on each of the first three anniversaries of the grant date. As part of the transition to a full three-year cliff vesting performance cycle for the fiscal 2017 awards, for the performance-based vesting half of the fiscal 2016 awards, up to two-thirds vest based on achieving financial goals for the two-year period ending June 30, 2017 and up to one-third vest based on achieving financial goals for the three-year period ending June 30, 2018.

Subsequent to fiscal 2016, we introduced new performance-based elements for our executive equity program for fiscal 2017. The fiscal 2017 annual restricted stock awards granted to our named executive officers approximated the 50th percentile of a market composite consensus with median performance relative to our peer group yielding median pay based on such market composite

consensus. Each fiscal 2017 annual restricted stock award for our named executive officers is 50% performance-based vesting and 50% time-based vesting. For the time-based vesting half of the fiscal 2017 annual awards, one-third vests on each of the first three anniversaries of the grant date. The performance-based annual awards cliff-vest based on relative performance to our peer group for the three-year period ending June 30, 2019. For fiscal 2017, we are using two new relative performance metrics for the performance-based awards: (i) a ratio of adjusted EBITDA to revenue percentile ranked relative to our peer group (75% weighting); and (ii) revenue growth percentage percentile ranked relative to our peer group (25% weighting). The target value for the fiscal 2017 annual restricted stock awards is the market median of a market composite consensus, with upside potential if we outperform our peer group on the relative performance metrics discussed above. Historically, we have relied on short term, absolute performance metrics based on our internal performance targets to determine vesting of our performance equity awards. We are transitioning to the use of longer term relative performance metrics for our performance restricted stock awards as we believe that our relative financial performance compared with a group of peer companies with similar attributes is an important factor in the creation of long term value for the Company and its shareholders.

For fiscal 2017, we also granted a special, non-recurring acquisition integration incentive restricted stock award for our Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. This special, non-recurring grant related specifically to the Company's recent large acquisition does not represent the Company's regular recurring grant practices and is designed to create incentives for the rapid and successful integration of our recently acquired Carve-Out Business leading to accelerated revenue growth. The specific objective is to achieve profitable revenue growth within the first year that is in excess of the average historical growth and profitability rates of companies in the primary market sector (defense) in which the Company operates. This integration incentive award is a 100% performance-based restricted stock award with fiscal 2017 as the performance period and is earned based on total revenue growth rate objectives, subject to minimum revenue and adjusted EBITDA thresholds. These goals specifically relate to the integration of the largest acquisition in the Company's history, with a focus on driving revenue growth without sacrificing profitability as well as aligning with the Company's Carve-Out Business post-acquisition operating model.

Compensation Philosophy and Objectives

Our executive compensation philosophy is to provide our executives with competitive pay opportunities with actual pay heavily influenced by the attainment of corporate financial performance objectives. Our compensation philosophy is intended to meet the following objectives:

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

- achieve our short-term and long-term strategic goals and values by aligning compensation with business objectives. To accomplish these objectives, our executive compensation programs are designed to maintain a significant portion of an executive's total compensation at risk tied to our annual and long-term financial performance.

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

We benchmark executive compensation around the 50th percentile compared to peer companies and the Radford Global Technology Survey.

How We Determine Executive Compensation

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

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

The Compensation Committee has engaged the services of Radford, an Aon Consulting company, as an independent compensation consultant. Radford assists the Compensation Committee in, among other things, applying our compensation philosophy for our executive officers and non-employee directors, analyzing current compensation conditions in the marketplace generally and among our peers specifically, and assessing the competitiveness and appropriateness of compensation levels for our executive officers. Representatives of Radford periodically attend meetings of the Compensation Committee, both with and without members of management present, and interact with members of our human resources department with respect to its assessment of the compensation for our executive officers. In addition, Radford may assist management in analyzing the compensation of our non-executive employees. For fiscal 2016, Radford's services included providing compensation survey data for non-employee directors, executives, and non-executive employees. The Compensation Committee's expenditures for Radford were \$96,005 for fiscal 2016. For fiscal 2016, the Company's human resources department expended \$23,475 for Radford market surveys for non-executive employees and selected job match to market requests. For non-executive employees, management also uses a second compensation consultant to provide market compensation data.

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

The Compensation Committee used the following peer group in its determination of total compensation for fiscal 2016:

AeroVironment, Inc.	Cray, Inc.	KEYW Holdings Corporation
American Science and Engineering	Digi International, Inc.	KVH Industries, Inc.
Analogic Corporation	Digital Globe, Inc.	M/A-COM Technology Solutions Holdings, Inc.
API Technologies Corp.	Ducommun Incorporated	NCI, Inc.
CalAmp Corp.	Electro Scientific Industries, Inc.	Radisys Corporation
Comtech Telecommunications Corp.	iRobot Corporation	Sonus Networks, Inc.

Since establishing the fiscal 2016 peer group, two of the peer companies have been acquired and are no longer publicly traded. Beginning in late fiscal 2016, Radford assisted us in reviewing our peer group going forward, particularly in light of the changes in the existing peer group, our employee headcount growth and business evolution with our recent acquisition of the Carve-Out Business and the significant increase in our market capitalization. Mercury is a high-technology commercial company. Its primary market is the aerospace and defense sector. Radford assisted us in expanding the scope of additional companies to consider for our peer group because we typically compete with high-technology companies, not defense or aerospace companies, for managerial and technical talent. Data with respect to the updated peer group listed below and the Radford Global Technology Survey was considered by the Compensation Committee in determining the base compensation, bonus targets and the equity awards for August 2016 (fiscal 2017), again with the philosophy of targeting compensation around the 50th percentile.

ADTRAN, Inc.	Ducommun Incorporated	Netgear Inc.
AeroVironment, Inc.	Gigamon, Inc.	NetScout Systems, Inc.
Analogic Corporation	Novanta Inc. (fka GSI Group Inc.)	Progress Software Corporation
Astronics Corporation	Infinera Corporation	Qualys, Inc.
Brooks Automation, Inc.	InvenSense, Inc.	Ruckus Wireless, Inc.
CalAmp Corp.	iRobot Corporation	Shore Tel, Inc.
Cognex Corporation	Ixia	Sonus Networks, Inc.
Comtech Telecommunications Corp.	Kratos Defense & Security Solutions, Inc.	Sparton Corp.
Cray, Inc.	M/A-COM Technology Solutions Holdings, Inc.	Vicor Corp.
Digi International Inc.	MKS Instruments, Inc.	

In selecting our peer group, the Compensation Committee focused on company size (as indicated by revenue, number of employees, and market capitalization) and on technologies similar to those utilized in Mercury's target markets. In particular, the Compensation Committee reviewed the following elements of compensation against the benchmarking data:

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base salary;

target bonus;

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

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

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

Each such element of compensation was compared to peer group data at the 25th, 50th, and 75th percentiles. The peer group used for fiscal 2016 consisted of a blend of public technology and defense companies with revenues generally between \$100 million and \$500 million, with a median revenue of \$235 million.

The Radford Global Technology Survey data and peer group data, as applicable, were reviewed together to form a final market data point. All forms of compensation were then evaluated relative to the market median. Individual compensation pay levels may vary based on individual performance and other considerations, including an executive's relative experience in a new position, the initial compensation levels required to attract qualified new hires, and the compensation levels required to retain highly qualified executives.

The Compensation Committee evaluated the benchmarking data in connection with its determination of compensation levels for fiscal 2016. The data from this benchmarking indicated that each of base salary, target bonus as a percentage of base salary, total target cash compensation, target long-term incentive compensation, and total target direct compensation for our named executive officers was generally positioned at the market 50th percentile.

For fiscal 2016, we based our total compensation program not only on the application of corporate financial and individual MBR performance considerations and competitive positioning against our peer group, but also through the application of CEO and Compensation Committee judgment. Our Board of Directors reserves the right to determine payouts under the portion of the CEO's annual executive bonus tied to individual MBR performance objectives without regard to previously-established goals if changes in Mercury's business or strategy or other extenuating circumstances warrant such decision in the Board's judgment. The CEO is afforded similar discretion in recommending bonus payouts tied to individual MBR performance objectives for our other executive officers.

Our Elements of Total Compensation

Our total compensation program consists of fixed elements, such as base salary and benefits, and variable performance-based elements, such as annual and long-term incentives. Our fixed compensation elements are designed to provide a stable source of income and financial security to our executives. For fiscal 2016, our variable performance-based elements were designed to reward performance at two levels: (1) corporate financial performance compared to business goals; and (2) individual MBR performance.

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

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

Base Salary

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

For fiscal 2016, effective, October 1, 2015, we increased the base salaries for each of our named executive officers by 3%. These increases were consistent with market conditions.

In January 2016, Mr. Aslett recommended to the Compensation Committee that Mr. Thibaud be promoted to the new position of Executive Vice President, Chief Operating Officer. In connection with this promotion, Committee

approved that effective as of

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January 2016, Mr. Thibaud's base salary be increased to \$350,000 per year and his bonus as a percentage of base salary be increased to 75%.

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

For fiscal 2017, effective October 1, 2016, we increased the base salaries for our named executive officers as follows:

Named Executive Officer and Title	Fiscal 2017 Salary (effective October 1, 2016)
Mark Aslett, President and Chief Executive Officer	\$ 560,000
Gerald M. Haines II, EVP, Chief Financial Officer, and Treasurer	345,000
Didier M.C. Thibaud, EVP, Chief Operating Officer	375,000
Charles A. Speicher, VP, Controller, Chief Accounting Officer, and Assistant Treasurer	250,000

These increases were consistent with market conditions and the change in Mercury's financial profile from our recent acquisition of the Carve-Out Business and organic growth.

Executive Bonus Program

The Compensation Committee targets total cash compensation (i.e., base salary plus cash bonus opportunity) around the 50th percentile of a composite index of data from our peer group and the Radford Global Technology Survey. Our executive bonus program is a variable performance-based element of our overall compensation program. This bonus program provides the potential for additional cash compensation for our executive officers based on achieving the corporate financial performance goals contained in the annual strategic operating plan that is approved by our Board of Directors in the first month of the fiscal year, as well as individual MBR performance goals. Participants in the program are senior executives who have a strategic function and are recommended by the CEO to the Compensation Committee for participation in the program. In general, executives with the highest level and amount of responsibility have the highest percentage of their total target compensation at risk. This program consists of two elements: (1) target bonuses; and (2) potential over-achievement awards. Each executive officer's target bonus is determined based on position, responsibilities, and total target cash compensation, and may be subject to change from year to year. For fiscal 2016, each executive officer's over-achievement award is determined based on actual adjusted EBITDA (defined below) exceeding budgeted adjusted EBITDA for the fiscal year and the Company meeting or exceeding a threshold revenue target for the fiscal year.

Adjusted EBITDA is a non-GAAP measure and all references to actual adjusted EBITDA in this Compensation Discussion and Analysis refer to such non-GAAP measure. As used in the executive bonus plan, adjusted EBITDA includes net income (loss) (prior to the impact, if any, of a payout of any potential overachievement award) and is adjusted for the following: interest income and expense; income taxes; depreciation; amortization of acquired intangible assets; restructuring and other charges; impairment of long-lived assets; acquisition and financing costs; fair value adjustments from purchase accounting; litigation and settlement expenses and stock-based compensation expense. Because the executive bonus plan calls for a comparison of actual adjusted EBITDA to budgeted adjusted EBITDA for the fiscal year, the operating impact of one or more acquisitions occurring during a fiscal year (which may not have been included in the budget) may be included in the calculation of actual adjusted EBITDA only if all costs related to such acquisition(s) are included as well. In this way, plan participants cannot benefit from acquisition activities by excluding the transaction-related costs associated with the acquisition, and are also not penalized by an acquisition occurring part way through a fiscal year when the partial-year operating results of the acquisition may not be sufficient to cover such transaction-related costs.

A reconciliation between adjusted EBITDA and the most directly comparable GAAP financial measure is included as Appendix B to this proxy statement.

The following table indicates for fiscal 2016: (1) the target bonus for each named executive officer as a percentage of his base salary; (2) the percentage of the target bonus tied to corporate financial performance objectives; and (3) the percentage of the target bonus tied to individual MBR performance objectives.

Named Executive Officer and Title	Target Bonus as a Percentage of Base Salary		Portion Related to Corporate Financial Performance Objectives		Portion Related to Individual MBR Performance Objectives	
Mark Aslett, President and Chief Executive Officer	100	%	80	%	20	%
Gerald M. Haines II, EVP, Chief Financial Officer, and Treasurer	60		80		20	
Didier M.C. Thibaud, EVP, Chief Operating Officer	75		80		20	
Charles A. Speicher, VP, Controller, Chief Accounting Officer, and Assistant Treasurer	40		80		20	

For all of our named executive officers, we allocate a majority of their bonus potential to the achievement of overall corporate financial performance objectives, which are based on the achievement of an adjusted EBITDA target in our strategic operating plan for the fiscal year as well as meeting or exceeding a revenue threshold target for over-achievement awards.

Corporate Financial Performance Objectives

As part of our fiscal 2016 strategic operating plan, we set the financial portion of our executive bonus plan for the first half of fiscal 2016 at the July 2015 meeting of the Board of Directors. We set the the financial portion of our executive bonus plan for the second half of fiscal 2016 at the January 2016 meeting of the Board of Directors as part of our mid-year strategic operating plan review. Payouts for corporate financial performance for fiscal 2016 were based on objectives for the fiscal year broken into the first and second half of the year and were subject to the following payout formulas:

Fiscal 2016 First Half Payout Formula (July 1, 2015 - December 31, 2015)

Adjusted EBITDA Target (for first half of fiscal year)	Percentage to be Paid for Bonus	Threshold, Target, and Maximum
Less than \$20.837 million	—%	Below Threshold
\$20.837 million	75%	Threshold
Greater than \$20.837 million but less than \$23.2 million	Proportionate % between 75% and 100%	—
\$23.2 million	100%	Target
Greater than \$23.2 million	100%	Maximum

Fiscal 2016 Second Half Payout Formula (January 1, 2016 - June 30, 2016)

Adjusted EBITDA Target (for second half of fiscal year)	Percentage to be Paid for Bonus	Threshold, Target, and Maximum
Less than \$21.174 million	—%	Below Threshold
\$21.174 million	75%	Threshold
Greater than \$21.174 million but less than \$26.8 million	Proportionate % between 75% and 100%	—
\$26.8 million	100%	Target

Greater than \$26.8 million

100%

Maximum

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

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Our executive officers earned payouts at 100% of both their first half and second half target corporate financial performance bonuses for fiscal 2016. Fiscal 2016 actual adjusted EBITDA was \$24.4 million for the first half of the fiscal year and \$32.9 million for the second half of the fiscal year.

