

MERCURY AIR GROUP INC

Form DEF 14A

August 12, 2005

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

Filed by the Registrant R

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))

R Definitive Proxy Statement

£ Definitive Additional Materials

£ Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

MERCURY AIR GROUP, INC.

(Name of Registrant as Specified In Its Charter) (Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

R No fee required.

£ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of Securities to which Transaction applies:

2) Aggregate number of securities to which Transaction applies:

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

4) Proposed maximum aggregate value of Transaction:

5) Total fee paid:

£ Fee paid previously with preliminary materials.

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

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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MERCURY AIR GROUP, INC.
5456 MCCONNELL AVENUE
LOS ANGELES, CALIFORNIA 90066
(310) 827-2737
August 12, 2005

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders of Mercury Air Group, Inc. on September 16, 2005, at 8:00 a.m., at The Ritz-Carlton, 4375 Admiralty Way, Marina Del Rey, California. We look forward to greeting those stockholders who are able to attend.

At this important meeting, you will be asked to vote on two proposals to effectuate a proposed transaction that, if approved, is expected to result in termination of the registration of Mercury Air Group's common stock under the federal securities laws and thereby eliminate the significant expense required to comply with the reporting and related requirements under those laws. The proposed Transaction will reduce the number of common stockholders of record to fewer than 300, permitting Mercury Air Group to file for termination of registration of its common stock under the federal securities laws. The reduction in the number of common stockholders will be accomplished by amending our Certificate of Incorporation to provide for a 1-for-501 reverse stock split, followed immediately by a 501-for-1 forward stock split of our common stock. The proposed amended and restated certificate of incorporation is attached as Appendix A to this proxy statement.

If approved at the Special Meeting, the Transaction will affect Mercury Air Group's common stockholders as follows:

COMMON STOCKHOLDER BEFORE THE TRANSACTION	NET EFFECT AFTER THE TRANSACTION
common stockholder holding 501 or more shares:	None.
common stockholder holding fewer than 501 shares:	The common stockholder will receive from Mercury \$4.00 in cash per share, without interest.

Because Mercury Air Group has a large number of common stockholders who own fewer than 501 shares, we expect that the number of common stockholders of record will be reduced from approximately 331 to approximately 33, while the number of outstanding shares will decrease by only approximately 6.3%, a reduction of approximately 192,613 common shares from the 3,056,355 common shares outstanding as of June 30, 2005. No reduction in the number of shares held by preferred stockholders will occur as a result of this Transaction.

After careful consideration, the Board of Directors has concluded that the costs associated with being a Securities and Exchange Commission (SEC) reporting company, especially in light of the additional costs associated with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, are not justified by the benefits in view of our common stock's limited trading activity. Mercury Air Group estimates that it will save up to \$3,000,000 which would have been expended through June 30, 2007 and approximately \$500,000 annually thereafter in Section 404 compliance costs. We believe that these cost-savings will be in the best interest of Mercury Air Group and its stockholders who remain after the Transaction. Although our common stock will no longer be listed on the American Stock Exchange if the Transaction is completed, we believe that our shares would be quoted on the pink sheets and our remaining stockholders would be able to trade their shares in the over-the-counter markets. In addition, the Transaction would allow our common stockholders who hold fewer than 501 shares immediately before the Transaction the opportunity to receive cash for their shares at a premium to the closing price of our common stock on the last trading day before the public announcement of the approval of the Transaction by the Special Committee and the Board of Directors, without having to pay brokerage commissions and other transaction costs.

A special committee comprised of independent directors has reviewed the proposed Transaction and considered its fairness to preferred stockholders and to common stockholders who hold fewer than 501 shares of common stock as well as those common stockholders holding 501 or more shares of common stock, and received a fairness opinion from its financial advisor with regard to the per share cash amount to be paid to the unaffiliated common stockholders

holding fewer than 501 shares of common stock.

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ACCORDINGLY, AFTER CONSIDERING THE RECOMMENDATION OF THE SPECIAL COMMITTEE AND CONDUCTING ITS OWN DELIBERATIONS OF THE ISSUES IT DEEMED PERTINENT, INCLUDING ALTERNATIVES TO THE TRANSACTION, THE COSTS AND BENEFITS OF REMAINING AN SEC REPORTING COMPANY AND THE FAIRNESS OF THE TRANSACTION TO STOCKHOLDERS, YOUR BOARD OF DIRECTORS BELIEVES THIS TRANSACTION IS IN THE BEST INTERESTS OF MERCURY AIR GROUP AND ITS STOCKHOLDERS AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE TWO PROPOSALS REQUIRED TO EFFECTUATE THE TRANSACTION. The enclosed proxy statement includes a discussion of the alternatives and factors considered by the board in connection with the board's approval of the Transaction. See Special Factors Background of the Transaction and Special Factors Recommendation of the Board of Directors; Fairness of the Proposed Transaction.

Consummation of the Transaction is subject to certain conditions, including the affirmative vote on each of the first two proposals presented of at least a majority of the shares of Mercury Air Group's common and preferred stock entitled to vote at the Special Meeting, voting as a single class. It is anticipated that the Transaction will become effective at 11:59 p.m. on September 16, 2005, or as soon as reasonably practicable thereafter. Details of the proposed Transaction are set forth in the accompanying proxy statement, which we urge you to read carefully in its entirety.

At the Special Meeting, you will also be asked to grant Mercury's board of directors discretionary authority to adjourn the Special Meeting, if necessary.

The executive officers and director of Mercury have indicated that they intend to vote FOR each proposal required to approve the Transaction and FOR the proposal to grant discretionary authority to adjourn the Special Meeting. If Mercury's executive officers and directors exercise presently exercisable options they hold prior to the record date for the Special Meeting, they would own approximately 42.8% of the then outstanding shares of common and preferred stock, voting as a single class entitled to vote at the Special Meeting.

IT IS VERY IMPORTANT THAT YOUR SHARES ARE REPRESENTED AND VOTED AT THE MEETING, WHETHER OR NOT YOU PLAN TO ATTEND. ACCORDINGLY, PLEASE SIGN, DATE AND RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE AT YOUR EARLIEST CONVENIENCE.

Your interest and participation in the affairs of the Company are greatly appreciated. Thank you for your continued support.

Sincerely,
/s/ Joseph A. Czyzyk
Chairman of the Board,
Chief Executive Officer and President
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MERCURY AIR GROUP, INC.
5456 MCCONNELL AVENUE
LOS ANGELES, CALIFORNIA 90066
(310) 827-2737

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 16, 2005
August 12, 2005

To the Stockholders of Mercury Air Group, Inc.:

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders (the Special Meeting) of Mercury Air Group, Inc., a Delaware corporation (the Company or Mercury), will be held at The Ritz-Carlton, 4375 Admiralty Way, Marina Del Rey, California , on the 16th day of September, 2005, at 8:00 a.m., for the following purposes:

1. To consider and vote upon a proposal to amend the Company s Certificate of Incorporation to effect a 1-for-501 reverse stock split of the Company s common stock (the Reverse Stock Split).
2. To consider and vote upon a proposal to amend the Company s Certificate of Incorporation to effect a 501-for-1 forward stock split of the Company s common stock (the Forward Stock Split , and proposals 1 and 2 collectively referred to as the Transaction).
3. To grant the Company s Board of Directors discretionary authority to adjourn the Special Meeting if necessary to satisfy the conditions to completing the Transaction, including for the purpose of soliciting proxies to vote in favor of the Transaction.

Please note that the amendment to the Certificate of Incorporation to effect the Forward Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Reverse Stock Split, and that the amendment to the Certificate of Incorporation to effect the Reverse Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Forward Stock Split.

As a result of the Transaction, (a) each stockholder owning fewer than 501 shares of common stock immediately before the Transaction will receive from the Company \$4.00 in cash, without interest, for each of such stockholder s shares of the Company s common stock; and (b) each share of common stock held by a stockholder owning 501 or more shares will continue to represent one share of the Company after completion of the Transaction. The proposed Amended and Restated Certificate of Incorporation, which effectuates the Transaction, is attached as Appendix A to this proxy statement.

Owners of record of the Company s common and preferred stock at the close of business on August 8, 2005, the record date, will be entitled to vote at the meeting. If your shares are held in the name of a broker, trust or other nominee (often referred to as held in street name), you must instruct them on how to vote your shares. Whether or not you plan to attend the meeting, please date, sign and mail the enclosed proxy in the envelope provided. Thank you for your cooperation.

The Board of Directors has carefully considered the terms of the Transaction and believes that they are fair to, and in the best interests of, Mercury and its stockholders. The Board of Directors unanimously recommends that you vote FOR Proposals 1 and 2, which will effectuate the Transaction, and FOR Proposal 3, which will grant the Board of Directors discretionary authority to adjourn the Special Meeting.

By Order of the Board of Directors

/s/ Joseph A. Czyzyk
Chairman of the Board, Chief Executive
Officer and President

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PLEASE SIGN AND MAIL THE ENCLOSED PROXY
IN THE ACCOMPANYING ENVELOPE

NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS: APPROVED OR DISAPPROVED OF THE TRANSACTION; PASSED UPON THE MERITS OR FAIRNESS OF THE TRANSACTION; OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

MERCURY AIR GROUP, INC.
5456 MCCONNELL AVENUE
LOS ANGELES, CALIFORNIA 90066
(310) 827-2737

August 12, 2005

PROXY STATEMENT FOR
2005 SPECIAL MEETING OF STOCKHOLDERS
INTRODUCTION

This Proxy Statement is furnished to the stockholders of Mercury Air Group, Inc., a Delaware corporation (the Company or Mercury), in connection with the solicitation by the board of directors of the Company of proxies to be used at the Special Meeting of Stockholders (the Special Meeting) to be held at The Ritz-Carlton, 4375 Admiralty Way, Marina Del Rey, California, on September 16, 2005, at 8:00 a.m., local time, and at any adjournment thereof, and is being mailed to the stockholders on or about the date set forth above.

All shares represented by properly executed proxies received by the board of directors pursuant to this solicitation will be voted in accordance with the stockholder s directions specified on the proxy or, in the absence of specific instructions to the contrary, will be voted in accordance with the board of directors unanimous recommendations, which are:

FOR the proposal to amend the Company s Certificate of Incorporation to effect a 1-for-501 reverse stock split of the Company s common stock (the Reverse Stock Split).

FOR the proposal to amend the Company s Certificate of Incorporation to effect a 501-for-1 forward stock split of the Company s common stock (the Forward Stock Split and both proposals collectively referred to as the Transaction).

FOR granting the Company s Board of Directors discretionary authority to adjourn the Special Meeting if necessary to satisfy the conditions to completing the Transaction, including for the purpose of soliciting proxies in favor of the Transaction.