Over-Achievement Awards

Each executive officer's potential over-achievement award for fiscal 2016 was based on the executive's share of any over-achievement award pool. The percentage of the over-achievement award pool granted to an executive is the same percentage as the individual executive's participation in the executive bonus program relative to the total size of the executive bonus program for the fiscal year. The size of any over-achievement award pool is determined based on the amount by which actual adjusted EBITDA exceeded budgeted adjusted EBITDA of \$50.0 million for the full fiscal year, which is equal to the sum of the first half and second half performance metrics. The potential over-achievement award pool for fiscal 2016 was 25% of the amount, if any, by which actual adjusted EBITDA exceeded \$50.0 million. In this way, the overachievement pool is self-funded through additional profitability.

However, in order to earn an over-achievement award in fiscal 2016, the Company also had to satisfy a \$256.0 million organic revenue target in addition to achieving actual adjusted EBITDA in excess of \$50.0 million. Because organic revenue did not exceed the \$256.0 million threshold, there was no over-achievement award pool for fiscal 2016.

Individual MBR Performance Objectives

Individual MBR performance objectives for our executive officers (other than the CEO) are initially recommended by our CEO after consultation with the affected executive officers and reviewed and approved by the Compensation Committee. These individual MBR performance objectives are intended to focus the executive's actions for the following fiscal year in line with our strategic operating plan. At the end of the fiscal year, the CEO measures individual achievement for an executive officer by comparing actual performance of the executive to the previously established goals. In exceptional circumstance, the CEO is permitted to change an executive officer's individual MBR performance objectives, or recommend a payout without regard to previously-established goals, if changes in Mercury's business or strategy or other extenuating circumstances warrant such decision in the CEO's judgment. No such changes were made during fiscal 2016 for our named executive officers, nor were any such changes made in the preceding two fiscal years. At the end of the fiscal year, the CEO reports to the Compensation Committee on the executive officers' achievement of individual MBR performance objectives, and the Compensation Committee reviews and approves the payout of the individual MBR performance objective bonuses to our executive officers (other than the CEO), based on the CEO's recommendation.

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

Set forth below are the specific individual MBR performance objectives for our named executive officers for fiscal 2016.

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

Grow our defense business organically - increase total bookings, grow the value of new design wins, continue RF/microwave content expansion with prime defense contractors, drive growth in our electronic warfare business, and our grow secure processing business with prime defense contractors and the U.S. Department of Defense (20% of individual MBR bonus potential);

Scale our defense business through acquisition - acquire one or more embedded computing or RFM businesses, raise debt and/or equity for M&A, implement appropriate capital structure post acquisition, and plan acquisition integration (20% of individual MBR bonus potential);

- Prioritize innovation investments that matter - expand product leadership in secure processing, deliver 3U and ATCA secure processing products, and deliver first production OpenRFM product (20% of individual MBR bonus potential);
- Profitably grow and scale our services and systems capabilities - pursue continuous improvement in RF/microwave engineering and manufacturing processes, deploy an enterprise program management capability, enhance cost compliance systems, and enhance cyber security and insider threat protection (10% of individual MBR bonus potential);
- Excel at customer intimacy and quality across the organization - continue deployment of strategic account sales model,

improve executive sponsorship for key accounts, begin AS9100 and DMEA certifications, improve government research lab business development, and raise market awareness of our secure processing and electronic warfare capabilities (10% of individual MBR bonus potential);

- Evolve our organization model, develop people, and drive culture and values - rollout our new organizational management structure, improve pay for performance, and recruit a General Counsel and transition legal responsibilities from the CFO (10% of individual MBR bonus potential); and
- Drive shareholder value creation - maintain pace of investor conferences and non-deal roadshows, articulate our long term strategy and growth plan, and increase sell-side analyst coverage (10% of individual MBR bonus potential).

Gerald M. Haines II, Executive Vice President, Chief Financial Officer, and Treasurer. The individual MBR performance objectives for Mr. Haines approved by the Compensation Committee, upon the recommendation of the CEO, were as follows:

Evolve our organizational model - transition and integrate all financial planning functions into a single unit, integrate financial organization with operations, emphasizing business analytics and tools, recruit a General Counsel and transition the legal, security, and trade compliance functions to the General Counsel (30% of individual MBR bonus potential);

Financial, managerial, and DCAA accounting - develop and implement key performance indicators with finance business partners across operational units, implement OCOGS reduction program, implement inventory reduction program, implement and automate new product and service pricing and invoicing protocols and infrastructure, and integrate new business model protocols with commercial price list (30% of individual MBR bonus potential);

Corporate finance, M&A, and investor relations - structure and implement transaction financing as needed, retaining balance sheet flexibility, provide strategy, structure, negotiation, and execution for specific acquisition targets, increase sell-side analyst coverage, and update quarterly investor relations reporting package (30% of individual MBR bonus potential); and

Deepen performance culture - deepen Mercury's performance culture and initiate targeted staff development (10% of individual MBR bonus potential).

Didier M.C. Thibaud, Executive Vice President, Chief Operating Officer. The individual MBR performance objectives for Mr. Thibaud approved by the Compensation Committee, upon the recommendation of the CEO, were as follows:

- Growth - achieve our bookings growth plan, drive growth through new design wins, drive growth in electronic warfare and electronic attack, maintain our leadership position in radar, expand into battle management and C4, and drive growth in secure processing (20% of individual MBR bonus potential);
- Innovation - establish a five year roadmap, develop secure processing solutions internal R&D to drive key product differentiators, deliver 3U secure product to key programs, deliver ATCA product line, finish and deliver first OpenRFM product, drive design to cost process on new high volume product (20% of individual MBR bonus potential);
- Profitability - reduce direct cost and OCOGS, meet our RF and microwave business plan every quarter, and meet our inventory plan (20% of individual MBR bonus potential);
- Excel at customer intimacy - maintain status with our top customers, achieve our on time delivery goals, and drive content expansion across all programs through program management (20% of individual MBR bonus potential); and

- Evolve our organization model and develop our people, culture, and values - implement new organizational structure, drive accountability, deepen performance culture, and develop key talent to scale the business (20% of individual MBR bonus potential).

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

Provide enterprise wide analytical support - integrate accounting, financial planning, and analysis capabilities and integrate with operations to emphasize business analytics capabilities and tools, develop a standard analytics dashboard with key performance indicators for each organizational unit, identify multiple potential operational improvements, and complete

operational improvements across the business based on key performance indicators (30% of individual MBR bonus potential);

Develop organizational plans to align functional unit priorities - align finance and operations management processes to improve inventory gross levels including multiple inventory key performance indicators, extend Oracle capabilities and establish an accounting subject matter expert to add leverage, repeatability, and dependability, identify and complete two operational improvement activities recognized by the executive board, develop and update percentage of completion accounting training curriculum to be conducted across Mercury, and develop and update accounting training for relevant business personnel (25% of individual MBR bonus potential);

Provide M&A support - evaluate transactions and provide diligence support with internal and external resources, provide deal structure and tax planning, prepare for debt structure and covenant compliance reporting, support integration efforts, and perform SEC reporting triggered by M&A transactions (25% of individual MBR bonus potential); and

Development of finance expertise and talent and deepen the performance culture - organize managerial training for accounting employees in line with increasing responsibilities and deepen Mercury's performance culture (20% of individual MBR bonus potential).

Our named executive officers satisfied their individual MBR performance objectives as follows: Mr. Aslett, 90%; Mr. Haines, 97%; Mr. Thibaud, 89%; and Mr. Speicher 99%.

Executive Bonus Program for Fiscal 2017

For fiscal 2017, the target bonus as a percentage of base salary for the Chief Executive Officer under the executive bonus program will be 100%; for the Executive Vice President, Chief Operating Officer will be 75%; for the Executive Vice President, Chief Financial Officer will be 60%; and for the Vice President, Controller, and Chief Accounting Officer will be 40%. Also, for fiscal 2017, to better align incentive compensation with specific, objective corporate performance measures, the bonus component for our executive officers will be 100% for corporate financial performance objectives. As used in the fiscal 2017 executive bonus plan, adjusted EBITDA includes income (loss) from continuing operations (prior to the impact, if any, of a payout of any potential overachievement award) and is adjusted for the following: interest income and expense; income taxes; depreciation; amortization of acquired intangible assets; restructuring and other charges; impairment of long-lived assets; acquisition and financing costs; fair value adjustments from purchase accounting; litigation and settlement expense; and stock-based compensation expense.

Equity Compensation

We believe that compensation in the form of Mercury stock should be a significant portion of our executive officers' total compensation in order to align with shareholder interests. Equity compensation creates a unique link between the creation of shareholder value and an executive's long-term wealth accumulation opportunity. Our 2005 Stock Incentive Plan allows for several types of equity instruments, including stock options, stock appreciation rights, restricted stock, and deferred stock awards. The Compensation Committee determines which instruments to use on a grant-by-grant basis. When approving equity awards for an executive officer, the Compensation Committee considers the executive's current contribution to Mercury, the anticipated contribution to meeting Mercury's long-term strategic performance goals, and industry practices and norms. Long-term incentives granted in prior years, existing levels of stock ownership by executive officers, and aggregate grants to all executive officers are also taken into consideration. The Compensation Committee also considers the other elements of incentive compensation available to the executive officers and the performance metrics associated with those incentives, with a view toward providing an appropriately diverse set of different performance criteria and objectives to incent different aspects of performance and avoid multiple forms of reward for the same achievement.

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

In terms of the executive's anticipated contribution to meeting long-term strategic performance goals, the Compensation Committee reviews the potential role of the executive in achieving the long-term strategic goals set forth in our strategic operating plan, again with input from the CEO with respect to executives other than the CEO. The Compensation Committee considers the incentive and retention value that equity awards may provide. Finally, the Compensation Committee reviews proposed equity awards to executives against benchmarking and peer group data. The Compensation Committee believes that equity awards create an incentive in addition to the executive bonus program in

order to attract and retain senior executives who would contribute to our future success. As a result, the Compensation Committee intends for equity awards to executives as part of their long-term incentive compensation to generally be in line with industry practices and norms, both in terms of the type of equity award (e.g., restricted stock versus stock options) and the amount of the award.

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

any award granted to the CEO is subject to ratification by a majority of the independent directors on the Board; and the Compensation Committee may delegate to the CEO the authority to grant awards to other employees (other than our executive officers or other persons deemed to be “covered employees” within the meaning of Section 162(m) of the Code), subject to guidelines that are included in any such delegation.

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

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

Fiscal 2016 Equity Awards

The fiscal 2016 restricted stock awards granted to our named executive officers approximated the 50th percentile of a market composite consensus consisting of the Company's named peer group and compensation survey data from the Radford Global Technology Survey of public high technology companies with revenue levels generally between \$100 million and \$500 million.

The fiscal 2016 restricted stock awards to our named executive officers were: Mr. Aslett, 90,894 restricted shares; Mr. Haines, 27,268 restricted shares; Mr. Thibaud, 27,268 restricted shares; and Mr. Speicher, 13,634 restricted shares. The number of shares awarded for the executive grant effective as of August 17, 2015 for each named executive officer was determined by dividing the dollar value fixed for such executive grant by the average closing price of Mercury common stock during the 30 calendar days prior to August 17, 2015. The grant date of the fiscal 2016 equity awards was August 17, 2015.

Each fiscal 2016 restricted stock award for our named executive officers is 50% performance-based vesting and 50% time-based vesting. For the performance-based vesting half of each award, the executive earns the award based on achieving target percentage levels of adjusted EBITDA (the ratio of adjusted EBITDA to revenue) for the relevant performance period based on the belief that this profitability ratio is the primary basis for valuation of the Company, and therefore a key means of enhancing shareholder value. Our performance-based equity awards use a different performance measure than our fiscal 2016 executive bonus program. Up to two-thirds of the performance-based awards vest based on achieving financial goals for the two-year period ending June 30, 2017, and up to one-third of the awards vest based on achieving financial goals for the three-year period ending June 30, 2018. Awards that do not vest during the original performance period are permanently forfeited. In an effort to address short, medium, and long-term performance objectives and to create an orderly transition toward increased emphasis on multi-year objectives, we are phasing in the use of three-year cliff vesting for performance-based awards with the intention of only using three-year cliff vesting for performance equity starting with the fiscal 2017 performance-based restricted

stock award. For the time-based vesting half of the fiscal 2016 awards, one-third vests on each of the first three anniversaries of the grant date.

Fiscal 2016 Restricted Stock Awards

Named Executive Officer and Title	Performance-Based	Time-Based	Total (# of shares)
	Restricted Shares (# of shares) (1) (2)	Restricted Shares (# of shares)	
Mark Aslett, President and Chief Executive Officer	45,447	45,447	90,894
Gerald M. Haines II, EVP, Chief Financial Officer, and Treasurer	13,634	13,634	27,268
Didier M.C. Thibaud, EVP, Chief Operating Officer	13,634	13,634	27,268
Charles A. Speicher, VP, Controller, Chief Accounting Officer, and Assistant Treasurer	6,817	6,817	13,634

(1) The number of performance-based restricted shares in the table above reflects both the probable and the maximum number of shares that the executive could earn for all performance periods. The actual shares earned could be zero or a fraction of these amounts; however, the executive cannot earn more than the amounts reflected above.

(2) The performance metric provides for no vesting unless the Company achieves at least two-thirds of its targeted operating objective of at least 18% adjusted EBITDA as a percentage of revenue and full vesting if 18% or more is achieved. There is no upside component to these awards. The vesting formula for the fiscal 2016 performance-based restricted share award is as set forth in the table below for the fiscal 2015 awards but with the following performance periods and weightings: (i) up to two-thirds of the awards vest based on achieving financial goals for the two-year period ending June 30, 2017, and (ii) up to one-third of the awards vest based on achieving financial goals for the three-year period ending June 30, 2018.

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

Vesting of Prior Fiscal Year Performance-Based Restricted Stock Awards

Vesting for the second 1/3rd of the performance-based restricted shares granted in fiscal 2015 was subject to the following vesting formula:

Vesting Formula for Performance-Based Restricted Shares with a Fiscal 2015-2016 Performance Period

Ratio of Adjusted EBITDA/ Revenue for Fiscal 2015-2016	Vesting %	Threshold, Target, and Maximum Below Threshold Threshold Target (Capped)
Less than 12%	—%	
Equal to 12%	66.67%	
Between 12% and 18%	Straight line interpolation between 66.67% and 100%	
18% or more	100%	

The ratio of adjusted EBITDA to revenue for the two-year period ended June 30, 2016 was 20.1%, thus exceeding 18% and yielding 100% vesting of the 1/3rd of the performance-based restricted stock award that was subject to vest or forfeit on August 15, 2016.