Please note that the amendment to the Certificate of Incorporation to effect the Forward Stock Split is conditioned upon stockholder approval of the proposal to amend the Certificate of Incorporation to effect the Reverse Stock Split, and that the amendment to the Certificate of Incorporation to effect the Reverse Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Forward Stock Split.

As a result of the Transaction, (a) each stockholder owning fewer than 501 shares of common stock, \$0.01 par value (common stock) immediately before the Transaction will receive from the Company \$4.00 in cash, without interest, for each of such stockholder s shares of the Company s common stock; and (b) each share of common stock held by a stockholder owning 501 or more shares will continue to represent one share of common stock of the Company after completion of the Transaction.

If the Transaction is approved, as permitted by Delaware law, common stockholders whose shares are converted into less than one whole share in the reverse split (meaning they held fewer than 501 shares at the effective time of the reverse split) will receive a cash payment from Mercury for their fractional shares interests equal to \$4.00 cash, without interest, for each share of common stock they held immediately prior to the reverse split.

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Stockholders who own 501 or more shares of common stock at the effective time of the Transaction will not be entitled to receive any cash for their fractional share interests resulting from the reverse stock split. The forward split that will immediately follow the reverse split will reconvert their whole share and fractional share interests back into the same number of shares of common stock they held immediately prior to the effective time of the Transaction. As a result, the total number of shares held by such a stockholder will not change after completion of the Transaction.

After the Transaction, Mercury anticipates that it will have approximately 33 common stockholders of record. In the event that there are fewer than 300 common stockholders of record following the Transaction, Mercury intends to file a Form 15 with the Securities and Exchange Commission to terminate registration of its common stock under the federal securities laws. As a result, Mercury would no longer be subject to the annual and periodic reporting requirements under the federal securities laws that are applicable to Securities and Exchange Commission (SEC) reporting companies although Mercury currently intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com. In addition, Mercury common stock would cease to be listed on the American Stock Exchange, any trading in Mercury's common stock after the Transaction and deregistration of the common stock will only occur in the over-the-counter market or in privately negotiated sales, and Mercury's common stock will likely only be quoted in the pink sheets.

This Transaction cannot occur unless the holders of more than a majority of the issued and outstanding shares of Mercury's common stock and Series A 8% Cumulative Convertible Preferred Stock, \$0.01 par value (preferred stock), voting as a single class, approve both the proposal to effect the Reverse Stock Split and the proposal to effect the Forward Stock Split. If both proposals are approved, Mercury intends to file the proposed Amended and Restated Certificate of Incorporation, which is attached as Appendix A to this proxy statement.

The amendment of the Certificate of Incorporation to effect the Forward Stock Split is contingent upon stockholder approval of the Reverse Stock Split and the amendment of the Certificate of Incorporation to effect the Reverse Stock Split is contingent upon stockholder approval of the Forward Stock Split. The Forward Stock Split will be effected only after completion of the Reverse Stock Split.

The executive officers and directors of Mercury have indicated that they intend to vote FOR both proposals required to effectuate the Transaction. If Mercury's executive officers and directors exercise presently exercisable options they hold prior to the record date for the Special Meeting, they would own approximately 42.8% of the then outstanding shares of common and preferred stock, voting as a single class, entitled to vote at the Special Meeting.

A proxy may be revoked, without affecting any vote previously taken, by written notice mailed to the Company (attention Wayne Lovett) or delivered in person at the meeting, by filing a duly executed, later dated proxy, or by attending the meeting and voting in person.

Only stockholders of record at the close of business on August 8, 2005, are entitled to notice of and to vote at the Special Meeting and any adjournment thereof. Each share so held entitles the holder thereof to one vote upon each matter to be voted on. As of the record date, the Company had outstanding 3,056,355 shares of common stock and 462,627 shares of preferred stock. The presence of holders of a majority of the issued and outstanding shares of common and preferred stock, represented as a single class, entitled to vote at the Special Meeting, either in person or represented by a properly executed proxy, is necessary to constitute a quorum for the transaction of business at the Special Meeting.

This document provides you with detailed information about the proposed Transaction. Please see Where You Can Find More Information for additional information about Mercury on file with the Securities and Exchange Commission.

This Proxy Statement and the accompanying proxy were first mailed to stockholders on or about August 12, 2005.

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SUMMARY TERM SHEET

THIS SUMMARY TERM SHEET, TOGETHER WITH THE QUESTIONS AND ANSWERS SECTION THAT FOLLOWS, PROVIDES AN OVERVIEW OF ALL MATERIAL MATTERS THAT ARE PRESENTED IN THE PROXY STATEMENT, INCLUDING THE MATERIAL TERMS OF THE PROPOSED TRANSACTION. FOR A MORE COMPLETE DESCRIPTION WE URGE YOU TO CAREFULLY READ THIS PROXY STATEMENT AND ALL OF ITS APPENDICES BEFORE YOU VOTE. FOR YOUR CONVENIENCE, WE HAVE CROSS-REFERENCED TO THE LOCATION IN THIS PROXY STATEMENT WHERE YOU CAN FIND A MORE COMPLETE DISCUSSION OF EACH ITEM BELOW.

AS USED IN THIS PROXY STATEMENT, MERCURY, THE COMPANY, WE, OUR, OURS AND US TO MERCURY AIR GROUP, INC., A DELAWARE CORPORATION, AND THE TRANSACTION REFERS TO THE 1-FOR-501 REVERSE STOCK SPLIT AND THE 501-FOR-1 FORWARD STOCK SPLIT, TOGETHER WITH THE RELATED CASH PAYMENTS TO COMMON STOCKHOLDERS HOLDING FEWER THAN 501 SHARES AT THE EFFECTIVE TIME OF THE TRANSACTION.

THE TRANSACTION

If the Transaction is approved and completed:

Mercury's stockholders holding fewer than 501 shares of Mercury's common stock before the Transaction will receive a cash payment from Mercury of \$4.00 per share, without interest, for each share of common stock held immediately prior to the Transaction;

Mercury's stockholders holding 501 or more shares of Mercury's common stock at the effective time of the Transaction will continue to hold the same number of shares of Mercury's common stock after completion of the Transaction and will not receive any cash payment;

Mercury's preferred stockholders will continue to hold the same number of shares of Mercury's preferred stock after completion of the Transaction and will not receive any cash payment;

the officers and directors of Mercury at the effective time will continue to serve as the officers and directors of Mercury immediately after the Transaction;

Mercury believes it will have fewer than 300 holders of record of common stock and intends to file a Form 15 to terminate registration of its common stock with the SEC, which will terminate its obligation to continue filing periodic reports and proxy statements pursuant to the Securities Exchange Act of 1934 (the Exchange Act), although Mercury currently intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com;

after a 90 day period following the filing of a Form 15 with the SEC to terminate the registration of its common stock under the federal securities laws (the 90 day waiting period), Mercury's executive officers, directors and 10% stockholders will no longer be required to file reports relating to their transactions in Mercury's common stock with the SEC, and trading in Mercury's securities by such executive officers, directors and 10% stockholders will no longer become subject to the reporting and recovery of profits provision of the Exchange Act;

after the 90 day waiting period, persons acquiring 5% of Mercury's common stock will no longer be required to report their beneficial ownership under the Exchange Act;

after the 90 day waiting period, tender offers for the beneficial ownership of more than 5% of Mercury's common stock will no longer be regulated;

after the 90 day waiting period, tender offer transactions by issuers and affiliates will no longer be regulated;

Mercury will not be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), the cost of which is estimated to be up to \$3,000,000 through June 30, 2007 and approximately \$500,000 per year thereafter;

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Mercury's common stock will no longer be listed on the American Stock Exchange, any trading in its common stock will only occur in the over-the-counter markets and in privately negotiated sales, and its common stock will likely only be quoted in the pink sheets ;

outstanding options held by Mercury's employees, officers, and directors to acquire Mercury's common stock will remain outstanding following the Transaction;

the number of Mercury's common stockholders of record will be reduced from approximately 331 to approximately 33, and the number of outstanding shares of Mercury's common stock will be reduced by approximately 6.3%, from 3,056,355 shares, to approximately 2,863,742 shares;

exercise of all options exercisable within sixty days of the date of this proxy statement, the percentage ownership of Mercury's common and preferred stock beneficially owned by the directors and officers of Mercury as a group will increase from 42.8% to 45.1% based on shares outstanding as of June 30, 2005. Because Mercury's common and preferred stockholders vote as a single class on all matters presented to the stockholders (including the Transaction), the Transaction will not affect control of Mercury;

aggregate stockholders' equity of Mercury as of March 31, 2005, will be reduced from \$13,869,000 on a historical basis to approximately \$12,786,000 on a pro forma basis;

the book value per share of common stock as of March 31, 2005, will be reduced from \$4.54 per share on a historical basis to approximately \$4.46 per share on a pro forma basis;

Mercury will pay cash of approximately \$1,092,000 in the aggregate, net of tax benefits, to repurchase fractional shares and pay the costs of the Transaction; and

Mercury expects its business and operations to continue as they are currently being conducted and, except as disclosed in this proxy statement, the Transaction is not anticipated to have any effect upon the conduct of such business.

For a more detailed discussion on the Transaction, see "Special Factors" beginning on page 12. For a description of the provisions regarding the treatment of shares held in street name, see "Special Factors - Certain Effects of the Transaction" beginning on page 38.

ADJOURNMENT OF THE SPECIAL MEETING

Mercury's board of directors is seeking discretionary authority to adjourn the Special Meeting if necessary to satisfy the conditions to completion of the Transaction, including for the purpose of soliciting proxies to vote in favor of the Transaction. For more information, see "Adjournment of Meeting" beginning on page 45.

VOTE REQUIRED

The required vote for each of the proposals presented at the Special Meeting are as follows:

The proposal to amend the Company's Certificate of Incorporation to effect the Reverse Stock Split requires the affirmative vote of holders of a majority of the outstanding shares of Mercury's common and preferred stock, counted as a single class.

The proposal to amend the Company's Certificate of Incorporation to effect the Forward Stock Split requires the affirmative vote of holders of a majority of the outstanding shares of Mercury's common and preferred stock, counted as a single class.

Approval of granting the board of directors discretionary authority to adjourn the Special Meeting requires the affirmative vote of a majority of Mercury's common and preferred stock, voting as a single class on the proposal.

Please note that the amendment to the Certificate of Incorporation to effect the Forward Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Reverse Stock Split, and that the amendment to

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the Certificate of Incorporation to effect the Reverse Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Forward Stock Split.

As of June 30, 2005, Mercury's current directors and executive officers owned 1,329,280 common shares, and 25,820 preferred shares, or approximately 38.5% of Mercury's 3,056,355 outstanding shares of common stock and 462,627 outstanding shares of preferred stock, voting as a single class, that would be entitled to vote at the Special Meeting. If Mercury's directors and executive officers exercised presently exercisable options they hold prior to the record date for the Special Meeting, they would own approximately 1,595,408 common shares and 25,820 preferred shares or approximately 42.8% of the then outstanding shares of common and preferred stock, voting as a single class, entitled to vote at the Special Meeting. See "Security Ownership of Certain Beneficial Owners" on page 60, and "Special Factors - Interests of Mercury's Directors and Executive Officers in the Transaction" on page 34.