For the fiscal 2016 performance-based restricted stock awards, the first performance period is the two-year period ending June 30, 2017 measured against the performance metrics set forth in the above table; accordingly, none of the fiscal 2016 performance equity awards was eligible for vesting for a performance period ending June 30, 2016.

Fiscal 2017 Equity Awards

Subsequent to fiscal 2016, we introduced new performance-based elements for our executive equity program for fiscal 2017. The fiscal 2017 annual restricted stock awards granted to our named executive officers approximated the 50th percentile of a market composite consensus with median performance relative to our peer group yielding median pay

based on such market composite consensus consisting of the Company's named peer group and compensation survey data from the Radford Global Technology Survey of public high technology companies with annual revenue levels generally between \$200 million and \$1 billion with a median revenue of \$420 million. The revenue range for the peer group was widened by virtue of Mercury's double-digit organic growth rate in recent years, coupled with Mercury's further growth via acquisitions, with the goal of less frequent changes to the peer

group over time as the Company grows. The peer group was also enlarged to mitigate the risk of shrinkage as peer group companies are acquired or merged and cease to be publicly-traded companies.

Since these awards occurred during fiscal 2017, they are not reflected in the Outstanding Equity Awards at Fiscal Year-End Table for fiscal 2016 included in this proxy statement. The target number of shares awarded for the executive grant effective as of August 15, 2016 for each named executive officer was determined by dividing the dollar value fixed for such executive grant by the average closing price of Mercury common stock during the 30 calendar days prior to August 15, 2016. The grant date of the fiscal 2017 equity awards was August 15, 2016. Each fiscal 2017 annual restricted stock award for our named executive officers is 50% performance-based vesting and 50% time-based vesting. For the time-based vesting half of the fiscal 2017 annual awards, one-third vests on each of the first three anniversaries of the grant date. The annual performance-based awards vest based on relative performance to our peer group for the three-year period ending June 30, 2019. For the fiscal 2017 annual performance-based awards, we are using two new relative performance metrics: (i) a ratio of adjusted EBITDA to revenue percentile ranked relative to our peer group (75% weighting); and (ii) revenue growth percentage percentile ranked relative to our peer group (25% weighting). These metrics were chosen to incent strong relative long-term growth in revenue and profitability, with the emphasis on profitability as the primary metric the Compensation Committee believes is used to value the Company. The target value for the fiscal 2017 annual restricted stock awards is the median of a market composite consensus consisting of our named peer group and compensation survey data from the Radford Global Technology Survey of public high technology companies, with the award having upside potential if we outperform our peer group on the relative performance metrics discussed above.

For fiscal 2017, we also granted a one-time acquisition integration incentive restricted stock award for our Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. During the fourth quarter of fiscal 2016, we closed our \$300 million acquisition of the embedded security, radio frequency and microwave, and custom microelectronics businesses of the Power and Microelectronics Group of Microsemi Corporation (the "Carve-Out Business"), the largest acquisition in Mercury's history. The integration incentive award is a 100% performance-based restricted stock award with fiscal 2017 as the performance period and is earned based on total revenue growth rate, subject to minimum revenue and adjusted EBITDA thresholds. This performance-based award is designed to drive the rapid and successful integration of our recently acquired Carve-Out Business and accelerate revenue growth to rates above the historical weighted average combined revenue growth rates for Mercury and the Carve-Out Business, subject to minimum levels of revenue and profitability.

Our fiscal 2017 total executive compensation program utilizes a diverse set of performance elements to drive different performance objectives over multiple time frames. Our fiscal 2017 executive cash bonus plan uses adjusted EBITDA to drive profitability for fiscal 2017 in line with our strategic operating plan for the year. Our fiscal 2017 annual performance equity grant uses a mix of the ratio of adjusted EBITDA to revenue percentile ranked relative to our peer group (75% weighting) and revenue growth percentile ranked relative to our peer group (25% weighting) as performance measures to drive revenue growth and profitability over a three-year period. This is different from the absolute profitability measure used for our fiscal 2017 annual executive cash bonus plan, which cash plan is aligned with our fiscal 2017 strategic operating plan, as our fiscal 2017 annual performance equity grant is aligned with relative performance compared with our peer group, an important factor in the creation of long term value for the Company and its shareholders. Our fiscal 2017 acquisition integration incentive award uses a revenue growth rate performance measure to drive revenue growth for fiscal 2017 to above the historical weighted average combined revenue growth rates for Mercury and the Carve-Out Business while also being subject to minimum revenue and profitability thresholds. If achieved, these metrics would provide growth in excess of not only the historical weighted average combined growth rates of the business, and also well in excess of the average historical growth and profitability rates of companies in the primary market sector (defense) in which the Company operates.

Fiscal 2017 Restricted Stock Awards

Named Executive Officer and Title	Annual Performance-Based Restricted Shares (# of shares) (1)	Annual Time-Based Restricted Shares (# of shares)	Integration Incentive		Total (# of shares)
			Performance-Based Restricted Shares (# of shares) (2)		

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Mark Aslett, President and Chief Executive Officer	40,119	40,119	80,238	160,476
Gerald M. Haines II, EVP, Chief Financial Officer, and Treasurer	14,042	14,042	28,083	56,167
Didier M.C. Thibaud, EVP, Chief Operating Officer	19,057	19,057	38,113	76,227
Charles A. Speicher, VP, Controller, Chief Accounting Officer, and Assistant Treasurer	4,815	4,815	-	9,630

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(1) The number of annual performance-based restricted shares in the table above reflects the probable number of shares that the executive is expected to earn for the three-year performance period ending June 30, 2019. The maximum potential number of shares (assuming the highest level of performance achievement) that could be earned is: Mr. Aslett – 120,357 shares; Mr. Haines – 42,126 shares; Mr. Thibaud – 57,171 shares; and Mr. Speicher – 14,445 shares.

(2) The number of integration incentive performance-based restricted shares in the table above reflects both the probable and maximum number of shares that the executive is expected to earn for the one-year performance period ending June 30, 2017. The actual shares earned could be zero or a fraction of these amounts; however, the executive cannot earn more than the amounts reflected above for the integration incentive award.

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

Fiscal Year 2015-2017 Equity Burn Rate Commitment

In connection with the approval by shareholders of the amendment and restatement of our 2005 Stock Incentive Plan at the 2014 Annual Meeting of Shareholders, our Board of Directors committed to our shareholders that for fiscal years 2015 through 2017, we will not grant during such three fiscal years a number of shares subject to options or stock awards to employees or non-employee directors, such that the average number of shares granted in each of such fiscal years over such three-year period is greater than 5.49% of the weighted average number of shares of our common stock that were outstanding at the end of each of such three fiscal years. This limitation does not apply to awards settled in cash as opposed to the delivery of shares of our common stock, awards under plans assumed in acquisitions, and issuances under tax-qualified employee stock purchase plans and certain other tax-qualified plans. For purposes of calculating the number of shares granted in a fiscal year with respect to this commitment, for full-value equity awards such as restricted stock grants, each full-value share granted counts as 2.0 stock option shares under our 2005 Stock Incentive Plan.

Employee Benefits

We offer employee benefit programs that are intended to provide financial protection and security for our employees and to reward them for the total commitment we expect from them in service to Mercury. All of our named executive officers are eligible to participate in these programs on the same basis as our other employees. These benefits include the following: (1) medical, dental, and vision insurance, with employees sharing a percentage of the cost that may be adjusted from year to year; (2) company-paid group life and accident insurance of one times base salary (up to \$350,000); (3) employee-paid supplemental group life and accident insurance up to five times base salary (overall combined basic company-paid insurance plus supplemental insurance is \$750,000); (4) short- and long-term disability insurance; (5) a qualified 401(k) retirement savings plan with a 50% company match up to 6% of base pay as contributed by the individual to the 401(k) plan (subject to IRS limits on contributions); and (6) an employee stock purchase plan, which entitles participants to purchase our common stock at a 15% discount.

Perquisites and Personal Benefits

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

Employment and Severance Agreements

We have entered into an employment agreement with Mr. Aslett and a severance agreement with Mr. Haines, each as described below. The Compensation Committee consulted with Radford regarding the market parameters of similar compensation arrangements for executive officers in connection with entering into these agreements.

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

the Board), and that he will be eligible to participate in our executive bonus program in an amount determined by the Board. The employment agreement also provides for termination and severance benefits in the case of a termination of Mr. Aslett's employment by us without "cause" or by Mr. Aslett for "good reason."

In connection with his offer to join the Company, we agreed to provide Mr. Haines with certain severance benefits. Under the terms of the offer letter to Mr. Haines, if we terminate his employment without "cause" or Mr. Haines terminates his employment for

“good reason,” then we will pay Mr. Haines a severance amount equal to one times his annual base pay. In such event, we also will pay for certain insurance benefits and outplacement services.

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

Change in Control Severance Agreements

We recognize that Mercury, as a publicly-traded company, may become the target of a proposal which could result in a change in control, and that such possibility and the uncertainty and questions which such a proposal may raise among management could cause our executive officers to leave or could distract them in the performance of their duties, to the detriment of Mercury and our shareholders. Our named executive officers have agreements intended to reinforce and encourage the continued attention of our executives to their assigned duties without distraction and to ensure the continued availability to Mercury of each of our executives in the event of a proposed change in control transaction. We believe that these objectives are in the best interests of Mercury and our shareholders. Provisions of these agreements relating to termination and change in control are summarized under “Potential Payments to Named Executive Officers upon Termination of Employment Following a Change in Control.”

Tax Considerations

We generally structure incentive compensation arrangements with a view towards qualifying them as performance-based compensation exempt from the deduction limitations under Section 162(m), but we view the availability of a tax deduction as only one relevant consideration in determining executive compensation. Further, the Compensation Committee believes that its primary responsibility is to provide a compensation program that attracts, retains and rewards the executive talent necessary for Mercury's success. Accordingly, the Compensation Committee may authorize compensation in excess of \$1 million that is not exempt from the deduction limitations under Section 162(m).

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

The CEO is expected to own or control, directly or indirectly, shares of Mercury common stock with a value of at least five times the CEO's base salary. The CEO is expected to meet this guideline within five years of first becoming CEO, or within five years of April 22, 2014, whichever is later, and is expected to retain such investment in the Company as long as he or she is the CEO. Prior to meeting the five times holding requirement per this guideline, after applicable tax withholding on the vesting of an equity award, the CEO is required to retain 50% of the net, after tax award until he or she is in compliance with the stock ownership guideline. Exceptions to this stock ownership guideline may be approved from time to time by the Board as it deems necessary to address individual circumstances.

Does Mercury have a clawback policy?

Yes. We have adopted a clawback policy applicable to our executive officers. This policy is posted on our website at www.mrcy.com on the “Investor Relations” page under “Corporate Governance.” Pursuant to our policy, the Board of Directors shall, in all appropriate circumstances, require reimbursement of any annual incentive payment or long-term incentive payment to an executive officer where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a substantial restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines the executive engaged in intentional misconduct that caused or substantially caused the need for the substantial restatement; and (3) a lower payment would have been made to the executive based upon the restated financial results.

Does Mercury have a short sale and hedging policy?

Yes. Pursuant to our insider trading policy, no executive officer or director may at any time sell any securities of Mercury that are not owned by such person at the time of the sale. Also, no such executive officer or director may buy or sell puts, calls, or other derivative securities of Mercury at any time, except with the prior approval of the Chief Financial Officer or, in the case of directors, the Audit Committee of the Board of Directors. In addition, no such executive officer or director may hold Mercury securities in a brokerage margin account.

How were the executive officers compensated for fiscal 2014, 2015, and 2016?

The following table sets forth all compensation paid to our Chief Executive Officer, our Chief Financial Officer, and each of our other three most highly compensated executive officers, who are collectively referred to as the “named executive officers,” for the last three fiscal years.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary	Bonus	Stock Awards (1)	Option Awards	Incentive Plan Compensation (2)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (3)	All Other Compensation (4)	Total Compensation
Mark Aslett President and Chief Executive Officer	2016	546,133		1,431,581		519,890	\$ —	9,950	2,507,554
	2015	510,962		1,083,950		503,847	—	10,100	2,108,859
	2014	500,000		1,131,146		391,375	—	9,800	2,032,321
Gerald M. Haines II (5) EVP, Chief Financial Officer, and Treasurer	2016	338,595		429,471		196,156	—	8,162	972,384
	2015	316,796		788,550		186,766	—	8,878	1,300,990
	2014	310,000		407,211		145,592	—	8,977	871,780
Charles A. Speicher VP, Controller, Chief Accounting Officer, and Assistant Treasurer	2016	234,842		214,736		91,058	—	10,145	550,781
	2015	219,750		114,100		87,292	—	10,344	431,486
	2014	215,000		135,737		58,902	—	10,187	419,826
Didier M.C. Thibaud (6) EVP, Chief Operating Officer	2016	338,989		429,471		256,725	—	10,020	1,035,205
	2015	324,198		456,400		185,568	—	7,800	973,966
	2014	343,432		678,693		145,592	14,047	9,494	1,191,258

Represents the aggregate grant date fair value for equity awards made to our named executive officers in fiscal years 2014, 2015 and 2016. The amounts reported in this table do not reflect whether the named executive officer has actually realized a financial benefit from the award. Grant date fair value of equity awards is computed in accordance with Accounting Standards Codification Topic 718 (ASC Topic 718). For a discussion of the assumptions and methodologies used to calculate grant date fair value in this proxy statement, please refer to Note (1) B of the financial statements in our annual report on Form 10-K for the fiscal year ended June 30, 2016. For performance-based restricted stock awards, these amounts reflect the grant date fair value of such awards based upon the probable outcome at the time of grant. The maximum potential value of the performance-based restricted stock awards (assuming the highest level of performance achievement) that could have been earned in fiscal 2016 was: Mr. Aslett – \$1,431,581; Mr. Haines – \$429,471; Mr. Speicher – \$214,736; and Mr. Thibaud – \$429,471.

(2) The aggregate amounts in this column reflect payments under our executive bonus program. The table below shows the components of our executive bonus program earned for fiscal 2016:

Name	Corporate Financial Performance Bonus	MBR Bonus	Over-Achievement Award	Total Non-Equity Incentive Plan Compensation
Mark Aslett	\$ 424,400	\$95,490	\$ —	\$ 519,890
Gerald M. Haines II	157,872	38,284	—	196,156
Charles A. Speicher	72,992	18,066	—	91,058
Didier M.C. Thibaud	210,000	46,725	—	256,725

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

(4) The table below shows the components of this column for fiscal 2016:

Name	401(k) Plan Matching Contribution(a)	Perquisites and Other Personal Benefits(b)	Total All Other Compensation
Mark Aslett	\$ 7,950	\$ 2,000	\$ 9,950
Gerald M. Haines II	8,162	—	8,162
Charles A. Speicher	8,145	2,000	10,145
Didier M.C. Thibaud	9,002	1,018	10,020

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

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

(5) Mr. Haines was appointed to the position of Executive Vice President, Chief Financial Officer, and Treasurer in September 2014 (fiscal 2015). The equity grant to Mr. Haines in fiscal 2015 reflects both his annual grant and his appointment as Executive Vice President, Chief Financial Officer, and Treasurer.

(6) A portion of Mr. Thibaud's salary in fiscal years 2014, 2015, and 2016 was paid in Euros. The salary column reflects the conversion of each monthly payment from Euros into U.S. Dollars (USD) based on the average conversion rate between Euros and USD for such month. The amounts in the "Non-Equity Incentive Plan Compensation" column were paid in USD.

Grants of Plan-Based Awards

The following table reflects: (i) the grant date fair value of equity awards granted to the named executive officers under the 2005 Plan during fiscal 2016; and (ii) the possible cash amounts that could have been earned under each element (i.e., corporate financial performance, individual MBRs, and over-achievement awards) of our executive bonus program for fiscal 2016. The actual payouts for fiscal 2016 under our annual executive bonus program are reflected in the column titled “Non-Equity Incentive Plan Compensation” in the Summary Compensation Table.

Grants of Plan-Based Awards—Fiscal 2016

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Possible Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Units (#)	All Other Securities Underlying Options (#)	Exercise or Grant Date Base Fair Value of Stock Awards (\$/sh)	Option Awards(1)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
Mark Aslett											
Restricted Stock (2)	8/17/15	—	—	—	—	—	—	45,447	—	—	\$ 715,790
Performance Stock (2)	8/17/15	—	—	—	30,298	45,447	45,447	—	—	—	715,790
Corporate Financial Performance Bonus	(3)	318,300	424,400	424,400	—	—	—	—	—	—	—
MBR Bonus	(4)	—	106,100	106,100	—	—	—	—	—	—	—
Over-Achievement Award	(5)	—	—	530,500	—	—	—	—	—	—	—
Gerald M. Haines II											
Restricted Stock (2)	8/17/15	—	—	—	—	—	—	13,634	—	—	214,736
Performance Stock (2)	8/17/15	—	—	—	9,090	13,634	13,634	—	—	—	214,736
Corporate Financial Performance Bonus	(3)	118,404	157,872	157,872	—	—	—	—	—	—	—
MBR Bonus	(4)	—	39,468	39,468	—	—	—	—	—	—	—
Over-Achievement Award	(5)	—	—	197,340	—	—	—	—	—	—	—
Charles A. Speicher											
Restricted Stock (2)	8/17/15	—	—	—	—	—	—	6,817	—	—	107,368
Performance Stock (2)	8/17/15	—	—	—	4,545	6,817	6,817	—	—	—	107,368
Corporate Financial Performance Bonus	(3)	54,744	72,992	72,992	—	—	—	—	—	—	—
MBR Bonus	(4)	—	18,248	18,248	—	—	—	—	—	—	—
Over-Achievement Award	(5)	—	—	91,240	—	—	—	—	—	—	—
Didier M.C. Thibaud(6)											
Restricted Stock (2)	8/17/15	—	—	—	—	—	—	13,634	—	—	214,736
Performance Stock (2)	8/17/15	—	—	—	9,090	13,634	13,634	—	—	—	214,736
Corporate Financial Performance Bonus	(3)	157,500	210,000	210,000	—	—	—	—	—	—	—
MBR Bonus	(4)	—	52,500	52,500	—	—	—	—	—	—	—
Over-Achievement Award	(5)	—	—	262,500	—	—	—	—	—	—	—

(1) The amounts shown in this column have been calculated in accordance with FASB ASC Topic 718.

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(2) These time-based restricted stock awards and performance restricted stock awards were granted under the 2005 Plan with an August 17, 2015 grant date. The time-based restricted share awards vest in three equal installments on each of the first three anniversaries of the grant date (August 17, 2015), contingent in each case on the executive remaining an employee as of each such date. For the performance restricted stock awards, the performance metric provides for no vesting unless the Company achieves at least two-thirds of its targeted operating objective of at least 18% adjusted EBITDA to revenue and full vesting if 18% or more is achieved. There is no upside component to the performance restricted stock awards. The vesting formula for the fiscal 2016 performance-based restricted share award is as set forth in the table below but with the following performance periods and weightings: (i) up to two-thirds of the awards vest based on achieving financial goals for the two-year period ending June 30, 2017, and (ii) up to one-third of the awards vest based on achieving financial goals for the three-year period ending June 30, 2018. As with the time-based awards, vesting for the performance awards is contingent in each case on the executive remaining an employee as of each vesting date.

Vesting Formula for the Fiscal 2016 Performance-Based Restricted Shares Awards

Ratio of Adjusted EBITDA/ Revenue for Performance Period	Vesting %	Threshold, Target, and Maximum
Less than 12%	—%	Below Threshold
Equal to 12%	66.67%	Threshold
Between 12% and 18%	Straight line interpolation between 66.67% and 100%	
18% or more	100%	Target (Capped)

The grant date fair value of the restricted stock award has been calculated by multiplying the number of shares granted by the closing price of our common stock as reported on the NASDAQ Global Select Market on the date of grant.

(3) The amounts shown in these rows reflect the possible cash amounts that could have been earned under the corporate financial performance portion of our executive bonus program for fiscal 2016 upon achievement of the threshold, target, and maximum performance objectives for that program. Payouts for corporate financial performance for fiscal 2016 were subject to the payout formula included in the Compensation Discussion & Analysis. The actual payouts for fiscal 2016 are reflected in the column titled “Non-Equity Incentive Plan Compensation” in the Summary Compensation Table.

(4) The amounts shown in these rows reflect the possible cash amounts that could have been earned under the individual MBR performance portion of our executive bonus program for fiscal 2016. The actual payouts for fiscal 2016 are reflected in the column titled “Non-Equity Incentive Plan Compensation” in the Summary Compensation Table.

(5) The amounts shown in these rows reflect the maximum cash amounts that could have been earned under the over-achievement portion of our executive bonus program for fiscal 2016. There are no minimum or target payouts under the over-achievement portion of our bonus program, and the over-achievement bonus pool is only funded for fiscal 2016 based on 25% of the amount by which actual adjusted EBITDA exceeded budgeted adjusted EBITDA and satisfaction of a revenue threshold. There were no payouts for fiscal 2016 as reflected in the column titled “Non-Equity Incentive Plan Compensation” in the Summary Compensation Table.

(6) Mr. Thibaud’s threshold, target, and maximum performance targets under our executive bonus program for fiscal 2016 were based on a notional annual base salary of \$350,000, and payments, if any, would have been made in USD. As explained in note 6 to the Summary Compensation Table, a portion of Mr. Thibaud’s salary is paid in Euros, and the amount of base salary reported in that table reflects fluctuations in the conversion rate between Euros and USD. These fluctuations are not taken into consideration in determining Mr. Thibaud’s target bonus or bonus payments.

Discussion of Summary Compensation and Grants of Plan-Based Awards Tables

Our executive compensation policies and practices, pursuant to which the compensation set forth in the Summary Compensation Table and the Grants of Plan-Based Awards Table was paid or awarded, are described above under “Compensation Discussion and Analysis.”

Our total compensation program consists of fixed elements, such as base salary and benefits, and variable performance-based elements, such as annual incentives and performance-based restricted shares. The Summary Compensation Table sets forth the base salary for each named executive officer, the value of any stock or option awards, payouts under our executive bonus program (in the “Non-Equity Incentive Plan Compensation” column), and all other compensation payable to the named executive officer.

The potential payouts under our executive bonus program are set forth in the Grants of Plan-Based Awards Table. The corporate financial performance portion, the individual MBR performance portion, and the over-achievement portion of our executive bonus program are shown as separate line items as the threshold, target, and maximum amounts differ. The threshold targets for the corporate financial performance portion of the executive bonus program for fiscal 2016 were met, and corporate financial performance bonuses were paid under the terms of the program. For fiscal 2016, revenue was below its target for the overachievement portion of our executive bonus program. Accordingly, no overachievement awards were payable for fiscal 2016.

Outstanding Equity Awards at 2016 Fiscal Year-End

The following table shows information on all outstanding stock options and unvested restricted stock awards held by the named executive officers at the end of the last fiscal year. The table also shows the market value of unvested restricted stock awards at the end of the last fiscal year. This represents the number of unvested restricted shares at fiscal year-end, multiplied by the \$24.86 closing price of our common stock on the NASDAQ Global Select Market on June 30, 2016, the last trading day of fiscal 2016.

Outstanding Equity Awards at Fiscal Year-End 2016

Name	Option Awards(1) Number of Securities Underlying Unexercised Options (#)		Option Exercise Price(\$)	Option Expiration Date	Stock Awards		Market Value of Shares or Units of Stock That Have Not Vested (\$)
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercised Options (#)			Number of Shares or Units of Stock That Have Not Vested (#)	Number of Shares or Units of Stock That Have Not Vested (#)	
Mark Aslett	—	—	\$	—	7,500	(2)	\$ 186,450
	—	—	—	—	79,125	(3)	1,967,048
	—	—	—	—	61,342	(4)	1,524,962
	—	—	—	—	31,666	(5)	787,217
	—	—	—	—	31,666	(6)	787,217
	—	—	—	—	45,447	(7)	1,129,812
	—	—	—	—	45,447	(6)	1,129,812
Gerald M. Haines II	—	—	—	—	2,500	(2)	62,150
	—	—	—	—	18,282	(3)	454,491
	—	—	—	—	22,082	(4)	548,959
	—	—	—	—	11,666	(5)	290,017
	—	—	—	—	11,666	(6)	290,017
	—	—	—	—	11,666	(7)	290,017
	—	—	—	—	11,666	(6)	290,017
	—	—	—	—	13,634	(8)	338,941
Charles A. Speicher	—	—	—	—	13,634	(9)	338,941
	—	—	—	—	1,125	(2)	27,968
	—	—	—	—	4,383	(3)	108,961
	—	—	—	—	7,360	(4)	182,970
	—	—	—	—	3,333	(5)	82,858
	—	—	—	—	3,333	(6)	82,858
	—	—	—	—	6,817	(7)	169,471
Didier M.C. Thibaud	—	—	—	—	6,817	(6)	169,471
	—	—	—	—	3,500	(2)	87,010
	—	—	—	—	38,099	(3)	947,141
	30,000	—	13.07	6/5/2017	36,805	(4)	914,972
	—	—	—	—	13,333	(5)	331,458
	—	—	—	—	13,333	(6)	331,458
	—	—	—	—	13,634	(7)	338,941
—	—	—	—	13,634	(6)	338,941	

(1) Securities underlying stock options are shares of our common stock.

These restricted share awards were awarded on February 15, 2012; however, the Company and the executives agreed to amend the vesting date by delaying the vesting to start as if such awards had been granted on August 15,

(2) 2012. As amended, the restricted share awards vest in four equal installments on each of the first four anniversaries of the grant date (August 15, 2012), contingent in each case on the executive remaining an employee as of each such date.

(3) These restricted share awards vest in four equal installments on each of the first four anniversaries of the grant date (August 15, 2012), contingent in each case on the executive remaining an employee as of each such date.

(4) These restricted share awards vest in four equal installments on each of the first four anniversaries of the grant date (August 15, 2013), contingent in each case on the executive remaining an employee as of each such date.

(5) These restricted share awards vest in three equal installments on each of the first three anniversaries of the grant date (August 15, 2014), contingent in each case on the executive remaining an employee as of each such date.

For these performance restricted stock awards, the performance metric provides for no vesting unless the Company achieves at least two-thirds of its targeted operating objective of at least 18% adjusted EBITDA to revenue and full vesting if 18% or more is achieved. There is no upside component to the performance restricted stock awards. The vesting formula for the fiscal 2015 performance-based restricted share award is as set forth in the table below but

(6) with the following performance periods and weightings: (i) up to one-third of the awards vest based on achieving financial goals for the one-year period ending June 30, 2015, (ii) up to one-third of the awards vest based on achieving financial goals for the two-year period ending June 30, 2016, and (iii) up to one-third of the awards vest based on achieving financial goals for the three-year period ending June 30, 2017. As with the time-based awards, vesting for the performance awards is contingent in each case on the executive remaining an employee as of each vesting date.

Vesting Formula for the Fiscal 2015 Performance-Based Restricted Shares Awards

Ratio of Adjusted EBITDA/ Revenue for Performance Period	Vesting %	Threshold, Target, and Maximum
Less than 12%	—%	Below Threshold
Equal to 12%	66.67%	Threshold
Between 12% and 18%	Straight line interpolation between 66.67% and 100%	
18% or more	100%	Target (Capped)

(7) These restricted share awards vest in three equal installments on each of the first three anniversaries of the grant date (August 17, 2015), contingent in each case on the executive remaining an employee as of each such date.

For these performance restricted stock awards, the performance metric provides for no vesting unless the Company achieves at least two-thirds of its targeted operating objective of at least 18% adjusted EBITDA to revenue and full vesting if 18% or more is achieved. There is no upside component to the performance restricted stock awards. The vesting formula for the fiscal 2016 performance-based restricted share award is as set forth in the table below but

(8) with the following performance periods and weightings: (i) up to two-thirds of the awards vest based on achieving financial goals for the two-year period ending June 30, 2017, and (ii) up to one-third of the awards vest based on achieving financial goals for the three-year period ending June 30, 2018. As with the time-based awards, vesting for the performance awards is contingent in each case on the executive remaining an employee as of each vesting date.

Vesting Formula for the Fiscal 2016 Performance-Based Restricted Shares Awards

Ratio of Adjusted EBITDA/ Revenue for Performance Period	Vesting %	Threshold, Target, and Maximum
Less than 12%	—%	Below Threshold
Equal to 12%	66.67%	Threshold
Between 12% and 18%	Straight line interpolation between 66.67% and 100%	
18% or more	100%	Target (Capped)

(9) These restricted share awards vest in three equal installments on each of the first three anniversaries of the grant date (September 3, 2014), contingent in each case on the executive remaining an employee as of each such date.