The officers and directors of Mercury have indicated that they intend to vote FOR the approval of both proposals required to effectuate the Transaction. Other than such expressed intent of the officers and directors to vote their shares for the Transaction, Mercury has not obtained any assurances or agreements from any of its stockholders as to how they will vote on the Transaction.

THE VOTING MATERIALS

We sent you the enclosed materials because Mercury's Board of Directors is soliciting your vote for use at our Special Meeting of Stockholders, which will take place on September 16, 2005. As a stockholder, you are invited to attend the Special Meeting and are entitled to and requested to vote on the proposals described in this proxy statement.

This proxy statement provides information that you need to know in order to cast an informed vote at the meeting. You do not need to attend the Special Meeting, however, to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

We began sending this proxy statement, notice of Special Meeting, and enclosed proxy card on or about August 12, 2005 to all stockholders entitled to notice of and to vote at the Special Meeting. The record date for stockholders entitled to vote is August 8, 2005. On that date, there were 3,056,355 shares of our common stock and 462,627 shares of our preferred stock outstanding. Stockholders are entitled to one vote for each share of common stock and one vote for each share of preferred stock held as of the record date.

TIME AND PLACE OF THE SPECIAL MEETING

The Special Meeting will be held at The Ritz-Carlton, 4375 Admiralty Way, Marina Del Rey, California at 8:00 a.m., Pacific Time on September 16, 2005.

SOLICITATION OF PROXIES

This proxy is solicited by the Board of Directors of Mercury.

SHARES THAT CAN BE VOTED

You may vote all shares of Mercury's common and preferred stock that you own as of the close of business on the record date, which was August 8, 2005. These shares include shares held:

directly in your name as the stockholder of record, and

for you as the beneficial owner either through a broker, bank or other nominee.

OWNERSHIP OF SHARES

Many of our stockholders hold their shares through a broker, bank or other nominee rather than directly in their own name. Mercury intends to treat stockholders holding common stock in street name through a nominee (such as a bank or broker) in the same manner as stockholders whose shares are registered in their names (shareholder of record). Nominees may have different procedures,

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however, and stockholders holding common stock in street name should contact their nominees. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company (the Transfer Agent), you are considered, with respect to those shares, the stockholder of record , and these proxy materials are being sent to you by Mercury. As the stockholder of record, you have the right to vote by proxy or to vote in person at the Special Meeting. Mercury has enclosed a proxy card for you to use.

Beneficial Owner

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name with respect to those shares, and the proxy materials are being forwarded to you by your broker or other nominee. Your broker or other nominee is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker or other nominee how to vote and are also invited to attend the Special Meeting. As a beneficial owner, however, you are not the stockholder of record, and you may not vote these shares in person at the Special Meeting unless you obtain a signed proxy appointment form from the stockholder of record giving you the right to vote the shares. Your broker or nominee has enclosed or provided a voting instruction card for you to use in directing the broker or nominee how to vote your shares.

ATTENDANCE AT THE SPECIAL MEETING AND ELIGIBILITY TO VOTE

All holders of our common and preferred stock may attend the Special Meeting in person. Only holders of record of our common and preferred stock as of August 8, 2005 may cast their votes in person at the Special Meeting.

VOTING OF SHARES WITHOUT ATTENDING THE SPECIAL MEETING

Whether you hold your shares directly as stockholder of record or beneficially in street name, you may direct your vote without attending the Special Meeting. You may vote by signing your proxy card or, for shares held in street name, by signing the voting instruction card included by your broker or nominee, and mailing it in the enclosed, pre-addressed envelope. If you provide specific voting instructions, your shares will be voted as you instruct. If you hold your shares of record and sign your proxy card, but do not provide instructions, your shares will be voted as described below in How are my votes counted?

COUNTING OF VOTES

You may vote FOR, AGAINST or ABSTAIN on the proposal to amend the Company s Certificate of Incorporation to effect the Reverse Stock Split, FOR , AGAINST or ABSTAIN on the proposal to amend the Company s Certificate of Incorporation to effect the Forward Stock Split (both of which together constitute the Transaction) and FOR , AGAINST or ABSTAIN on the proposal granting the Company s Board of Directors discretionary authority to adjourn the Special Meeting if necessary to satisfy the condition to completing the Transaction, including for the purpose of soliciting proxies to vote in favor of the Transaction (the Adjournment Proposal). If you ABSTAIN on either the proposal to amend the Company s Certificate of Incorporation to effect the Reverse Stock Split or on the proposal to amend the Company s Certificate of Incorporation to effect the Forward Stock Split, each abstention would have the same effect as a vote AGAINST such proposal. If you vote ABSTAIN on the Adjournment Proposal, it has no effect on such proposal. If you sign and date your proxy form with no further instructions, your shares will be voted FOR the approval of both the Reverse Stock Split and the Forward Stock Split and FOR the approval of the Adjournment Proposal.

The amendment of the Certificate of Incorporation to effect the Forward Stock Split is contingent upon stockholder approval of the Reverse Stock Split and the amendment of the Certificate of Incorporation to effect the Reverse Stock Split is contingent upon stockholder approval of the Forward Stock Split. The Forward Stock Split will be effected only after completion of the Reverse Stock Split.

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NO APPRAISAL OR DISSENTERS' RIGHTS; ESCHEAT LAWS

Stockholders do not have appraisal or dissenters' rights under Delaware state law or Mercury's Certificate of Incorporation or Bylaws in connection with the Transaction.

The unclaimed property and escheat laws of each state provide that under circumstances defined in that state's statutes, holders of unclaimed or abandoned property must surrender that property to the state. Persons whose shares are eliminated and whose addresses are unknown to Mercury, or who do not return their common stock certificate(s) and request payment therefore, generally will have a period of years (depending on applicable state law) from the effective date of the Transaction in which to claim the cash payment payable to them. Following the expiration of that period, the escheat laws of states of residence of stockholders, as shown by the records of Mercury, generally provide for such state to obtain either (i) custodial possession of property that has been unclaimed until the owner reclaims it or (ii) escheat of such property to the state. If Mercury does not have an address for the holder of record of the shares, then unclaimed cash-out payments, without interest, would be turned over to Mercury's state of incorporation, the state of Delaware, in accordance with its escheat laws.

PURPOSE OF AND REASONS FOR THE TRANSACTION

If approved, the Transaction will enable Mercury to terminate its registration as an SEC reporting company and thus terminate its obligation to comply with Section 404 of the Sarbanes-Oxley Act. The Transaction will also terminate Mercury's obligation to file annual and periodic reports and make other filings with the SEC, although Mercury intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com. The reasons for the proposed Transaction and subsequent termination of SEC registration include:

- eliminating the costs of compliance with Section 404 of the Sarbanes-Oxley Act and related regulations estimated to be up to \$3,000,000 through June 30, 2007 and approximately \$500,000 per year thereafter;

- affording stockholders holding fewer than 501 shares immediately before the Transaction the opportunity to receive cash for their shares at a price that represents a premium of approximately 19% over the closing price of \$3.36 on March 21, 2005, which was the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee of the Board of Directors (Special Committee) and by the Board, without having to pay brokerage commissions and other transaction costs; and

- reducing the substantial time that management and other employees will have to spend to implement the Section 404 internal controls certificate provisions of the Sarbanes-Oxley Act, thus enabling them to devote more of their time and energy to Mercury's strategy and operations.

Joseph A. Czyzyk, President, Chief Executive Officer, Chairman and a principal stockholder of Mercury, Frederick H. Kopko, Jr., a director and a principal stockholder of Mercury and CK Partners, a partnership comprised of Messrs. Czyzyk and Kopko, may be deemed to be engaged in the proposed Transaction as a result of their affiliation with Mercury, and thus are filing persons with Mercury as set forth on the Schedule 13E-3 filed with the Securities and Exchange Commission in connection with the proposed Transaction. For purposes of this proxy statement, Joseph A. Czyzyk, Frederick H. Kopko, Jr. and CK Partners are sometimes referred to as the Transaction Affiliates. Mr. Kopko also serves as outside legal counsel on various corporate legal matters. Mr. Czyzyk and Mr. Kopko fully concur with the purpose, reasons, benefits and disadvantages of the Transaction described herein.

Please read Special Factors Purpose of and Reasons for the Transaction beginning on page 22.

BENEFITS OF THE TRANSACTION

Benefits of the Transaction to Mercury are expected to include the following:

- Mercury will benefit from eliminating the costs of compliance with Section 404 of the Sarbanes-Oxley Act and related regulations estimated to be up to \$3,000,000 through June 30, 2007 and approximately \$500,000 per year thereafter;

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Mercury will benefit from reducing the substantial time that management and other employees will have to spend to implement the Section 404 internal controls certificate provisions of the Sarbanes-Oxley Act, thus enabling them to devote more of their time and energy to Mercury's strategy and operations; and

Mercury will benefit because it will no longer be obligated to continue filing periodic reports and proxy statements pursuant to the Exchange Act, although Mercury currently intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com.

Benefits of the Transaction to affiliates of Mercury are expected to include the following:

assuming the exercise of all options that are exercisable within sixty days of the date of this proxy statement, Mercury's officers and directors, including the Transaction Affiliates, will increase their percentage ownership in Mercury from 42.8% to 45.1%;

assuming the exercise of all options that are exercisable within sixty days of the date of this proxy statement, the Transaction Affiliates will increase their percentage ownership in Mercury from 37.7% to 39.8%;

affiliated stockholders may benefit from the reduction in total shares outstanding or from the cost savings by Mercury not being public, either or both of which may result in higher earnings per share, which in turn may result in a higher price for their shares than they would have received if Mercury remained public;

Mercury's officers and employees will benefit from eliminating the time and effort associated with implementation of the Section 404 internal controls certification provisions of the Sarbanes-Oxley Act;

Mercury's officers and directors, and persons holding 5% or more of Mercury's common stock, will benefit because, after the 90 day waiting period, tender offer transactions by issuers and affiliates will no longer be regulated;

Mercury's officers and directors, and persons holding 5% or more of Mercury's common stock, including the Transaction Affiliates, will benefit because after the 90 day waiting period, such officers, directors and 5% stockholders will no longer be required to report their acquisition, disposition or ownership of shares under the Exchange Act; and

affiliated stockholders may benefit from future operating results of Mercury.

See Special Factors Purpose of and Reasons For the Transaction Benefits of the Transaction beginning on page 22 and Special Factors Interests of Mercury's Directors and Executive Officers in the Transaction beginning on page 34.