Options Exercised and Stock Vested

The following table shows stock option exercises by the named executive officers during the last fiscal year, including the aggregate value realized upon exercise. This represents the excess of the fair market value, at the time of exercise, of the common stock acquired at exercise over the exercise price of the options. In addition, the table shows the number of shares of restricted stock held by the named executive officers that vested during the last fiscal year, including the aggregate value realized upon vesting. This represents, as of each vesting date, the number of shares vesting on such date, multiplied by the closing price of our common stock on the NASDAQ Global Select Market on such date.

Option Exercises and Stock Vested—Fiscal 2016

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Mark Aslett	200,000	\$ 1,712,000	158,339	\$ 2,536,591
Gerald M. Haines II	—	—	58,910	944,205
Charles A. Speicher	—	—	13,648	218,641
Didier M.C. Thibaud	77,000	322,360	78,086	1,250,938

Pension Benefits

The following table shows the actuarial present value of the pension benefit for the named executive officers as of June 30, 2016, the measurement date used for financial statement reporting purposes with respect to our audited financial statements for fiscal 2016. The retirement indemnities pension plan covers eligible French national employees as required by French law. During fiscal 2016, Mr. Thibaud was the only named executive officer to participate in the plan.

Pension Benefits—Fiscal 2016

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit(1)	Payments During Fiscal 2016
Didier M.C. Thibaud	Retirement Indemnities Pension Plan	18.9	\$ 63,033	\$ —

The actuarial present value of Mr. Thibaud's pension benefit as of June 30, 2016, is calculated in Euros. The dollar (1) amount set forth above reflects the exchange rate at June 30, 2016. The actuarial present value assumes a 1.3% discount rate and an age of retirement of 63 years.

Potential Payments upon Termination of Employment or Change in Control

Potential Payments to Mr. Aslett upon Termination of Employment

In connection with his appointment as President and Chief Executive Officer in 2007, we entered into an employment agreement with Mr. Aslett, a description of which can be found under the heading "Agreements with Named Executive Officers" below. Mr. Aslett's employment agreement provides for termination and severance benefits in the case of a termination of Mr. Aslett's employment by us without "cause" or by Mr. Aslett for "good reason."

"Cause" is defined in the employment agreement to include: (1) conduct constituting a material act of willful misconduct in connection with the performance of Mr. Aslett's duties, including, without limitation, misappropriation of funds or property of Mercury; (2) conviction of, or plea of "guilty" or "no contest" to, any felony or any conduct by Mr. Aslett that would reasonably be expected to result in material injury to Mercury if he were retained in his position; (3) continued, willful, and deliberate non-performance by Mr. Aslett of his duties under the agreement which continues for 30 days following notice; (4) breach by Mr. Aslett of certain non-competition and non-disclosure covenants; (5) a violation by Mr. Aslett of Mercury's employment policies which continues following written notice; or (6) willful failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the willful inducement of others to fail to cooperate or to produce documents or other materials in connection with such investigation. For purposes of clauses (1), (3), and (6), no act, or failure to act, on Mr. Aslett's part will be deemed "willful" unless done, or omitted to be done, by him without reasonable belief that his act or failure to act, was in the best interest of Mercury.

“Good Reason” is defined in the employment agreement to include: (1) a material diminution in Mr. Aslett’s responsibilities, authority, or duties; (2) a material diminution in Mr. Aslett’s base salary, except for across-the-board salary reductions based on our financial performance similarly affecting all or substantially all senior management employees of Mercury; (3) a material change in the geographic location at which Mr. Aslett provides services to Mercury; or (4) the material breach of the agreement by us. To terminate his employment for “good reason,” Mr. Aslett must follow a specified process described in the employment agreement.

Upon the termination of Mr. Aslett’s employment by us without “cause” or by him for “good reason,” Mr. Aslett will be entitled to receive an amount equal to the sum of his base salary and target bonus under our annual executive bonus program, payable

over a 12-month period. In addition, Mr. Aslett is entitled to continue to participate in our group health, dental, and vision program for 18 months.

The following chart illustrates the benefits that would have been received by Mr. Aslett under his employment agreement on June 30, 2016 had his employment been terminated by us without “cause” or voluntarily terminated by him with “good reason.” These amounts are estimates only and do not necessarily reflect the actual amounts that would be payable to Mr. Aslett upon the occurrence of such events, which amounts would only be known at the time that Mr. Aslett became entitled to such benefits.

	Cash Severance	(1)	Health Benefits	(2)	Total
Involuntary Termination Without Cause or Voluntary Termination for Good Reason	\$	1,061,000	\$	27,575	\$1,088,575

(1) This amount represents the aggregate amount of Mr. Aslett’s annual base salary and target bonus under our executive bonus program for fiscal 2016.

(2) The value of health, dental, and vision insurance benefits is based on the type of coverage we carried for Mr. Aslett as of June 30, 2016, and the costs associated with such coverage on that date.

Potential Payments to Mr. Haines upon Termination of Employment

In connection with his joining the Company in 2010, we agreed to provide certain severance benefits to Mr. Haines, a description of which agreement can be found under the heading “Agreements with Named Executive Officers” below. Mr. Haines’ agreement provides for termination and severance benefits in the case of a termination of Mr. Haines’ employment by us without “cause” or by Mr. Haines for “good reason.”

“Cause” is defined to include: (1) the willful and continued failure by Mr. Haines to perform substantially the duties and responsibilities of his position with Mercury after written demand; (2) the conviction of Mr. Haines by a court of competent jurisdiction for felony criminal conduct or a plea of nolo contendere to a felony; or (3) the willful engaging by Mr. Haines in fraud, dishonesty, or other misconduct which is demonstrably and materially injurious to Mercury or our reputation, monetarily, or otherwise. No act, or failure to act, on Mr. Haines’ part will be deemed “willful” unless committed or omitted by Mr. Haines in bad faith and without reasonable belief that his act or failure to act was in, or not opposed to, the best interest of Mercury.

“Good Reason” is defined in the agreement to include: (1) a material diminution in Mr. Haines’ responsibilities, authority, or duties as in effect on the date of the agreement; (2) a material diminution in Mr. Haines’ annual base salary, except for across-the-board salary reductions based on our financial performance similarly affecting all or substantially all senior management employees of Mercury; or (3) a material change in the geographic location at which Mr. Haines provides services to Mercury.

Under the agreement, if we terminate Mr. Haines’ employment without “cause” or Mr. Haines terminates his employment for “good reason,” then we will pay Mr. Haines a severance amount equal to one times his annual base salary. In such event, we also will pay for certain insurance benefits and outplacement services.

The following chart illustrates the benefits that would have been received by Mr. Haines under his agreement on June 30, 2016 had either his employment been terminated by us without “cause” or by him with “good reason.” These amounts are estimates only and do not necessarily reflect the actual amounts that would be payable to Mr. Haines upon the occurrence of such events, which amounts would only be known at the time that Mr. Haines became entitled to such benefits.

	Cash Severance	Health Benefits	(1)	Outplacement Services	Total
Involuntary Termination Without Cause or Voluntary Termination for Good Reason	\$328,900	\$	19,015	\$30,000	\$377,915

(1) The value of health, dental, and vision insurance benefits is based on the type of coverage we carried for Mr. Haines as of June 30, 2016, and the costs associated with such coverage on that date.

Potential Payments to Named Executive Officers upon Termination of Employment following a Change in Control
We have entered into change in control severance agreements with our CEO and certain of our other executive officers. For fiscal 2016, we had such agreements in effect with the following named executive officers: Mr. Aslett; Mr. Haines; Mr. Speicher; and Mr. Thibaud.

A change in control includes, among other events and subject to certain exceptions, the acquisition by any person of beneficial ownership of 30% or more of our outstanding common stock. If a tender offer or exchange offer is made for more than 30% of our outstanding common stock, the executive has agreed not to leave our employ, except in the case of disability or retirement and

certain other circumstances, and to continue to render services to Mercury until such offer has been abandoned or terminated or a change in control has occurred.

The Compensation Committee worked with Radford as compensation consultant to provide market data and analysis of market practices for such agreements in the period of time since Mercury's prior forms of such agreements were adopted.

Chief Executive Officer

The CEO is entitled to severance benefits if, within 24 months after a change in control of Mercury (or during a potential change in control period provided that a change in control takes place within 24 months thereafter), the CEO's employment is terminated (1) by us other than for "cause" or disability or (2) by the CEO for "good reason." "Cause" is defined in the agreement to include the CEO's willful failure to perform his duties, conviction of the executive for a felony, and the CEO's willful engaging in fraud, dishonesty, or other conduct demonstrably and materially injurious to Mercury. "Good Reason" is defined in the agreement to include an adverse change in the CEO's status or position with Mercury, a reduction in base salary or annual target bonus, failure to maintain the CEO's participation in existing or at least equivalent health and benefit plans, and a significant relocation of the CEO's principal office.

Severance benefits under the agreement include the following, in addition to the payment of any earned or accrued but unpaid compensation for services previously rendered:

- a lump sum cash payment equal to two times (2x) the sum of the CEO's then current annualized base salary and bonus target under our annual executive bonus plan (excluding any over-achievement awards);

- payment of the cost of providing the executive with outplacement services up to a maximum of \$45,000; and

- payment of the cost of providing the CEO with health and dental insurance up to 24 months following such termination on the same basis as though the CEO had remained an active employee.

In addition, if the CEO's employment is terminated within 24 months after a change in control (or during a potential change in control period provided that a change in control takes place within 24 months thereafter), vesting of all his then outstanding stock options and other stock-based awards immediately accelerates and all such awards become exercisable or non-forfeitable.

Payment of the above-described severance benefits is subject to the CEO releasing all claims against Mercury other than claims that arise from Mercury's obligations under the severance agreement. In addition, if the CEO is party to an employment agreement with Mercury providing for change in control payments or benefits, the CEO will receive the benefits payable under this agreement and not under the employment agreement.

The agreement provides for a reduction of payments and benefits payable under the agreement to a level where the CEO would not be subject to the excise tax pursuant to section 4999 of the Code, but only if such reduction would put the CEO in a better after-tax position than if the payments and benefits were paid in full. In addition, the agreement provides for the payment by Mercury of the CEO's legal fees and expenses incurred in connection with good faith disputes under the agreement.

The agreement continues in effect through June 30, 2014, subject to automatic one-year extensions thereafter unless notice is given of our or the CEO's intention not to extend the term of the agreement; provided, however, that the agreement continues in effect for not less than 24 months following a change in control that occurs during the term of the agreement. Except as otherwise provided in the agreement, we and the CEO may terminate the CEO's employment at any time.

Non-CEO Executives

The executive is entitled to severance benefits if, within 18 months after a change in control of Mercury (or during a potential change in control period provided that a change in control takes place within 18 months thereafter), the executive's employment is terminated (1) by us other than for "cause" or disability or (2) by the executive for "good reason." "Cause" is defined in each agreement to include the executive's willful failure to perform his duties, conviction of the executive for a felony, and the executive's willful engaging in fraud, dishonesty, or other conduct demonstrably and materially injurious to Mercury. "Good Reason" is defined in each agreement to include an adverse change in the executive's status or position with Mercury, a reduction in base salary or annual target bonus, failure to maintain the executive's participation in existing or at least equivalent health and benefit plans, and a significant relocation of the executive's principal office.

Severance benefits under each agreement include the following, in addition to the payment of any earned or accrued compensation for services previously rendered:

- a lump sum cash payment equal to one and one-half times (1.5x) the sum of the executive's then current annualized base salary and bonus target under our annual executive bonus plan (excluding any over-achievement awards);
- payment of the cost of providing the executive with outplacement services up to a maximum of \$45,000; and

payment of the cost of providing the executive with health and dental insurance up to 18 months following such termination on the same basis as though the executive had remained an active employee.

In addition, if the executive's employment is terminated within 18 months after a change in control (or during a potential change in control period provided that a change in control takes place within 18 months thereafter), vesting of all his then outstanding stock options and other stock-based awards immediately accelerates and all such awards become exercisable or non-forfeitable.

Payment of the above-described severance benefits is subject to the executive releasing all claims against Mercury other than claims that arise from Mercury's obligations under the severance agreement. In addition, if the executive is party to an employment agreement with Mercury providing for change in control payments or benefits, the executive will receive the benefits payable under this agreement and not under the employment agreement.

Each agreement provides for a reduction of payments and benefits payable under the agreement to a level where the executive would not be subject to the excise tax pursuant to section 4999 of the Code, but only if such reduction would put the executive in a better after-tax position than if the payments and benefits were paid in full. In addition, each agreement provides for the payment by Mercury of the executive's legal fees and expenses incurred in connection with good faith disputes under the agreement.

The agreements continue in effect through June 30, 2016, subject to automatic one-year extensions thereafter unless notice is given of our or the executive's intention not to extend the term of the agreement; provided, however, that the agreement continues in effect for not less than 18 months following a change in control that occurs during the term of the agreement. Except as otherwise provided in the agreement, we and each executive may terminate the executive's employment at any time.

The following table sets forth an estimate of the aggregate severance benefits for each of our named executive officers assuming the triggering event occurred on June 30, 2016, all pursuant to the terms of each executive's change in control severance agreement as described above:

Name	Salary/Bonus Lump Sum	Restricted Stock Acceleration (1)	Outplacement Services (2)	Health Benefits (3)	Total
Mark Aslett	\$ 2,122,000	\$ 7,512,518	\$ 45,000	\$ 36,766	\$ 9,716,284
Gerald M. Haines II	789,360	2,903,549	45,000	28,523	3,766,432
Charles A. Speicher	479,010	824,556	45,000	28,523	1,377,089
Didier M.C. Thibaud	918,750	3,289,923	45,000	18,829	4,272,502

The amounts shown in this column represent the closing price of our common stock on the NASDAQ Global Select Market on June 30, 2016 (\$24.86) multiplied by the number of restricted shares that would have vested upon the occurrence of a change in control.

(2) This amount represents the maximum amount of outplacement services to which the executive is entitled under the agreement.

(3) The value of health and dental insurance benefits is based on the type of coverage we carried for the named executive officer as of June 30, 2016 and the costs associated with such coverage on such date.

Agreements with Named Executive Officers

Employment Agreement with Mr. Aslett

On November 19, 2007, we entered into an employment agreement with Mr. Aslett. The agreement provides for an 18-month term, but will automatically renew for additional one-year periods unless an advance notice of non-renewal is provided by either party to the other at least 180 days prior to the expiration of the then-current term.

Under the employment agreement, Mr. Aslett's annual base salary will be \$500,000, subject to annual review by the Board in our first fiscal quarter. On September 14, 2009, we amended Mr. Aslett's employment agreement to reflect that we terminated the Long Term Incentive Plan and that he is entitled to participate in our annual executive bonus program in an amount determined by the Board in accordance with the terms of the program.

The employment agreement provides for termination and severance benefits in the case of a termination of Mr. Aslett's employment by us without "cause" or by Mr. Aslett for "good reason." A description of these benefits can be found above under the heading "Potential Payments upon Termination or Change in Control—Potential Payments to Mr. Aslett upon Termination of Employment."

Severance Agreement with Mr. Haines

In connection with his offer to join the Company, we agreed to provide Mr. Haines with certain severance benefits. Under the terms of the offer letter to Mr. Haines, if we terminate his employment without “cause” or Mr. Haines terminates his employment for “good reason,” then we will pay Mr. Haines a severance amount equal to one times his annual base pay. In such event, we also will pay for certain insurance benefits and outplacement services. A description of these benefits can be found above under the heading “Potential Payments upon Termination or Change in Control—Potential Payments to Mr. Haines upon Termination of Employment.”

Change-in-Control Agreements

We also have entered into agreements with each named executive officer providing for certain benefits in the event of a change in control of Mercury. A description of these benefits can be found above under the heading “Potential Payments upon Termination or Change in Control—Potential Payments to Named Executive Officers upon Termination of Employment following a Change in Control.”

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this proxy statement, and based on such review and discussion, the Compensation Committee recommended to Mercury's Board that the Compensation Discussion and Analysis be included in this proxy statement and be incorporated by reference into Mercury's annual report on Form 10-K for the fiscal year ended June 30, 2016.

By the Compensation Committee of the Board of

Directors of Mercury Systems, Inc.

Michael A. Daniels, Chairman

George K. Muellner

Vincent Vitto

REPORT OF THE AUDIT COMMITTEE

The following is the report of the Audit Committee of the Board of Directors of Mercury with respect to Mercury's audited consolidated financial statements for the fiscal year ended June 30, 2016. Management is responsible for Mercury's internal controls and financial reporting. Mercury's independent registered public accounting firm is responsible for performing an audit of Mercury's consolidated financial statements, expressing an opinion as to their conformity with U.S. generally accepted accounting principles and expressing an opinion on the effectiveness of internal control over financial reporting. The Audit Committee is responsible for monitoring and overseeing these processes.

The Audit Committee reviewed Mercury's audited consolidated financial statements for the fiscal year ended June 30, 2016, and discussed these consolidated financial statements with Mercury's management. Management represented to the Audit Committee that Mercury's consolidated financial statements had been prepared in accordance with U.S. generally accepted accounting principles. The Audit Committee also reviewed and discussed the audited consolidated financial statements and the matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board, with Mercury's independent registered public accounting firm. The Audit Committee received the written disclosures and the letter from the independent registered public accounting firm required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence. Further, the Audit Committee has discussed with the independent registered public accounting firm its independence.

Based on its review and the discussions with management and the independent registered public accounting firm described above, and its review of the information provided by management and the independent registered public accounting firm, the Audit Committee recommended to Mercury's Board that the audited consolidated financial statements be included in Mercury's annual report on Form 10-K for the fiscal year ended June 30, 2016.

By the Audit Committee of the Board of
Directors of Mercury Systems, Inc.
William K. O'Brien, Chairman
James K. Bass
Mark S. Newman

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed KPMG LLP (“KPMG”) as the independent registered public accounting firm to audit Mercury’s consolidated financial statements for the fiscal year ending June 30, 2017. KPMG served as our independent registered public accounting firm for the fiscal years ended June 30, 2016 and 2015. A representative of KPMG is expected to be present at the annual meeting of shareholders and will have the opportunity to make a statement if he or she desires and to respond to appropriate questions.

What were the fees of our independent registered public accounting firm for services rendered to us during the last two fiscal years?

The aggregate fees for professional services rendered to us by KPMG, our independent registered public accounting firm, for the fiscal years ended June 30, 2016 and 2015 were as follows:

	Fiscal 2016	Fiscal 2015
Audit	\$1,678,000	\$1,157,631
Audit-Related	1,007,861	—
Tax	149,220	538,288
All Other	—	—
	\$2,835,081	\$1,695,919

Audit fees for fiscal years 2016 and 2015 were for professional services provided for the audits of our consolidated financial statements and our internal control over financial reporting as well as reviews of the consolidated financial statements included in each of our quarterly reports on Form 10-Q. Audit fees for fiscal years 2016 and 2015 also were for consents relating to registration statements in each fiscal year and for the auditor comfort letter provided in connection with the Company's underwritten follow-on common stock offering in fiscal 2016.

For fiscal year 2016, audit-related fees included professional service fees related to the acquisition of the embedded security, RF and microwave, and custom microelectronics business of the Power and Microelectronics Group of Microsemi Corporation, the acquisition of Lewis Innovative Technologies, Inc., due diligence review of other potential acquisition candidates.

Tax fees for fiscal years 2016 and 2015 were for tax return preparation and related consulting, as well as miscellaneous tax advice regarding state income tax filings and potential business reorganizations.

What is the Audit Committee’s pre-approval policy?

The Audit Committee pre-approves all auditing services and the terms of non-audit services provided by our independent registered public accounting firm, but only to the extent that the non-audit services are not prohibited under applicable law and the committee determines that the non-audit services do not impair the independence of the independent registered public accounting firm.

In situations where it is impractical to wait until the next regularly scheduled quarterly meeting, the chairman of the committee has been delegated authority to approve audit and non-audit services to be provided by our independent registered public accounting firm. Fees payable to our independent registered public accounting firm for any specific, individual service approved by the chairman pursuant to the above-described delegation of authority may not exceed \$100,000, and the chairman is required to report any such approvals to the full committee at its next scheduled meeting. In addition, the Audit Committee has pre-approved a list of acceptable services and fees payable to KPMG in an aggregate amount of up to \$25,000 per quarter for such services, including without limitation audit and allowable non audit, tax consulting, and M&A transactional services. This pre-approval is for small projects needing quick reaction and judged by the Audit Committee not to raise any independence issues with KPMG. Such projects and fees are required to be presented in detail at the next Audit Committee meeting.

The Audit Committee has considered and determined that the provision of the non-audit services described is compatible with maintaining the independence of our registered public accounting firm.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 2016, Michael A. Daniels, George K. Muellner, and Vincent Vitto served on the Compensation Committee for the entire fiscal year. No member of the committee is a present or former officer or employee of Mercury or any of its subsidiaries or had any business relationship or affiliation with Mercury or any of its subsidiaries (other than his service as a director) requiring disclosure in this proxy statement.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors and persons beneficially owning more than 10% of our outstanding common stock to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Officers, directors, and beneficial owners of more than 10% of our common stock are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on copies of such forms furnished as provided above, or written representations that no Forms 5 were required, we believe that during the fiscal year ended June 30, 2016, all Section 16(a) filing requirements applicable to our officers, directors, and beneficial owners of greater than 10% of our common stock were complied with.

SHAREHOLDER PROPOSALS FOR THE 2017 ANNUAL MEETING

Under regulations adopted by the SEC, any shareholder proposal submitted for inclusion in Mercury's proxy statement relating to the 2017 annual meeting of shareholders must be received at our principal executive offices on or before May 24, 2017. In addition to the SEC requirements regarding shareholder proposals, our by-laws contain provisions regarding matters to be brought before shareholder meetings. If shareholder proposals, including proposals relating to the election of directors, are to be considered at the 2017 annual meeting, notice of them, whether or not they are included in Mercury's proxy statement and form of proxy, must be given by personal delivery or by United States mail, postage prepaid, to the Secretary no earlier than May 23, 2017 and no later than June 22, 2017. The notice must include the information set forth in our by-laws. Proxies solicited by the Board will confer discretionary voting authority with respect to these proposals, subject to SEC rules governing the exercise of this authority.

It is suggested that any shareholder proposal be submitted by certified mail, return receipt requested.

OTHER MATTERS

We know of no matters which may properly be and are likely to be brought before the meeting other than the matters discussed in this proxy statement. However, if any other matters properly come before the meeting, the persons named in the accompanying proxy card will vote in accordance with their best judgment.

ANNUAL REPORT ON FORM 10-K

You may obtain a copy of our annual report on Form 10-K for the fiscal year ended June 30, 2016 (without exhibits) without charge by writing to: Investor Relations, Mercury Systems, Inc., 201 Riverneck Road, Chelmsford, Massachusetts 01824.

By Order of the Board of Directors

Christopher C. Cambria
Secretary
Chelmsford, Massachusetts
September 20, 2016

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Appendix A

MERCURY SYSTEMS, INC.
AMENDED AND RESTATED
2005 STOCK INCENTIVE PLAN
SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Mercury Systems, Inc. Amended and Restated 2005 Stock Incentive Plan (the “Plan”). The purpose of the Plan is to encourage and enable the officers, employees, Non-Employee Directors and other key persons (including consultants and prospective officers) of Mercury Systems, Inc. (the “Company”) and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company and to induce qualified individuals who have received offers of employment to become officers of the Company to enter and remain in the employ of the Company. It is anticipated that providing such persons with a direct stake in the Company’s welfare will assure a closer identification of their interests with those of the Company and its shareholders, thereby stimulating their efforts on the Company’s behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

“Act” means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

“Administrator” is defined in Section 2(a).

“Award” or “Awards,” except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Deferred Stock Awards and Restricted Stock Awards.

“Board” means the Board of Directors of the Company.

“Code” means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

“Committee” means the compensation committee of the Board or a similar committee performing the functions of the compensation committee and which is comprised of not less than two Non Employee Directors who are independent.

“Covered Employee” means an employee who is a “Covered Employee” within the meaning of Section 162(m) of the Code.

“Deferred Stock Award” means Awards granted pursuant to Section 8.

“Effective Date” means the date on which the Plan is approved by shareholders as set forth in Section 18.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

“Fair Market Value” of the Stock on any given date means if the shares of Stock are listed on any national securities exchange, or traded on the National Association of Securities Dealers Automated Quotation System (“Nasdaq”) National Global Market or another national securities exchange, the closing price reported on Nasdaq or such other exchange on such date. If the market is closed on such date, the determination shall be made by reference to the last date preceding such date for which the market is open. If the fair market value cannot be determined under the preceding two sentences, it shall be determined in good faith by the Administrator.

“Incentive Stock Option” means any Stock Option designated and qualified as an “incentive stock option” as defined in Section 422 of the Code.

“Non-Employee Director” means a member of the Board who is not also an employee of the Company or any Subsidiary.

“Non-Qualified Stock Option” means any Stock Option that is not an Incentive Stock Option.

“Option” or “Stock Option” means any option to purchase shares of Stock granted pursuant to Section 5.

“Performance Cycle” means one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more performance criteria will be measured for the purpose of determining a grantee’s right to and the payment of a Restricted Stock Award or Deferred Stock Award.

“Restricted Stock Award” means Awards granted pursuant to Section 7.

“Section 409A” means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

“Stock” means the Common Stock, par value \$0.01 per share, of the Company, subject to adjustments pursuant to Section 3.

“Stock Appreciation Right” means any Award granted pursuant to Section 6.

“Subsidiary” means any corporation or other entity (other than the Company) in which the Company has a controlling interest, either directly or indirectly.

“Ten Percent Owner” means an employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation.

SECTION ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND 2. DETERMINE AWARDS

(a)Committee. The Plan shall be administered by the Committee (the “Administrator”).

(b)Powers of Administrator. The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

- (i)to select the individuals to whom Awards may from time to time be granted;
 - to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock
- (ii)Options, Stock Appreciation Rights, Restricted Stock Awards and Deferred Stock Awards, or any combination of the foregoing, granted to any one or more grantees;
- (iii)to determine the number of shares of Stock to be covered by any Award;
 - to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with
- (iv)the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the form of written instruments evidencing the Awards;
- (v)subject to the provisions of Sections 7(d) and 8(a), to accelerate at any time the exercisability or vesting of all or any portion of any Award;
- (vi)subject to the provisions of Section 5(c), to extend at any time the period in which Stock Options and Stock Appreciation Rights may be exercised; and
 - at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any
- (vii)Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

Notwithstanding the foregoing, the Administrator’s power and authority to make grants under the Plan shall be subject to the right of the Board, upon its request, to ratify Awards granted to the Chairman and other individuals specified by the Board, and in such event, the date of grant shall be the date of Board ratification.

(c) Delegation of Authority to Grant Awards. The Administrator, in its discretion, may delegate to the Chief Executive Officer of the Company or any person designated by the Board as an “executive officer” as defined in Rule 3b-7 under the Exchange Act all or part of the Administrator’s authority and duties with respect to the granting of Awards to individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act or “covered employees” within the meaning of Section 162(m) of the Code. Any such delegation by the Administrator shall include a limitation as to the amount of Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price of any Stock Option or Stock Appreciation Right, the conversion ratio or price of other Awards and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator’s delegate or delegates that were consistent with the terms of the Plan.

(d) Detrimental Activity. Unless the award agreement specifies otherwise, the Administrator may cancel, rescind, suspend, withhold or otherwise limit or restrict any Award (whether vested or unvested, exercised or unexercised) at any time if the recipient is not in compliance with all applicable provisions of the award agreement and the Plan, or if the recipient engages in any “Detrimental Activity.” For purposes of this Section 2, “Detrimental Activity” shall include: (i) the rendering of services for any organization or engaging directly or indirectly in any business which is or becomes competitive with the Company, or which organization or business, or the rendering of services to such organization or business, is or becomes otherwise prejudicial to or in conflict with the interests of the Company; (ii) the disclosure to anyone outside the Company, or the use in other than the Company’s business, without prior written authorization from the Company, of any confidential information or material, as defined in the Company’s Employee Confidentiality Agreement or such other agreement regarding confidential information and intellectual property that the recipient the Company may enter into (collectively, the “Confidentiality Agreement”), relating to the business of the Company, acquired by the recipient either during or after employment with the Company; (iii) the failure or refusal to disclose promptly and to assign to the Company, pursuant to the Confidentiality Agreement or otherwise, all right, title and interest in any invention or idea, patentable or not, made or conceived by the recipient during employment by the Company, relating in any manner to the actual or anticipated business, research or development work of the Company or the failure or refusal to do anything reasonably necessary to enable the Company to secure a patent where appropriate in the United States and in other countries; (iv) activity that results in termination of the recipient’s employment for cause; (v) a material violation of any rules, policies, procedures or guidelines of the Company; (vi) any attempt directly or indirectly to induce any employee of the Company to be employed or perform services elsewhere or any attempt directly or indirectly to solicit the trade or business of any current or prospective customer, supplier or partner of the Company; or (vii) the recipient being convicted of, or entering a guilty plea with respect to, a crime, whether or not connected with the Company.