Benefits of the Transaction to unaffiliated stockholders of Mercury are expected to include the following:

Unaffiliated stockholders holding fewer than 501 shares immediately before the Transaction will have the opportunity to receive cash for their shares at a price that represents a premium of approximately 19% over the closing price of \$3.36 on March 21, 2005, which was the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee and the Board, without having to pay brokerage commissions and other transaction costs;

Unaffiliated stockholders receiving \$4.00 for their shares are receiving an amount that is within the range of implied equity values in the per share analysis presented by Imperial Capital, LLC (Imperial Capital), financial advisor to the Special Committee and the Board. (See Special Factors Opinion of Imperial Capital, LLC beginning on page 34.)

remaining unaffiliated stockholders may benefit from the reduction in total shares outstanding or from the cost savings by Mercury not being public, either or both of which may result in higher earnings per share,

which in turn may result in a higher price for their shares than they would have received if Mercury remained public;

and remaining unaffiliated stockholders may benefit from future operating results of Mercury.

See Special Factors Purpose of and Reasons for the Transaction Benefits of the Transaction beginning on page 22.

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DISADVANTAGES OF THE TRANSACTION

Disadvantages of the Transaction to Mercury are expected to include the following:

Mercury's working capital and assets will be decreased and/or indebtedness increased to fund the purchase of fractional shares, and to pay the other costs of the Transaction; and

the limited ability that Mercury has to raise capital in the public securities markets or to use its stock as an acquisition currency will be effectively eliminated.

See Special Factors-Disadvantages of the Transaction beginning on page 24.

Disadvantage of the Transaction to affiliates of Mercury are expected to include the following:

Mercury's officers and directors, including the Transaction Affiliates, are likely to experience reduced liquidity for their shares of common stock, even if the common stock trades on the pink sheets, and this reduced liquidity may adversely affect the market price of the common stock.

See Special Factors Disadvantages of the Transaction beginning on page 24.

Disadvantages of the Transaction to unaffiliated stockholders of Mercury are expected to include the following:

the cash price offered to stockholders under the proposed Transaction could be less than the market price at the time the Board decides to implement the Transaction and is less than the \$4.54 book value of the Common Stock as of March 31, 2005;

remaining stockholders are likely to experience reduced liquidity for their shares of common stock, even if the common stock trades on the pink sheets, and this reduced liquidity may adversely affect the market price of the common stock;

less public information about Mercury will be required or available after the Transaction and officers will no longer be required to certify the accuracy of Mercury's financial statements, although Mercury currently intends to provide reports as to its financial condition and results of operations, which Mercury's expects may be accessed at www.pinksheets.com (see Special Factors Purpose of and Reasons For the Transaction beginning on page 22);

after the 90 day waiting period, officers, directors and persons holding or acquiring 5% of Mercury's common stock will no longer be required to report their beneficial ownership, or change in beneficial ownership, under the Exchange Act;

after the 90 day waiting period, tender offers for the beneficial ownership of more than 5% of Mercury's common stock will no longer be regulated;

after the 90 day waiting period, tender offer transactions by issuers and affiliates will no longer be regulated;

stockholders who are cashed out will be unable to participate in any future operating results of Mercury unless they buy stock after the Transaction; and

stockholders who are cashed out for \$4.00 per share in the Transaction may receive less for their shares than they would if the common stock continued trading on the American Stock Exchange.

See Special Factors Disadvantages the Transaction beginning on page 24.

DETERMINATION OF THE FAIRNESS OF THE TRANSACTION BY THE SPECIAL COMMITTEE, THE BOARD, AND THE TRANSACTION AFFILIATES

At a meeting held on March 21, 2005, the Special Committee, consisting of two independent directors, Messrs. Michael Janowiak and Angelo Pusateri, unanimously determined that the Transaction and the \$4.00 cash consideration per pre-split share to be paid to stockholders who hold less than 501 shares of common stock before the Transaction (cash consideration) are advisable, fair to and

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in the best interests of Mercury and its stockholders, including all unaffiliated stockholders of Mercury (both those receiving the cash consideration and those remaining as stockholders following the Transaction), and the Special Committee recommended that the Board approve the Transaction. See Special Factors Recommendation of the Special Committee.

At a meeting held on March 21, 2005, the Board of Directors unanimously determined that the Transaction and the cash consideration to be paid to stockholders who hold less than 501 shares of common stock before the Transaction are advisable, fair to and in the best interests of Mercury and its stockholders, including all unaffiliated stockholders of Mercury (both those receiving the cash consideration and those remaining as stockholders following the Transaction). On March 21, 2005, the Transaction Affiliates also unanimously determined that the Transaction and the cash consideration to be paid to stockholders who hold less than 501 shares of common stock before the Transaction are advisable, fair to and in the best interests of Mercury and its stockholders, including all unaffiliated stockholders of Mercury (both those receiving the cash consideration and those remaining as stockholders following the Transaction). The Board of Directors, with Messrs. Kopko and Czyzyk abstaining, therefore unanimously approved the Transaction and recommends that you vote FOR approval of this matter at the Special Meeting.

The Special Committee, the Board of Directors and the Transaction Affiliates, all considered a number of factors that they believe supports their determination that the Transaction is substantively and procedurally fair to Mercury's unaffiliated stockholders, including each of the following factors:

current and historical market prices;

net book value and net tangible book value;

going concern value;

earnings of Mercury;

prices at which Mercury has repurchased shares;

the opinion and presentation of the Special Committee's financial advisor;

limited liquidity of Mercury's common stock;

future cost savings;

interests of unaffiliated stockholders who will remain; and

certain negative considerations.

For a complete discussion of the factors that were considered by the Special Committee, the Board of Directors and the Transaction Affiliates to determine fairness, see Special Factors Recommendation of the Special Committee beginning on page 26, Special Factors Recommendation of the Board; Fairness of the Transaction beginning on page 29, and Determination of the Fairness of the Transaction by the Transaction Affiliates beginning on page 33.

RECENT MARKET PRICE OF MERCURY'S COMMON STOCK AND MARKET PRICE FOLLOWING ANNOUNCEMENT OF THE PROPOSED TRANSACTION

The closing price of Mercury's common stock on March 8, 2005 the day before the public announcement that the Special Committee was considering the Transaction, was \$4.49 per share. The closing price of Mercury's common stock on March 21, 2005, the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee and the Board, was \$3.36 per share.

FAIRNESS OPINION OF IMPERIAL CAPITAL, LLC

Imperial Capital, financial advisor to the Special Committee, has delivered to the Special Committee and to the Board its written opinion to the effect that, as of the date of such opinion and based upon and subject to the matters

stated in the opinion, the cash consideration to be paid to those stockholders of Mercury receiving such consideration, other than Mercury's current directors and

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executive officers, including the Transaction Affiliates and their respective affiliates (collectively, affiliates of Mercury), as to whom Imperial Capital expressed no view, is fair, from a financial point of view, to such stockholders. The full text of the written opinion of Imperial Capital, which sets forth the assumptions made, matters considered and limitations on the review undertaken, is attached as Appendix B to this proxy statement. You should read the opinion carefully and in its entirety, along with the discussion under Special Factors Opinion of Imperial Capital, LLC beginning on page 34.

The opinion of Imperial Capital is directed to the Special Committee of Mercury s Board of directors and to Mercury s Board of Directors and addresses only the fairness from a financial point of view of the cash consideration to be paid in the proposed Transaction to stockholders other than affiliates of Mercury, and does not constitute a recommendation to any stockholder as to how such stockholder should vote at the Special Meeting.

EFFECTS OF THE TRANSACTION

As a result of the Transaction, Mercury anticipates that:

Mercury s stockholders holding fewer than 501 shares of Mercury s common stock at the effective time of the Transaction will receive a cash payment from Mercury of \$4.00 per share, without interest, for each share of common stock held immediately prior to the Transaction;

Mercury s stockholders holding 501 or more shares of Mercury s common stock at the effective time of the Transaction will continue to hold the same number of shares of Mercury s common stock after completion of the Transaction and will not receive any cash payment;

Mercury s preferred stockholders will continue to hold the same number of shares of Mercury s preferred stock after completion of the Transaction and will not receive any cash payment;

the officers and directors of Mercury at the effective time will continue to serve as the officers and directors of Mercury immediately after the Transaction;

Mercury believes it will have fewer than 300 holders of record of common stock and therefore be eligible to terminate registration of its common stock with the SEC, which will terminate its obligation to continue filing periodic reports and proxy statements pursuant to the Exchange Act, although Mercury currently intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com;

after the 90 day waiting period, Mercury s executive officers, directors and 5% stockholders will no longer be required to file reports relating to their transactions in Mercury s common stock with the SEC, and trading in Mercury s securities by such executive officers, directors and 10% stockholders will no longer be subject to the recovery of profits provision of the Exchange Act;

after the 90 day waiting period, persons acquiring 5% of Mercury s common stock will no longer be required to report their beneficial ownership under the Exchange Act;

after the 90 day waiting period, tender offers for the beneficial ownership of more than 5% of Mercury s common stock will no longer be regulated;

after the 90 day waiting period, tender offer transactions by issuers and affiliates will no longer be regulated;

Mercury will not be required to comply with Section 404 of the Sarbanes-Oxley Act, the cost of which is estimated to be up to \$3,000,000 through June 30, 2007 and approximately \$500,000 per year thereafter;

Mercury's common stock will no longer be listed on the American Stock Exchange, any trading in its common stock will only occur in the over-the-counter markets or in privately negotiated sales, and its common stock will likely only be quoted in the pink sheets ;

outstanding options held by Mercury's employees, officers and directors to acquire Mercury's common stock will remain outstanding following the Transaction;

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the number of Mercury's stockholders of record will be reduced from approximately 331 to approximately 33, and the number of outstanding shares of Mercury's common stock will be reduced by approximately 6.3%, from 3,056,355 shares, to approximately 2,863,742 shares;

assuming exercise of all options exercisable within sixty days of the date of this proxy statement, the percentage ownership of Mercury's common and preferred stock beneficially owned by the directors and officers of Mercury as a group will increase from 42.8% to 45.1% based on shares outstanding as of June 30, 2005. Because Mercury's common and preferred stockholders vote as a single class on all matters presented to the stockholders (including the Transaction), the Transaction will not affect control of Mercury;

aggregate stockholders' equity of Mercury as of March 31, 2005, will be reduced from \$13,869,000 on a historical basis to approximately \$12,786,000 on a pro forma basis;

the book value per share of common stock as of March 31, 2005, will be reduced from \$4.54 per share on a historical basis to approximately \$4.46 per share on a pro forma basis;

Mercury will pay cash of approximately \$1,092,000 in the aggregate, net of tax benefits, to repurchase fractional shares and pay the costs of the Transaction; and

Mercury expects its business and operations to continue as they are currently being conducted and, except as disclosed in this Proxy Statement, the Transaction is not anticipated to have any effect upon the conduct of such business.