(e) Indemnification. Neither the Board nor the Committee, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Committee (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys’ fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors’ and officers’ liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(a) Stock Issuable. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 11,892,264 (which number represents 1,942,264 shares originally reserved under the Plan, plus an additional 650,000 shares reserved upon the 2008 amendment and restatement of the Plan, plus an additional 1,500,000 shares reserved upon the 2009 amendment and restatement of the Plan, plus an additional 1,000,000 shares reserved upon the 2010 amendment and restatement of the Plan, plus an additional 1,000,000 shares upon the 2011 amendment and

restatement of the Plan, plus an additional 1,500,000 shares upon the 2012 amendment and restatement of the Plan, plus an additional 3,200,000 shares upon the 2014 amendment and restatement of the Plan, plus and additional 1,100,000 shares), subject to adjustment as provided in Section 3(c). For purposes of this limitation, the shares of Stock underlying any Awards that are forfeited, are canceled, expire or are terminated (other than by exercise) under (i) this Plan or (ii) from and after November 14, 2005, the Mercury Systems, Inc. 1997 Stock Option Plan (the "1997 Plan") shall be added to the shares of Stock available for issuance under the Plan. Shares tendered or held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding shall not be available for future issuance under the Plan. In addition, upon exercise of Stock Appreciation Rights, the gross number of shares exercised shall be deducted from the total number of shares remaining available for issuance under the Plan. Subject to such overall limitations and Section 3(c), shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that Stock Options or Stock Appreciation Rights with respect to no more than 500,000 shares of Stock may be granted to any one individual grantee during any one calendar year period and provided, further, that in no event may Incentive Stock Options granted under the Plan exceed 11,892,264 shares of Stock. The

shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company.

(b)Effect of Awards. The grant of any full value Award (i.e., an Award other than an Option or a Stock Appreciation Right) shall be deemed, for purposes of determining the number of shares available for issuance under Section 3(a), as an Award of two (2.0) shares of Stock for each such share actually subject to the Award. The grant of an Option or a Stock Appreciation Right shall be deemed, for purposes of determining the number of shares available for issuance under Section 3(a), as an Award of one share of Stock for each such share actually subject to the Award.

(c)Changes in Stock. Subject to Section 3(d) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for a different number or kind of securities of the Company or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Incentive Stock Options, (ii) the number of Stock Options or Stock Appreciation Rights that can be granted to any one individual grantee and the maximum number of shares that may be granted under a Performance-based Award, (iii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iv) the repurchase price, if any, per share subject to each outstanding Restricted Stock Award, and (v) the price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The Administrator shall also make equitable or proportionate adjustments in the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration cash dividends paid other than in the ordinary course or any other extraordinary corporate event. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

(d)Mergers and Other Transactions. In the case of and subject to the consummation of (i) the dissolution or liquidation of the Company, (ii) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (iii) a merger, reorganization or consolidation in which the outstanding shares of Stock are converted into or exchanged for a different kind of securities of the successor entity and the holders of the Company's outstanding voting power immediately prior to such transaction do not own a majority of the outstanding voting power of the successor entity immediately upon completion of such transaction, or (iv) the sale of all of the Stock of the Company to an unrelated person or entity (in each case, a "Sale Event"), the Plan and all outstanding Awards granted hereunder shall terminate, unless provision is made in connection with the Sale Event in the sole discretion of the parties thereto for the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree (after taking into account any acceleration hereunder). In the event of such termination, each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding vested and exercisable Options and Stock Appreciation Rights held by such grantee.

Notwithstanding anything to the contrary in this Section 3(d), in the event of a Sale Event pursuant to which holders of the Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in

the Sale Event, the Company shall have the right, but not the obligation, to make or provide for a cash payment to the grantees holding vested and exercisable Options and Stock Appreciation Rights, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the value as determined by the Administrator of the consideration payable per share of Stock pursuant to the Sale Event (the "Sale Price") times the number of shares of Stock subject to such outstanding Options and Stock Appreciation Rights (to the extent then exercisable at prices not in excess of the Sale Price) and (B) the aggregate exercise price of all such outstanding Options and Stock Appreciation Rights.

(e)Substitute Awards. The Administrator may grant Awards under the Plan in substitution for stock and stock based awards held by employees, directors or other key persons of another corporation in connection with the merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Administrator may direct that the substitute awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances. Any substitute Awards granted under the Plan shall not count against the share limitation set forth in Section 3(a).

SECTION 4. ELIGIBILITY

Grantees under the Plan will be such full or part-time officers and other employees, Non-Employee Directors and key persons (including consultants and qualified individuals who have received offers of employment to become officers of the Company) of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

SECTION 5. STOCK OPTIONS

(a) Grant of Stock Options. Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a “subsidiary corporation” within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

Stock Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. Stock Options may be granted in lieu of cash compensation at the optionee’s election, subject to such terms and conditions as the Administrator may establish.

(b) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant.

(c) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than seven years after the date the Stock Option is granted.

(d) Exercisability; Rights of a Shareholder. Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. The Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(e) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written notice of exercise to the Company, specifying the number of shares to be purchased; provided, however, that no Stock Option may be partially exercised with respect to fewer than 50 shares. Payment of the purchase price may be made by one or more of the following methods:

- (i) In cash, by certified or bank check or other instrument acceptable to the Administrator;
- (ii) Through the delivery (or attestation to the ownership) of shares of Stock that have been purchased by the optionee on the open market or that are beneficially owned by the optionee and are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date;
- (iii) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; or
- (iv) By the optionee delivering to the Company a properly executed net exercise notice. Such shares withheld by the Company in the net exercise shall be valued at Fair Market Value on the exercise date.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option Award agreement or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of shares attested to.

(f)Annual Limit on Incentive Stock Options. To the extent required for “incentive stock option” treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

SECTION 6. STOCK APPRECIATION RIGHTS

(a)Nature of Stock Appreciation Rights. A Stock Appreciation Right is an Award entitling the recipient to receive shares of Stock having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right, which price shall not be less than 100 percent of the Fair Market Value of the Stock on the date of grant (or more than the option exercise price per share, if the Stock Appreciation Right was granted in tandem with a Stock Option) multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

(b)Grant and Exercise of Stock Appreciation Rights. Stock Appreciation Rights may be granted by the Administrator in tandem with, or independently of, any Stock Option granted pursuant to Section 5 of the Plan. In the case of a Stock Appreciation Right granted in tandem with a Non-Qualified Stock Option, such Stock Appreciation Right may be granted either at or after the time of the grant of such Option. In the case of a Stock Appreciation Right granted in tandem with an Incentive Stock Option, such Stock Appreciation Right may be granted only at the time of the grant of the Option.

A Stock Appreciation Right or applicable portion thereof granted in tandem with a Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Option.

(c)Terms and Conditions of Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator, subject to the following:

- Stock Appreciation Rights granted in tandem with Options shall be exercisable at such time or times and to the
- (i) extent that the related Stock Options shall be exercisable; provided, however, that no Stock Appreciation Right may be partially exercised with respect to fewer than 50 shares.
 - (ii) Upon exercise of a Stock Appreciation Right granted in tandem with an Option, the applicable portion of any related Option shall be surrendered.
 - (iii) The term of a Stock Appreciation Right may not exceed seven years.

SECTION 7. RESTRICTED STOCK AWARDS

(a)Nature of Restricted Stock Awards. A Restricted Stock Award is an Award entitling the recipient to acquire, at such purchase price (which may be zero) as determined by the Administrator, shares of Stock subject to such restrictions and conditions as the Administrator may determine at the time of grant (“Restricted Stock”). Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Restricted Stock Award is contingent on the grantee executing the Restricted Stock Award agreement. The terms and conditions of each such agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

(b)Rights as a Shareholder. Upon execution of a written instrument setting forth the Restricted Stock Award and payment of any applicable purchase price, a grantee shall have the rights of a shareholder with respect to the voting of the Restricted Stock, subject to such conditions contained in the written instrument evidencing the Restricted Stock Award. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Stock shall be accompanied

by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Stock are vested as provided in Section 7(d) below, and (ii) certificated Restricted Stock shall remain in the possession of the Company until such Restricted Stock is vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company such instruments of transfer as the Administrator may prescribe.

(c)Restrictions. Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award agreement. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, if any, if a grantee's employment (or other service relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Stock that has not vested at the time of termination shall automatically and without

any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other service relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a shareholder. Following such deemed reacquisition of unvested Restricted Stock that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

(d)Vesting of Restricted Stock. The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of repurchase or risk of forfeiture shall lapse. In the event that any such Restricted Stock granted to employees shall have a performance-based goal, the restriction period with respect to such shares shall not be less than one year, and in the event that any such Restricted Stock granted to employees shall have a time-based restriction, the total restriction period with respect to such shares shall not be less than three years; provided, however, that Restricted Stock granted to employees with a time-based restriction may become vested incrementally over such three-year period. No portion of any Restricted Stock granted to employee may vest prior to the first anniversary of the grant date. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed "vested." Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, a grantee's rights in any shares of Restricted Stock that have not vested shall automatically terminate upon the grantee's termination of employment (or other service relationship) with the Company and its Subsidiaries and such shares shall be subject to the provisions of Section 7(c) above.

Notwithstanding the foregoing, the Administrator may accelerate the vesting of Restricted Stock granted to an employee in the case of retirement, death or disability.

SECTION 8. DEFERRED STOCK AWARDS

(a)Nature of Deferred Stock Awards. A Deferred Stock Award is an Award of phantom stock units to a grantee, subject to restrictions and conditions as the Administrator may determine at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Deferred Stock Award is contingent on the grantee executing the Deferred Stock Award agreement. The terms and conditions of each such agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. In the event that any such Deferred Stock Award granted to employees shall have a performance-based goal, the restriction period with respect to such award shall not be less than one year, and in the event any such Deferred Stock Award shall have a time-based restriction, the total restriction period with respect to such award shall not be less than three years; provided, however, that any Deferred Stock Award with a time-based restriction may become vested incrementally over such three-year period. No portion of any Deferred Stock Award granted to employees may vest prior to the first anniversary of the grant date. At the end of the deferral period, the Deferred Stock Award, to the extent vested, shall be paid to the grantee in the form of shares of Stock.

Notwithstanding the foregoing, the Administrator may accelerate the vesting of a Deferred Stock Award granted to an employee in the case of retirement, death or disability.

(b)Election to Receive Deferred Stock Awards in Lieu of Compensation. The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of a Deferred Stock Award. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other

rules and procedures established by the Administrator. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate. Any deferred compensation shall be converted to a fixed number of phantom stock units based on the Fair Market Value of Stock on the date the compensation would otherwise have been paid but for the deferral.

(c)Rights as a Shareholder. During the deferral period, a grantee shall have no rights as a shareholder; provided, however, that the grantee may be credited with dividend equivalent rights with respect to the phantom stock units underlying his Deferred Stock Award, subject to such terms and conditions as the Administrator may determine.

(d)Termination. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, a grantee's right in all Deferred Stock Awards that

have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 9. PERFORMANCE-BASED AWARDS TO COVERED EMPLOYEES

Notwithstanding anything to the contrary contained herein, if any Restricted Stock Award or Deferred Stock Award granted to a Covered Employee is intended to qualify as "Performance-based Compensation" under Section 162(m) of the Code and the regulations promulgated thereunder (a "Performance-based Award"), such Award shall comply with the provisions set forth below:

(a)Performance Criteria. The performance criteria used in performance goals governing Performance-based Awards granted to Covered Employees may include any or all of the following criteria at the Company, Subsidiary, business unit or business segment level as appropriate: (i) the Company's return on equity, assets, capital or investment; (ii) pre-tax or after-tax profit levels or EBITDA or adjusted EBITDA; (iii) bookings or revenue growth; (iv) bookings or revenues; (v) operating income as a percentage of sales; (vi) total shareholder return; (vii) changes in the market price of the Stock; (viii) sales or market share; (ix) earnings per share; (x) improvements in operating margins; (xi) operating cash flow or free cash flow; (xii) working capital improvements; (xiii) design wins or entering into contracts with key customers; and (xiv) any combination of such performance metrics.

(b)Grant of Performance-based Awards. With respect to each Performance-based Award granted to a Covered Employee, the Committee shall select, within the first 90 days of a Performance Cycle (or, if shorter, within the maximum period allowed under Section 162(m) of the Code) the performance criteria for such grant, and the achievement targets with respect to each performance criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The performance criteria established by the Committee may be (but need not be) different for each Performance Cycle and different goals may be applicable to Performance-based Awards to different Covered Employees.

(c)Payment of Performance-based Awards. Following the completion of a Performance Cycle, the Committee shall meet to review and certify in writing whether, and to what extent, the performance criteria for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-based Awards earned for the Performance Cycle. The Committee shall then determine the actual size of each Covered Employee's Performance-based Award, and, in doing so, may reduce or eliminate the amount of the Performance-based Award for a Covered Employee if, in its sole judgment, such reduction or elimination is appropriate.

(d)Maximum Award Payable. The maximum Performance-based Award payable to any one Covered Employee under the Plan for a Performance Cycle is 300,000 Shares (subject to adjustment as provided in Section 3(c) hereof).

SECTION 10. Transferability of Awards

(a)Transferability. Except as provided in Section 10(b) below, during a grantee's lifetime, his or her Awards shall be exercisable only by the grantee, or by the grantee's legal representative or guardian in the event of the grantee's incapacity. No Awards shall be sold, assigned, transferred or otherwise encumbered or disposed of by a grantee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

(b)Committee Action. Notwithstanding Section 10(a), the Administrator, in its discretion, may provide either in the Award agreement regarding a given Award or by subsequent written approval that the grantee (who is an employee or

director) may transfer his or her Awards (other than any Incentive Stock Options) to his or her immediate family members, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Award.

(c)Family Member. For purposes of Section 10(b), “family member” shall mean a grantee’s child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the grantee’s household (other than a tenant of the grantee), a trust in which these persons (or the grantee) have more than 50 percent of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50 percent of the voting interests.