See **Special Factors - Certain Effects of the Transaction** beginning on page 38.

ALTERNATIVES CONSIDERED

Prior to deciding to pursue the Transaction, Mercury considered and rejected a number of alternatives, including a cash tender offer at a similar price per share, cash-out merger, purchase of shares in the open market, reverse stock split without a forward stock split, and a sale of certain divisions of Mercury. The Transaction Affiliates also considered briefly a cash tender offer, but rejected this alternative.

See **Special Factors - Alternatives Considered** beginning on page 25.

CONDITIONS TO COMPLETION OF THE TRANSACTION

The completion of the Transaction depends upon the consent of the Company's creditor, the Bank of America, and upon the approval of the proposed amendments to Mercury's Certificate of Incorporation that will implement the Transaction by the holders of at least a majority of Mercury's outstanding shares of common and preferred stock, voting as a single class. A copy of the Amended and Restated Certificate of Incorporation effecting both the Reverse Stock Split and the Forward Stock Split following immediately thereafter is attached as Appendix A to this proxy statement.

RESERVATION OF RIGHTS

Mercury's Board of Directors reserves the right to abandon the Transaction without further action by its stockholders at any time before the filing of the Amended and Restated Certificate of Incorporation with the Delaware Secretary of State, even if the Transaction has been authorized by Mercury's stockholders at the Special Meeting, and by voting in favor of the Transaction you are also expressly authorizing Mercury's Board of Directors to determine not to proceed with the Transaction if it so decides. See **Special Factors - Reservation of Rights** beginning on page 45.

SOURCE OF FUNDS; FINANCING OF THE TRANSACTION

Mercury estimates that the total funds required to pay the consideration to stockholders entitled to receive cash for their shares and to pay the costs of the Transaction will be approximately \$1,092,000, net of taxes. The consideration to stockholders and the costs of the Transaction will be paid from working capital of Mercury and amounts available under Mercury's loan agreement with the Bank of America, N.A. (**Bank of America**). See **Special Factors - Source of Funds; and Financing of the Transaction** on page 42.

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CONFLICTS OF INTEREST OF DIRECTORS AND EXECUTIVE OFFICERS, INCLUDING THE TRANSACTION AFFILIATES

Mercury's directors and executive officers, including the Transaction Affiliates, may have interests in the Transaction that are different from your interests as a stockholder, and have relationships that may present conflicts of interest, including the following:

each member of Mercury's Board of Directors, except Michael Janowiak, and each of Mercury's executive officers, except Kent Rosenthal, hold 501 or more shares of Mercury common stock and will retain their shares after the Transaction;

each member of Mercury's Board of Directors and each of Mercury's executive officers, except Kent Rosenthal, holds options to purchase more than 501 shares of Mercury common stock, which will remain outstanding after the Transaction; and

a result of the Transaction, the stockholders who own of record at the effective time of the Transaction 501 or more shares, including Mercury's Board members and the majority of Mercury's executive officers, including the Transaction Affiliates, will increase their percentage ownership in Mercury as a result of the Transaction. For example, assuming the Transaction is approved, the beneficial ownership percentage of the current directors and executive officers of Mercury as a group in Mercury's common and preferred stock will increase from approximately 42.8% to 45.1% as a result of the reduction of the number of shares of common stock outstanding by approximately 192,613 shares.

See Special Factors Interests of Mercury's Directors and Executive Officers in the Transaction on page 34.

EXCHANGE OF CERTIFICATES

Promptly after the Transaction, Mercury will send a letter of transmittal and instructions to effect the surrender of certificates for Mercury's common stock to all stockholders who, based on information available to Mercury, appear to be holders of fewer than 501 shares of Mercury's common stock in any one account. Upon surrender of a certificate for cancellation to Mercury together with such letter of transmittal, duly completed and executed, the holder of the certificate will receive a cash payment of \$4.00 per share, without interest, from Mercury. See The Proposed Amendment Exchange of Certificates beginning on page 54.

EFFECTUATION OF THE TRANSACTION

Assuming the Transaction is approved by the stockholders at the Special Meeting held on September 16, 2005, then, as soon as practicable thereafter, Mercury intends to file the proposed Amended and Restated Certificate of Incorporation effectuating the reverse and forward stock splits.

DATE OF COMPLETION OF THE TRANSACTION

Mercury expects the Transaction to be completed at 11:59 p.m. on September 16, 2005, or as soon as reasonably practicable thereafter.

U.S. FEDERAL INCOME TAX CONSEQUENCES

Generally, for stockholders who hold fewer than 501 shares of common stock before the Transaction, the receipt of cash for fractional shares will be treated for tax purposes in the same manner as if the shares were sold in the market for cash. Stockholders who will remain stockholders of Mercury following the Transaction should not be subject to taxation as a result of the Transaction. Tax matters are very complicated, and the tax consequences to you of the Transaction will depend on your own situation. Please read Special Factors U.S. Federal Income Tax Consequences beginning on page 43.

QUESTIONS AND ANSWERS ABOUT RESTRUCTURING YOUR SHARE OWNERSHIP

Q: WHY IS THE FORWARD STOCK SPLIT PREDICATED ON THE APPROVAL OF THE REVERSE STOCK SPLIT, AND WHY IS THE REVERSE STOCK SPLIT PREDICATED ON THE APPROVAL OF THE FORWARD STOCK SPLIT?

A: We need to have approval of both parts of the Transaction in order to maintain approximately the same market price for each share of common stock. If we did one without the other, the price of each share of common stock

would either decrease or increase by a large amount. Also, by having the forward stock split immediately following the reverse stock split, and by cashing out only those

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shareholders who initially hold less than 501 shares, the Company is spending substantially less money than it would if it had to cash out not only those shareholders holding less than 501 shares, but also the incremental portion of each shareholder's holdings which is not divisible by 501 (i.e. if a shareholder held 701 shares, and we did not have a forward stock split immediately following the reverse stock split, 501 pre-split shares would be converted into one post-split share, and we would have had to pay cash for the remaining 200 pre-split shares). Finally, having the forward stock split without having the reverse stock split would not accomplish one of the principal reasons for the Transaction, which is to reduce the number of holders of common stock.

Q: IF I OWN FEWER THAN 501 COMMON SHARES, IS THERE ANY WAY I CAN CONTINUE TO BE A STOCKHOLDER OF MERCURY AFTER THE TRANSACTION?

A: If you own fewer than 501 common shares before the reverse stock split, the only way you can continue to be a stockholder of Mercury after the Transaction is to purchase, prior to the effective date, sufficient additional shares to cause you to own a minimum of 501 shares on the effective date. Mercury cannot assure you, however, that any shares will be available for purchase.

Q: IS THERE ANYTHING I CAN DO IF I OWN 501 OR MORE COMMON SHARES, BUT WOULD LIKE TO TAKE ADVANTAGE OF THE OPPORTUNITY TO RECEIVE CASH FOR MY SHARES AS A RESULT OF THE TRANSACTION?

A: If you own 501 or more common shares before the Transaction, you can only receive cash for all of your shares if, prior to the effective date, you reduce your stock ownership to fewer than 501 shares by selling or otherwise transferring your shares. Mercury cannot assure you, however, that any purchaser for your shares will be available. Alternatively, before the effective date, you could divide the shares you own among different record holders so that fewer than 501 shares are held in each account. For example, you could divide your shares between your own name and a brokerage account so that fewer than 501 shares are held in each account.

Q: WHAT HAPPENS IF I OWN A TOTAL OF 501 OR MORE COMMON SHARES BENEFICIALLY, BUT I HOLD FEWER THAN 501 COMMON SHARES OF RECORD IN MY NAME AND FEWER THAN 501 COMMON SHARES WITH MY BROKER IN STREET NAME ?

A: example of this would be if you have 251 common shares registered in your own name with Mercury's Transfer Agent, and you have 250 common shares held through your broker in street name. Accordingly, you are the beneficial owner of 501 shares, but you do not own 501 shares of record or beneficially in street name. If this is the case, as a result of the Transaction, you would receive cash for the 251 shares you hold of record and the 250 shares held in street name.

Q: IF I OWN AT LEAST 501 COMMON SHARES, BUT THE SHARES ARE SPLIT AMONG RECORD OWNERS AS DESCRIBED ABOVE SO THAT NO RECORD OWNER HOLDS AT LEAST 501 COMMON SHARES, BUT I WISH TO CONTINUE TO OWN COMMON STOCK OF MERCURY AFTER THE TRANSACTION, WHAT CAN I DO?

A: Before the effective date, you could put all of the shares you own beneficially in one record name, either in your name or in street name, so that the total shares you own that are held of record in the same name is at least 501 shares, and then you would continue to be a stockholder after the effective date.

Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A:

No. After the Transaction has been completed, Mercury will send instructions on how to receive any cash payments you may be entitled to receive.

SPECIAL FACTORS

CORPORATE DEVELOPMENTS IN LAST FOUR YEARS

Sale of FBOs

Mercury sold all of its Fixed-Based Operations (FBO s), excluding the Long Beach FBO, to Allied Capital Corporation (Allied Capital) on April 12, 2004. Mercury received cash consideration of \$76,349,000, subject to adjustment, for the FBOs. The following gives a background description of that transaction (the Allied Transaction).

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For the period ended June 30, 2002, Mercury was in violation of certain financial covenants of its then existing senior secured credit facility held by Fleet National Bank (Senior Secured Credit Facility or Facility) and a promissory note with J.H. Whitney Mezzanine Fund, L.P., one of its creditors (the Whitney Note). These violations were as follows:

- A: The Company's capital expenditures for the twelve month period ended June 30, 2002 were \$4,500,000 exceeding the maximum allowable capital expenditures of \$4,000,000 by \$500,000; and
- b. After the restatement of the Company's quarterly financial results for the second and third quarters of fiscal 2002 to: 1) correct its accounting to properly record leasehold amortization expenses for its cargo operations; 2) to write off costs associated with unsuccessful financing transactions; 3) to correct its accounting for certain FBO operating expenses; and 4) to recognize additional compensation expenses resulting from changes in stock option terms, Mercury reported quarterly net losses of \$31,000 and \$380,000 for the second and third quarters of fiscal 2002, respectively, in violation of the quarterly minimum net earnings covenant of \$1 for those quarters.

During discussions with the senior secured lender, it advised Mercury that it was its preference not to amend the loan agreement or waive the default conditions, but rather have Mercury enter into a new credit facility with another senior lender that would allow Mercury to repay in full the outstanding obligations on the Senior Secured Credit Facility. During the third and fourth quarters of fiscal 2002 and the first and second quarters of fiscal 2003 Mercury held discussions with several financial institutions with the intent to prepay both the Senior Secured Credit Facility and the Whitney Note. As a result of those discussions, Mercury was able to secure a new senior secured lender. Foothill Capital Corporation (Foothill), now known as Wells Fargo Foothill, to provide a senior credit facility that would provide up to \$42,500,000 in financing with \$12,500,000 being in the form of a term loan with up to \$30,000,000 in the form of a revolving credit line based on eligible customer accounts receivable. Mercury, however, was not able to secure an acceptable subordinated loan facility to replace the Whitney Note. Mercury then initiated talks with Whitney regarding amending the terms of the existing note. Table of Contents

These discussions culminated on December 30, 2002, when Mercury entered into a new senior credit facility (the New Facility) with Foothill as agent for the lenders (the Lenders) parties thereto, for the purpose of refinancing the existing Senior Secured Credit Facility as well as for general working capital, and amended the existing Whitney Note. At closing, the Company received \$16,923,000 from the New Facility and disbursed the funds as follows:

1. Repayment of existing Senior Debt, including accrued interest:	\$ 13,533,000
2. Agent fee to the Company's Financial Advisor:	1,000,000
3. Closing fee to Lender:	870,000
4. Accrued interest to JH Whitney on Senior Subordinated Note:	840,000
5. Note amendment fee to JH Whitney:	270,000
6. Closing fees:	410,000
Total disbursement at closing	\$ 16,923,000

In addition, the Lenders issued letters of credit in the amount of \$16,364,000 at closing that were secured by the New Facility.

The Whitney Note was secured by Mercury's assets, subordinated to a senior creditor position held by Foothill. Warrants to purchase an additional 5% of Mercury's common stock, exercisable for nominal consideration, would have been issued if the principal amount of the Whitney Note was not prepaid by December 31, 2003. Warrants to purchase a second 5% of Mercury's common stock, exercisable for nominal consideration, along with an additional note in the original principal amount of \$5,000,000 would also have been issued if the outstanding principal amount of the Whitney Note was greater than \$12,000,000 after December 31, 2003 (collectively, the Whitney Note Penalty Provisions). In addition, beginning in January 2004 and continuing through June 2004, the interest rate on the Whitney Note would have increased by 1% per annum each month up to a maximum rate of 18%. Mercury was also required to prepay all outstanding principal on the Whitney Note and any additional note on December 31, 2004 but Mercury's failure to make such payment would not have entitled the holder to accelerate the balance on the

outstanding Whitney Note or outstanding additional note. The Whitney Note included covenants that, among other matters, limited senior indebtedness, the payment of dividends, the disposition of assets, requirements for a minimum EBITDA (a financial measure of cash flow representing earnings before interest, taxes, depreciation and amortization) and capital expenditure limitations.

As previously required by the Whitney Note, Mercury formed committees consisting of independent directors to seek opportunities for asset and other financing transactions, with a view to reducing Mercury's total debt.

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Beginning in December 2002, Mercury was engaged in discussions with financial institutions proposing to purchase and lease back to Mercury certain FBO assets (sale- leaseback). Mercury engaged DAMG Worldwide, L.L.C. (DAMG) on a non-exclusive basis, to manage and participate in a public finance vehicle for the sale-leaseback of ten FBOs. Other participants included Bear Stearns, and Ambac Insurance with Standard and Poors (S&P) providing a bond rating. DAMG investigated the establishment of a special purpose entity which was to receive a bond rating in order to raise funds and effect the sale-leaseback transaction. Mercury abandoned the sale-leaseback process in September 2003 after S&P failed to deliver a timely and satisfactory bond rating of the special purpose entity, Ambac Insurance indicated that they would no longer participate and the engagement with DAMG expired.

Beginning in January 2003, Mercury was responding to numerous solicited and unsolicited verbal purchase offers on the sale of certain FBOs. These responses resulted in three written proposals for the acquisition of selected FBOs. Two offers were contingent on airport lease extensions, which were not obtainable on a timely basis for those specific FBOs and the third offer was subject to financing through a leveraged buyout over a two year period.

During the same time period, Mercury also responded to indications of interest regarding MercFuel, Inc. (MercFuel), Mercury 's fueling subsidiary, and Mercury Air Cargo, Inc. (Cargo), Mercury 's cargo-handling facility. With regard to MercFuel, a non-binding indication of interest had been received at a price of \$15,000,000, which at less than three times cash flow from operations was deemed by management to be unacceptable. With regard to Cargo, discussions with an interested party failed to result in a formal offer as a result of an indication of a purchase price of less than two times cash flow from operations. Beginning in August 2001, Mercury retained Bank America Securities, LLC to market its government services business (Maytag) and were unable to obtain any acceptable offers that adequately reflected the value of Maytag.

In February 2003, Mercury engaged, on a non-exclusive basis, the investment banking firm of ARG1 to market some of its individual FBOs, and on February 28, 2003, Mercury engaged Imperial Capital to, among other things, assist management in evaluating interest from a list of buyers for certain of Mercury 's assets, including Mercury 's FBO subsidiary, Mercury Air Centers, Inc. (Air Centers), and advising management in the potential sale of such assets. These buyers consisted of both buyers who were interested in purchasing Mercury 's assets in order to make a short-term profit (Financial Buyers) and buyers who were interested in purchasing Mercury 's assets in order to expand or complement their existing businesses (Strategic Buyers). The efforts of the two investment banking firms preceded separately in that ARG1 was to arrange for a sale of individual FBO 's while Imperial Capital was to arrange for the sale of one or more divisions of the Company. The efforts of the two investment banking firms were coordinated by Joseph Czyzyk, Chief Executive Officer. Following its engagement, ARG1 held discussions with more than 20 qualified domestic and international acquirers about the purchase of one or more of Mercury 's FBOs. Their efforts resulted in eight separate purchase offers, four of which were for one particular location and four of which were for multiple locations. Five of the eight offers allowed the potential purchasers unlimited time to perform due diligence, which was unacceptable to Mercury due to the timing requirements of the principal reduction conditions associated with the Whitney Note. Of the offers originated by ARG1, seven of the offers were determined to be unacceptable because the amounts offered were from 15% to 30% lower than the amounts that Mercury had advised ARG1 to sell the FBO 's for, and if accepted, would have provided insufficient proceeds for Mercury to retire the required amount of principal in the Whitney Note. The one financially adequate offer was not consummated or pursued by the potential buyer for reasons that the potential buyer elected not to disclose to Mercury.

Imperial Capital was engaged specifically to identify, solicit and negotiate with interested and qualified parties for the purpose of selling significant assets or entire businesses belonging to Mercury adequate to yield sufficient proceeds so that Mercury would be able to repay the necessary amount of debt it was obligated to pay pursuant to the New Facility and the Whitney Note so that the Whitney Note Penalty Provisions would not apply. Pursuant to these documents, the minimum required amount to be repaid was \$24,250,000 (\$12,500,000 to Foothill and \$12,000,000 to Whitney) by December 31, 2003. In order to yield that amount on an after-tax and expenses basis, Mercury instructed Imperial Capital to seek to sell significant assets or businesses belonging to Mercury for at least \$30,000,000. Imperial Capital obtained necessary historical financial and operational history of the different businesses Mercury was engaged in and contacted fourteen potential purchasers (including Allied Capital) to solicit their interest, first by qualifying their financial capabilities and their historical acquisition experience, and second by engaging them in

confidentiality agreements followed by provision of selected financial and operational information, resulting in offer to acquire letters. With the assistance of management, Imperial Capital prepared information and financial analyses describing the operations of each of Mercury's business divisions, including Air Centers. Information was distributed by Imperial Capital to the fourteen potential financial and strategic buyers, ten of which were financial and four of which were strategic, each of which had expressed interest in receiving further information and signed confidentiality agreements to receive such information. Following its engagement, Imperial Capital received six offers for the stock and/or substantially all of the assets of Air Centers or certain assets of Air Centers. Four of these bidders, who had held meetings with Mercury's management and conducted due diligence, sought to purchase certain assets of Air Centers. Three of the offers were subject to the bidders obtaining necessary financing. In addition, several other parties were contacted, executed a confidentiality

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agreement, and received information, but chose not to issue a proposal. Below is a summary, in chronological order, of the definitive bids received:

In June 2003 Mercury's senior management began to deal directly with representatives from Party A. On July 30, 2003, Party A mailed a Letter of Intent to Mercury to purchase Mercury's Charleston, SC FBO and Mercury's Johns Island, SC FBO. On July 30, 2003, Party A mailed a Letter of Intent to Mercury for the purchase of Mercury's FBOs in Reno, NV; Jackson, MS; and Nashville, TN. On August 18, 2003, Party A mailed a revised Letter of Intent for the purchase of the Mercury FBO in Nashville, TN because they had determined that their ability to conclude the sale of that FBO could be hampered by a Hart Scott Rodino (HSR) violation as Party A owned and operated the only other FBO competing with Mercury's FBO at Nashville, TN Airport.

During August and September, 2003 Party A proposed purchasing a total of four of Air Center's FBOs. Party A submitted an offer to acquire these four FBOs, which collectively generated EBITDA of approximately \$3,300,000, for total consideration of \$20,000,000, representing an EBITDA multiple of 6.1x.

On March 28, 2003, Party B submitted an initial proposal to purchase seven of Air Centers' FBOs, with total EBITDA of approximately \$6,600,000, and other Air Centers' assets for total consideration of \$25,800,000. On April 24, 2003, Party B submitted a revised proposal for eight of Air Centers' FBOs, with total LTM EBITDA (latest twelve months EBITDA) of approximately \$7,900,000 as of February 2003, for total consideration of \$37,900,000, representing an EBITDA multiple of approximately 4.7x. On May 5, 2003, Mercury made a counter proposal to Party B which entailed the sale of six of Air Centers' FBOs, with total EBITDA multiple of approximately \$4,400,000, for total consideration of \$30,900,000, representing an EBITDA multiple of approximately 7x.

On May 7, 2003, Party C submitted an initial proposal, which entailed the purchase of ten FBOs, with total EBITDA of approximately \$7,000,000, for total consideration of \$31,000,000, representing an EBITDA multiple of 4.4x. In June 2003, Party C submitted a subsequent offer for nine FBOs, with total EBITDA of \$5,500,000, for total consideration of \$29,100,000, representing an EBITDA multiple of 5.3x.

On May 28, 2003, Party B made a counterproposal which entailed the purchase of six FBOs, with total LTM EBITDA of approximately \$4,400,000 as of March 2003, for total consideration of \$21,500,000, representing an EBITDA multiple of approximately 4.9x.

On June 10, 2003, Party C submitted a revised offer for nine of Air Centers' FBOs, with total EBITDA of \$5,600,000, for \$36,600,000 in cash, representing an EBITDA multiple of 7.6x.

In July 2003, Mercury engaged in discussions with a foreign investor who proposed to acquire all of Mercury's FBOs, proposing a step transaction including cash and notes. Mercury rejected the offer due to the investor's inability to verify and guarantee the availability of the funds.