(d) Designation of Beneficiary. Each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

SECTION 11. TAX WITHHOLDING

(a) Payment by Grantee. Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Company with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee. The Company's obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

(b) Payment in Stock. Subject to approval by the Administrator, a grantee may elect to have the Company's minimum required tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award 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 (ii) transferring to the Company shares of Stock owned by the grantee with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

SECTION 12. CHANGE OF CONTROL

(a) Occurrence of Change of Control. If within six months following the consummation of a Change of Control of the Company, as defined in Section 12(b)(i), the employment of a grantee with a minimum of six months of service with the Company or any of its Subsidiaries as of the effective date of such Change of Control (the "Effective Date") is involuntarily terminated, then (i) if such Change in Control does not constitute a Sale Event, 50% of the unvested Awards of such grantee will automatically be fully vested, (ii) if such Change in Control constitutes a Sale Event and provision is made for the assumption or continuation of Awards hereunder, or the substitution of such Awards with new Awards of the successor entity or parent thereof, 50% of the unvested assumed, continued or substituted Awards will automatically be fully vested, and (iii) if such Change in Control constitutes a Sale Event and provision is not made for the assumption, continuation or substitution of Awards hereunder, such that all of the unvested Awards of such grantee terminated upon consummation of the Sale Event without any payment with respect thereto, the grantee will be entitled to receive a cash payment equal to the difference between (x) the Sale Price multiplied by the number of shares of Stock subject to 50% of such grantee's unvested Awards as of the consummation of the Sale Event and (y) the aggregate exercise price of such unvested Awards. Notwithstanding the foregoing, in the event that the fair market value (less any exercise price) of the Awards subject to automatic vesting or any cash payment to which the grantee may become entitled in accordance with the preceding sentence exceeds \$25,000 as of the date of termination of employment, then such vesting or payment shall be conditioned upon the grantee executing and failing to revoke during any applicable revocation period a general release of all claims against the Company and its Subsidiaries and affiliates in a form acceptable to the Company or its successor within 60 days of such termination. For purposes hereof, a grantee's employment with the Company or any Subsidiary is considered "involuntarily terminated" if the Company or any Subsidiary terminates such grantee's employment with the Company or such Subsidiary without Cause, as defined in Section 12(b)(ii), or such grantee resigns his or her employment with the Company or such Subsidiary for Good Reason, as defined in Section 12(b)(iii). Notwithstanding the foregoing, in the event the Change

of Control of the Company is not approved by the Board of Directors, all of the outstanding Awards will automatically become fully vested upon the consummation of the Change of Control of the Company. Further, all of the outstanding Awards held by Non-Employee Directors will automatically become fully vested upon the consummation of a Change of Control of the Company.

(b) Definitions. For purposes of the Plan:

(i) A “Change of Control of the Company” shall be deemed to have occurred upon the occurrence of any of the following events:

any “Person,” as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any of (A) its subsidiaries, or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its

subsidiaries), together with all “affiliates” and “associates” (as such terms are defined in Rule 12b-2 under the Exchange Act) of such person, shall become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50 percent or more of the combined voting power of the Company’s then outstanding securities having the right to vote in an election of the Company’s Board of Directors (“Voting Securities”) (in such case other than as a result of an acquisition of securities directly from the Company or an acquisition of securities involving a Corporate Transaction of the type described in the exclusion set forth in clause (C) below); or

- persons who, as of the date hereof, constitute the Company’s Board of Directors (the “Incumbent Directors”) cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Company subsequent to the date hereof shall be considered an Incumbent Director if such person’s election was approved by or such person was nominated for election by either (x) a vote of at least a majority of the Incumbent Directors or (y) a vote of at least a majority of the Incumbent Directors who are members of a nominating committee comprised, in the majority, of Incumbent Directors; but provided further, that any such person whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, shall not be considered an Incumbent Director; or
- the consummation of a consolidation, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Corporate Transaction”); excluding, however, a Corporate Transaction in which the shareholders of the Company immediately prior to the Corporate Transaction, would, immediately after the Corporate Transaction, beneficially own (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, shares representing in the aggregate more than 50 percent of the voting shares of the corporation issuing cash or securities in the Corporate Transaction (or of its ultimate parent corporation, if any).

Notwithstanding the foregoing, a “Change of Control of the Company” shall not be deemed to have occurred for purposes of the foregoing clause (A) solely as the result of an acquisition of securities by the Company that, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of shares of Voting Securities beneficially owned by any person to 50 percent or more of the combined voting power of all then outstanding Voting Securities; provided, however, that if any person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company) and immediately thereafter beneficially owns 50 percent or more of the combined voting power of all then outstanding Voting Securities, then a “Change of Control of the Company” shall be deemed to have occurred for purposes of the foregoing clause (A).

- “Cause” shall mean (A) conduct by the grantee constituting a material act of willful misconduct in connection with the performance of his or her duties, including, without limitation, misappropriation of funds or property of the Company or any of its Subsidiaries other than the occasional, customary and de minimis use of the Company or its Subsidiaries’ property for personal purposes; (B) the commission by the grantee of any felony or a misdemeanor involving moral turpitude, deceit, dishonesty or fraud, or any conduct by the grantee that would reasonably be expected to result in material injury to the Company or any of its Subsidiaries; (C) the grantee’s willful and continued failure to perform his or her duties with the Company and its Subsidiaries (other than any failure resulting from incapacity due to physical or mental illness), which continues 30 days after a written demand of performance is delivered to the grantee by any Senior Vice President or Vice President of the Company, which identifies the manner in which such person believes that the grantee has not performed his or her duties; (D) a violation by the grantee of the employment policies of the Company and its Subsidiaries which has continued following written notice of such violation from any Senior Vice President or Vice President of the Company; or (E) the grantee’s willful failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law

enforcement authorities, after being instructed by the Company or any of its Subsidiaries to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the willful inducement of others to fail to cooperate or to produce documents or other materials.

“Good Reason” shall mean (A) a reduction in the grantee’s annual cash base salary as in effect on the Effective Date, except for across-the-board reductions similarly affecting all or substantially all Company employees; or (B) a relocation whereby the Company or any Subsidiary requires the grantee to be principally based at any office or location that is more than 50 miles from the grantee’s office on the Effective Date; provided that the reasons set forth above will not constitute “Good Reason” unless, within 30 days after the first occurrence of such Good Reason event, the grantee shall have given written notice to the Company specifically identifying the event that the grantee believes constitutes Good Reason and the Company, or, if applicable, its Subsidiary, has not remedied such event within a reasonable cure period of not less than 30 days after the Company’s receipt of such notice.

SECTION 13. Additional Conditions Applicable to Nonqualified Deferred Compensation Under Section 409A.

In the event any Stock Option or Stock Appreciation Right under the Plan is granted with an exercise price of less than 100 percent of the Fair Market Value on the date of grant (regardless of whether or not such exercise price is intentionally or unintentionally priced at less than Fair Market Value), or such grant is materially modified and deemed a new grant at a time when the Fair Market Value exceeds the exercise price, or any other Award is otherwise determined to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code (a “409A Award”), the following additional conditions shall apply and shall supersede any contrary provisions of this Plan or the terms of any agreement relating to such 409A Award.

(a) Exercise and Distribution. Except as provided in Section 13(b) hereof, no 409A Award shall be exercisable or distributable earlier than upon one of the following:

- (i) Specified Time. A specified time or a fixed schedule set forth in the written instrument evidencing the 409A Award.
 - Separation from Service. Separation from service (within the meaning of Section 409A) by the 409A Award grantee; provided, however, that if the 409A Award grantee is a “key employee” (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) and any of the Company’s Stock is publicly traded on an established securities market or otherwise, exercise or distribution under this Section 13(a)(ii) may not be made before the date that is six months after the date of separation from service.
 - (ii) Death. The date of death of the 409A Award grantee.
 - (iii) Disability. The date the 409A Award grantee becomes disabled (within the meaning of Section 13(c)(ii) hereof).
 - Unforeseeable Emergency. The occurrence of an unforeseeable emergency (within the meaning of Section 13(c)(iii) hereof), but only if the net value (after payment of the exercise price) of the number of shares of Stock that become issuable does not exceed the amounts necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the exercise, after taking into account the extent to which the emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the grantee’s other assets (to the extent such liquidation would not itself cause severe financial hardship).
 - (iv) Change in Control Event. The occurrence of a Change in Control Event (within the meaning of Section 13(c)(i) hereof), including the Company’s discretionary exercise of the right to accelerate vesting of such grant upon a Change in Control Event or to terminate the Plan or any 409A Award granted hereunder within 12 months of the Change in Control Event.

(b) No Acceleration. A 409A Award may not be accelerated or exercised prior to the time specified in Section 13(a) hereof, except in the case of one of the following events:

- (i) Domestic Relations Order. The 409A Award may permit the acceleration of the exercise or distribution time or schedule to an individual other than the grantee as may be necessary to comply with the terms of a domestic

relations order (as defined in Section 414(p)(1)(B) of the Code).

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Conflicts of Interest. The 409A Award may permit the acceleration of the exercise or distribution time or schedule (ii) as may be necessary to comply with the terms of a certificate of divestiture (as defined in Section 1043(b)(2) of the Code).

Change in Control Event. The Administrator may exercise the discretionary right to accelerate the vesting of such (iii) 409A Award upon a Change in Control Event or to terminate the Plan or any 409A Award granted thereunder within 12 months of the Change in Control Event and cancel the 409A Award for compensation.

(c) Definitions. Solely for purposes of this Section 13 and not for other purposes of the Plan, the following terms shall be defined as set forth below:

“Change in Control Event” means the occurrence of a change in the ownership of the Company, a change in effective (i) control of the Company, or a change in the ownership of a substantial portion of the assets of the Company (as defined in regulations promulgated under Section 409A).

“Disabled” means a grantee who (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a (ii) continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Company or its Subsidiaries.

“Unforeseeable Emergency” means a severe financial hardship to the grantee resulting from an illness or accident of (iii) the grantee, the grantee’s spouse, or a dependent (as defined in Section 152(a) of the Code) of the grantee, loss of the grantee’s property due to casualty, or similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the grantee.

SECTION 14. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee’s right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

SECTION 15. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder’s consent. Except as provided in Section 3(c) or 3(d), in no event may the Administrator exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights, effect repricing through cancellation and re-grants, or repurchase out-of-the-money Stock Options or Stock Appreciation Rights for cash, unless the Administrator proposes for shareholder vote, and shareholders approve, such reduction, cancellation and re-grant, repricing, or repurchase. Any material Plan amendments (other than amendments that curtail the scope of the Plan), including any Plan amendments that (i) increase the number of shares reserved for issuance under the Plan, (ii) expand the type of Awards available under, materially expand the eligibility to participate in, or materially extend the term of, the Plan, or (iii) materially change the method of determining Fair Market Value, shall be subject to approval by the Company shareholders entitled to vote at a meeting of shareholders. In addition, to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422

of the Code or to ensure that compensation earned under Awards qualifies as performance-based compensation under Section 162(m) of the Code, Plan amendments shall be subject to approval by the Company shareholders entitled to vote at a meeting of shareholders. Nothing in this Section 15 shall limit the Administrator's authority to take any action permitted pursuant to Section 3(c) or 3(d).

SECTION 16. STATUS OF PLAN

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

SECTION 17. GENERAL PROVISIONS

(a)No Distribution; Compliance with Legal Requirements. The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities law and other legal and stock exchange or similar requirements have been satisfied. The Administrator may require the placing of such stop-orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b)Delivery of Stock Certificates. Stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Company. Uncertificated Stock shall be deemed delivered for all purposes when the Company or a Stock transfer agent of the Company shall have given to the grantee by electronic mail (with proof of receipt) or by United States mail, addressed to the grantee, at the grantee's last known address on file with the Company, notice of issuance and recorded the issuance in its records (which may include electronic "book entry" records). Stock Certificates or uncertified Stock for any Restricted Stock Award shall be delivered to the Secretary of the Company to be held in escrow until the Award becomes vested.

(c)Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

(d)Trading Policy Restrictions. Option exercises and other Awards under the Plan shall be subject to such Company's applicable insider trading policy and procedures, as in effect from time to time.

SECTION 18. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon approval by the holders of a majority of the votes cast at a meeting of shareholders at which a quorum is present. Subject to such approval by the shareholders and to the requirement that no Stock may be issued hereunder prior to such approval, Stock Options and other Awards may be granted hereunder on and after adoption of this Plan by the Board. No grants of Stock Options and other Awards may be made hereunder after November 17, 2018 and no grants of Incentive Stock Options may be made hereunder after the tenth (10th) anniversary of the date the restated Plan is approved by the Board.

SECTION 19. GOVERNING LAW

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the Commonwealth of Massachusetts, applied without regard to conflict of law principles.

DATE INITIALLY APPROVED BY BOARD OF DIRECTORS: September 14, 2005

DATE INITIALLY APPROVED BY SHAREHOLDERS: November 14, 2005

DATE RESTATEMENT APPROVED BY BOARD OF DIRECTORS: October 10, 2008

DATE RESTATEMENT APPROVED BY SHAREHOLDERS: November 17, 2008

DATE AMENDED: April 22, 2009

DATE RESTATEMENT APPROVED BY BOARD OF DIRECTORS: September 14, 2009

DATE RESTATEMENT APPROVED BY SHAREHOLDERS: October 21, 2009

DATE RESTATEMENT APPROVED BY BOARD OF DIRECTORS: September 14, 2010

DATE RESTATEMENT APPROVED BY SHAREHOLDERS: October 21, 2010

DATE RESTATEMENT APPROVED BY BOARD OF DIRECTORS: September 13, 2011

DATE RESTATEMENT APPROVED BY SHAREHOLDERS: October 21, 2011

DATE RESTATEMENT APPROVED BY BOARD OF DIRECTORS: July 24, 2012

DATE RESTATEMENT APPROVED BY SHAREHOLDERS: October 17, 2012

DATE RESTATEMENT APPROVED BY BOARD OF DIRECTORS: July 30, 2014

DATE RESTATEMENT APPROVED BY SHAREHOLDERS: October 21, 2014

DATE RESTATEMENT APPROVED BY BOARD OF DIRECTORS: January 20, 2015

DATE RESTATEMENT APPROVED BY SHAREHOLDERS: December 8, 2015

DATE RESTATEMENT APPROVED BY BOARD OF DIRECTORS: September 16, 2016

DATE RESTATEMENT APPROVED BY SHAREHOLDERS:

Appendix B

Below is a reconciliation between adjusted EBITDA and the most comparable GAAP financial metric.

(in millions)	Fiscal 2016
Income (loss) from continuing operations	\$19.7
Interest expense (income), net	1.0
Tax provision (benefit)	5.5
Depreciation	6.9
Amortization of intangible assets	8.8
Restructuring and other charges	1.2
Impairment of long-lived assets	0.2
Acquisition and financing costs	4.7
Fair value adjustments from purchase accounting	1.4
Litigation and settlement expenses	(1.9)
Stock-based compensation expense	9.6
Adjusted EBITDA	\$57.3