In July 2003, Mercury began to engage in discussions with Allied Capital for the acquisition of Mercury's FBOs.

On July 31, 2003, Party C submitted a revised offer for fourteen FBOs at a purchase price of \$58,800,000 million, representing an EBITDA multiple of approximately 5.8x. On August 1, 2003, Party C issued a final proposal for substantially all of Air Centers' FBOs for a total purchase price of \$77,800,000 million, representing an EBITDA multiple of 6.3x. Each of Party C's offers was subject to Party C successfully obtaining adequate senior and subordinated debt financing. Further, Party C's never completed any due diligence.

In August 2003, Mercury's management determined not to pursue Party C's final proposal based on (i) the financing contingency, and concerns by Mercury's management of Party C's ability to obtain the necessary financing, given Party C's high degree of leverage; (ii) lack of certainty of closure on proposed terms; and (iii) Party C's concerns regarding the construction obligations relating to the Los Angeles FBO.

In August 2003, Party D submitted a verbal preliminary indication of interest for all Air Centers' FBOs in the range of \$65,000,000 to \$70,000,000 million in cash, subject to financing.

On August 14, 2003, Allied Capital submitted an initial Letter of Intent (LOI) for the purchase of all of the capital stock of Air Centers (all of Mercury's FBOs) for a purchase price of \$79,000,000 million in cash (subject to adjustment based on Air Centers' net working capital as of the transaction closing date) and the assumption of Mercury's and Air Centers' liabilities for construction or renovations at Air Centers' FBOs under existing agreements. The LOI provided, among other things, for Allied Capital to perform due

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diligence and the parties to work toward the negotiation, preparation and execution of a definitive agreement subject to certain exceptions. Mercury and Air Centers agreed to work exclusively with Allied Capital for a 45 day No-Shop period.

On September 29, 2003, after performing additional due diligence and several weeks of negotiations, Mercury, Air Centers and Allied Capital entered into an LOI, which replaced the August 14, 2003 LOI. The new LOI provided for the purchase of all of the capital stock of Air Centers for a purchase price of \$88,600,000 million in cash (subject to adjustment based on Air Centers' net working capital as of the transaction closing date). Allied Capital agreed to assume all of Mercury's and Air Centers' liabilities for construction or renovations at Air Centers' FBOs under existing agreements, the amount of which would be deducted from the \$88,600,000 million of cash proceeds on the transaction closing date (effectively a \$70,000,000 purchase price, representing an EBITDA multiple of 5.7x). The LOI also provided for Allied Capital to commence negotiations with J.H. Whitney Mezzanine Fund, L.P. regarding the execution and delivery of a binding agreement for the purchase by Allied Capital of the Whitney Note, and with Mercury regarding execution and delivery of a binding stock purchase agreement, both agreements to be executed simultaneously on or before October 8, 2003, with closing of the stock purchase to occur on or before December 31, 2003. Allied Capital agreed to remove the Whitney Note Penalty Provisions in the event it purchased the Whitney Note. The LOI provided, among other things, for Allied Capital to perform due diligence, and the parties to work together toward the negotiation, preparation and execution of a definitive agreement.

Mercury and Air Centers agreed to work exclusively with Allied Capital for a No-Shop period ending October 8, 2003.

Negotiations between Party A and Mercury were ongoing until Mercury's execution of the September 29, 2003 LOI with Allied Capital. Mercury's senior management determined that a transaction with Party A and Mercury for the four FBOs would have resulted in a significant tax expense to Mercury of approximately \$4,000,000, resulting from the low tax base of these FBOs thereby not providing Mercury with sufficient capital to avoid the Whitney Note Penalty Provisions without additional asset sales. In addition, management was concerned that Party A would not be in a position to purchase all of Air Centers' FBOs due to potential regulatory issues under the HSR Act and certain issues which had not yet been resolved. Party A was given the opportunity to pursue discussions regarding the acquisition of all of the FBO locations but declined. Mercury's management determined to instead pursue the Allied Capital transaction.

In October 2003 and November 2003, Mercury received two additional offers for one or more FBOs. Pursuant to the terms of the LOI and the stock purchase agreement, respectively, Mercury notified Allied Capital of these offers.

On October 9, 2003, Mercury, Air Centers and Allied Capital extended the No-Shop period and the date for purchase of the Whitney Note and execution of a binding stock purchase agreement for the purchase of Air Centers to October 16, 2003.

On October 14, 2003, Mercury, Air Centers and Allied Capital extended the No-Shop period and the date for purchase of the Whitney Note and execution of a binding stock purchase agreement for the purchase of Air Centers to October 29, 2003.

On October 23, 2003, at a telephonic meeting, the Mercury Board reviewed Allied Capital's offer in detail. Prior to the Board meeting, the Secretary of the Corporation distributed a copy of the most recent draft of the stock purchase agreement with Allied (Allied Stock Purchase Agreement), and Imperial Capital distributed a draft fairness opinion to the members of the Board of Directors of Mercury. Two representatives of Imperial Capital attended the Board meeting, made a presentation to the Board with respect to the Allied Transaction, issued its final opinion indicating that the Allied Transaction is fair to Mercury's stockholders from a financial point of view, in substantially the form of the draft opinion that was previously distributed, and answered questions pertaining to its due diligence, methodology and the contents of the fairness opinion.

October 28, 2003 Allied Capital purchased the Whitney Note and simultaneously, Mercury, Air Centers and Allied Capital entered into the Allied Stock Purchase Agreement.

On October 27, 2003, the day immediately preceding the public announcement of the Allied Transaction, the closing price of Mercury Common Stock on the American Stock Exchange was \$8.00.

On November 26, 2003, Signature Flight Support Corporation (Signature), previously identified herein as Party A, filed a complaint in the Federal District Court, Central District of California, against Air Centers (the former FBO division of Mercury that was the subject of the Allied Stock Purchase Agreement) and Allied Capital alleging: 1) breach of contract against Air Centers; 2) tortious interference with contract against Allied Capital; 3) tortious interference with prospective economic advantage against Allied Capital; and 4) unfair business practices against Mercury and Allied Capital. Mercury agreed to indemnify Allied Capital and its

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affiliates (including, without limitation, Air Centers after the closing of the FBO sale), directors, officers, agents, employees and controlling persons from any liability, obligation, losses or expenses to which Allied Capital may become subject as a result of the complaint. On January 26, 2005 the Federal District Court granted Allied Capital's motion for summary judgment dismissing all claims against Allied Capital with prejudice. The Court also granted Mercury Air Centers motion in part dismissing in its entirety Signature's unfair business practices claim and holding that the substantive deal terms of the parties' executed letter of intent were non-binding. The sole remaining claim of Signature is for breach of the stand-down provision within the disputed letter of intent between the parties. The Court limited Signature's damages in that claim to reasonable out of pocket costs and expenses, and set the amount of damages at \$160,000 if Signature proves the existence of a binding contract and material breach thereof. This matter is expected to be appealed. In addition, on September 22, 2004, Signature filed a complaint against Mercury Air Group, Inc. in Los Angeles Superior Court, alleging unfair business practices, tortious interference with contract and prospective economic advantage and fraud. Mercury has filed a counterclaim against Signature and others for fraud, negligent misrepresentation and other claims in the Los Angeles Superior Court action. Signature filed an amended complaint on or about February 1, 2005. Mercury believes these allegations have no merit and will also be vigorously disputed and defended. In the opinion of management, the ultimate resolution of these complaints will not have a material effect on Mercury's consolidated financial statements.

The sale of the FBO assets to Allied Capital closed on April 12, 2004. Imperial Capital received \$300,000 from Mercury in connection with the sale to Allied Capital \$262,500 for services in connection with the purchase of the Whitney Note by Allied Capital and the execution of the Allied Stock Purchase Agreement, and \$37,500 for rendering the fairness opinion.

Special Dividend

On October 6, 2004, Mercury announced that its Board of Directors declared a one-time special dividend totaling \$17,500,000, or approximately \$5.45 to \$5.60 per share that would be payable on a pro rata basis to holders of record of its common stock as of the close of business on October 18, 2004. On October 5, 2004, the day immediately preceding the public announcement of the special dividend, the closing price of the common stock on the American Stock Exchange was \$5.39. The Board of Directors declared the one-time special cash dividend after a lengthy review of strategic goals in light of the sale of the FBO business. The dividend was paid on November 5, 2004. The dividend was paid from cash on hand and a \$10,000,000 cash advance on the loan agreement with Bank of America. Based on 3,056,355 shares of its common stock outstanding as of the close of business on October 18, 2004, the dividend payable per common share was \$5.70. The amount payable per share of common stock was net of the mandatory dividend payments of approximately \$70,000 on Mercury's outstanding preferred stock as of the dividend payment date of November 5, 2004.

BACKGROUND OF THE TRANSACTION BOARD AND SPECIAL COMMITTEE DELIBERATIONS

At a Board meeting on February 2, 2005, the Board of Directors formally asked management to consider the topic of SEC deregistration and delisting from the American Stock Exchange. The Board's interest in deregistration as an SEC reporting company was the result of a February 1, 2005 report requested by Mercury's former Chief Financial Officer and compiled by Mercury's current Chief Financial Officer, Kent Rosenthal, of estimated costs by outside consultant SenPro Consulting/Casey & Co. for implementation of Section 404 internal controls certification provisions of the Sarbanes-Oxley Act. The report stated that projected Sarbanes-Oxley compliance costs would range between \$1.2 million and \$2.5 million of external compliance costs, along with approximately \$0.4 million of internal compliance costs. The report also provided an overview of Sarbanes-Oxley benefits and challenges, summarized six pages of Sarbanes-Oxley compliance procedures which would be required by Mercury and also summarized the results of phase I, which was the observational phase, and upon which the consultant based its Sarbanes-Oxley compliance costs estimates. In selecting SenPro Consulting/Casey & Co., the former CFO of the Company reviewed the costs, availability and background of a number of consultants engaged in Sarbanes-Oxley Compliance analyses. The former CFO had a long standing business relationship with a high ranking officer of the Casey Group of Parsippany, NJ. The Casey Group has specialized experience in IT evaluation and enterprise driven work. The Casey Group in turn contacted and hired SenPro Consulting for its specific Sarbanes-Oxley expertise. SenPro consultants came to the Company with experience working with 10 accelerated filer companies and specific experience dealing

with the needs of small cap companies. Except as set forth above, no material relationship existed during the past two years or is mutually understood to be contemplated between SenPro Consulting/Casey & Co. and/or its affiliates and the Company and/or its affiliates.

At the February 2, 2005 Board meeting, the Board discussed the high cost of maintaining the status quo and complying with the Section 404 Internal Controls Certification provisions, and the cost-savings benefits of SEC deregistration in light of the Company's lack of liquidity for its common stock. The Board also discussed that the Company's common stock would likely be quoted on the pink sheets. At this meeting, the Board discussed certain matters with Mercury's outside legal counsel, McBreen & Kopko (M&K). M&K is a law firm of which Frederick H. Kopko, Jr. is a partner. The matters discussed with M&K included, potential methods for deregistration as an SEC reporting company, which would require Mercury to reduce the number of stockholders of

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record of its common stock to less than 300. At this meeting the Board of Directors formed the Special Committee, which consisted of two independent directors to consider delisting and deregistering the Company's common stock. The Board of Directors also discussed at this meeting the advisability of continuing to utilize M&K as its outside legal counsel. The Board of Directors determined that, due to M&K's knowledge of the Company, it would be in the best interests of the Company and its stockholders to continue to use M&K as its outside legal counsel, however, the Board of Directors also determined that it would be in the best interests of the Company and its stockholders to also utilize an independent legal counsel to advise the Special Committee in connection with a possible deregistration and delisting.

Following the Board meeting on February 2, 2005, Bingham McCutchen, LLP (Bingham McCutchen) was engaged as independent legal counsel to the Special Committee and Imperial Capital was engaged as financial adviser to the Special Committee and the Board. Bingham McCutchen was requested to provide a presentation to the Special Committee on the considerations of delisting from the American Stock Exchange and deregistration as an SEC reporting company. Imperial Capital was requested to discuss with the Special Committee the advantages and disadvantages of delisting, deregistering and being quoted on the pink sheets.

The Special Committee discussed the topics of deregistration and delisting at a meeting held on February 16, 2005, with its independent legal counsel, Bingham McCutchen. At such meeting, the Special Committee confirmed its scope of duties and responsibilities, including its fiduciary obligations, the independence of its members, its engagement of Bingham McCutchen and its engagement of Imperial Capital. The members of the Special Committee confirmed their selection of Imperial Capital on the basis that Imperial Capital is an independent and experienced provider of valuation and fairness opinions; it does not have an advisory or other potentially conflicting role in the proposed Transaction; and it is thoroughly familiar with Mercury and its operations from having rendered prior fairness opinions in unrelated transactions and could therefore perform the analysis more expeditiously and cost effectively than other financial advisors.

The Special Committee also discussed in detail the information needed to evaluate the proposed Transaction, including the cost of maintaining the status quo, information regarding anticipated cost savings and anticipated expenses, all of which were considered in order to make an informed recommendation to the Board as to whether Mercury should delist its common stock from the American Stock Exchange and deregister its common stock as an SEC reporting company. The Special Committee reviewed material from Bingham McCutchen consisting of an agenda, which detailed what items should be considered at the meeting, and a draft delisting/deregistration process memorandum, which set forth the processes, procedures, and issues to be considered by the Special Committee. The Special Committee also considered a reverse/forward stock split as one of the methods of reducing the holders of record of Mercury's common stock to less than 300. Mercury's management and the Special Committee's advisers were requested to provide the Special Committee with responses to a variety of questions and to respond to a variety of requests for information. The information requested included examples of press releases and proxy statement information for other companies that had deregistered, a report on any of Mercury's contractual arrangements that might be impacted, alternatives to a reverse/forward stock split as the mechanism for accomplishing deregistration and a liquidity study to be performed by Imperial Capital as to the market impact of deregistration by other companies, and cost data from the Section 404 Sarbanes-Oxley compliance consultant.

On February 21, 2005, the Special Committee met again to review information with which it had been supplied consisting of the study previously provided to the Board of Directors on February 2, 2005, of estimated costs by outside consultant SenPro Consulting/Casey & Co. for implementation of Section 404 internal controls certification provisions of the Sarbanes-Oxley Act. Also provided were proxy materials from another company that had deregistered. The Company's third independent director, who is not a member of the Special Committee, Gary Feracota, was invited to and did attend the meeting of the Special Committee. The Special Committee also discussed with Bingham McCutchen various issues being considered as to the advantages and disadvantages for ceasing to have its shares of common stock continue to be listed on the American Stock Exchange and registered with the SEC.

The advantages and disadvantages included, cost savings that likely would result, both on an initial and continuing basis, the costs of accomplishing delisting and deregistration, the impact on stockholders' liquidity for their shares of common stock, and the consequences to stockholders who would receive cash for their fractional shares. Bingham

McCutchen provided a step-by-step memorandum at this meeting, which detailed the steps necessary to effectuate the reverse/forward stock split, and advised the Special Committee on both procedural and substantive considerations for effecting a transaction that would result in SEC deregistration and American Stock Exchange delisting, including the fiduciary duties of directors on the Special Committee. The methods for accomplishing such delisting and deregistration again were discussed, including management's recommendation of a reverse/forward stock split with cash being paid to holders of record of Mercury's common stock who hold less than 501 shares. Other methods considered were a cash tender offer, a cash-out merger, purchase of shares in the open market, a reverse stock split without a forward stock split and the sale of certain divisions. The method of determining the fairness of a cash payment to unaffiliated stockholders for

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fractional shares was discussed in detail. At the request of the Special Committee, additional information was to be provided for future meetings by Mercury's management, Bingham McCutchen and Imperial Capital. Management was requested to provide a detailed analysis of anticipated cost savings of deregistration, particularly as such cost savings relate to not having to comply with Section 404 of the Sarbanes-Oxley Act, and to provide a description of anticipated corporate governance if deregistration occurred. Bingham McCutchen was requested to provide the Special Committee with a detailed check list of matters that should be considered. Imperial Capital was requested to provide an analysis of companies that had deregistered and the reasons therefore and their trading history pre and post deregistration.

The Special Committee met again on February 25, 2005 with Bingham McCutchen and Imperial Capital. The additional information that had been supplied to the Special Committee by Imperial Capital was reviewed in detail, including a summary of information about: other companies who had used a reverse stock split for deregistration commencing in 2004 and their reasons for doing so (the Comparable Stock Split Analysis); a liquidity analysis of companies that had become traded on the pink sheets after having been traded either on a major stock exchange or quoted on NASDAQ (the Pink Sheet Liquidity Analysis); a share premium analysis (Share Premium Analysis); and a preliminary draft of a fairness opinion. The Comparable Stock Split Analysis listed 12 companies and itemized their reverse stock split ratios, the purpose of each stock split, whether the stock was later quoted on the pink sheets, and financial information on the companies, including market capitalization at the time of the split. The Pink Sheets Liquidity Analysis presented a price and volume chart of all stocks that were transferred to the pink sheets since July 1, 2004, listing price and volume, along with one week, one month, and one year average price and volume, of each such company, and also summarized the price and volume activity in total and by where each stock traded prior to being listed on the pink sheets. The liquidity analysis was also presented for stocks that were illiquid prior to transfer to the pink sheets. The Pink Sheets Liquidity Analysis concluded that price and volume dropped significantly when companies were transferred to the pink sheets, but that when illiquid securities were considered, the drop in price was less significant and volume actually increased in certain periods. The Share Premium Analysis analyzed the price activity of nine small illiquid companies where the majority shareholder acquired a majority interest of between 5% and 25%, finding a significant one-day, five-day and thirty-day premium for such prices. Also presented at the meeting: a distribution of shares analysis which was prepared internally and set forth the range of shares held by Mercury's stockholders along with an analysis of the cost of Mercury buying out stockholders within specified ranges, and a revised step-by-step memorandum provided by Bingham McCutchen, which set forth additional processes, procedures and issues to be considered at the Special Committee meeting. Bingham McCutchen also discussed Delaware case law on the selective purchase of fractional shares. At the meeting, further information was requested from Mercury's management and refinements were asked to be made in the analyses provided by Imperial Capital. The additional information requested from Mercury's management included the computation of anticipated cost savings based on analyses of consultants, a detailed summary of the proposed Transaction, potential audit firm issues if Mercury deregistered whether credit agreement or other contractual consents or modifications would be required, whether registration rights exist, whether employment agreements would be impacted, the amount and source of funding required and the projected increase in ownership that would occur to the largest stockholders of Mercury.

On March 1, 2005, the Special Committee again met with Bingham McCutchen and Imperial Capital to discuss the additional information and reports it had received, including a revised liquidity analysis of companies that had begun trading on the pink sheets after having been traded either on a major stock exchange or quoted on NASDAQ, which analysis separately breaks out distressed companies and concludes that distressed companies had significantly lowered price and volume, following the transfer to the pink sheets, than did non-distressed companies, and that for both the overall positive price change and the non-distressed group, a rise in stock price correlated to an increase in volume. Also distributed at the meeting was a revised step-by-step memorandum and Imperial Capital's preliminary opinion, subject to various assumptions and limitations as set forth therein. The Special Committee discussed with Imperial Capital the methodology for determining an appropriate range of cash consideration that would be fair, from a financial point of view, to those stockholders receiving the cash consideration, including all unaffiliated stockholders. The Special Committee requested that any preliminary information and reports be revised before the next meeting of the Special Committee. The Special Committee also reviewed the revised step-by-step memorandum to determine

what additional information was needed and who was to provide such information. Except for the step-by-step memorandum discussed above, memoranda regarding agendas and processes, legal research and publicly available information on other companies, Bingham McCutchen did not provide any opinions or presentation materials at the March 1, 2005 Special Committee meeting or at any other meeting of the Special Committee or the Board of Directors. Also at the March 1, 2005 Special Committee meeting, management reported to the Committee that the proposed new auditors for Mercury have confirmed that they will not require Mercury to become Section 404 compliant if Mercury becomes delisted/deregistered. However, any necessary expenditures for internal controls must be made to ensure the integrity of the financial statements and such costs are not included in the Section 404 estimates. Management also reported on its due diligence relating to its review of the top ten contracts for each of the divisions, and on its review of preferred stock provisions and outstanding stock options. Management stated that, based on its review, delisting/deregistration presented no issues with respect to such items. Management also reported that based on its review of Mercury's credit documents, certain consents and/or modifications would be necessary. The

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Committee also discussed the alternatives considered other than the proposed Transaction. Such other alternatives included a cash tender offer by Mercury, a cash-out merger, purchase of shares in the open market, a reverse stock split without a forward stock split and a possible cash tender offer by CK Partners. It was noted that some of these alternatives previously have been discussed by Mercury's board. Also discussed at the meeting was Section 404 compliance costs.

Another meeting of the Special Committee was held on March 3, 2005 with Bingham McCutchen and Imperial Capital to review the procedural and substantive issues that the Special Committee had considered to date. M&K, the Company's outside legal counsel, reported to the Special Committee on the extension of the required compliance date for the Section 404 provisions of the Sarbanes-Oxley Act for small issuers, such as Mercury. The Special Committee then discussed the impact of such extension on its deliberations and whether further information would be useful in reaching a decision to recommend to the Board that Mercury delist its common stock from the American Stock Exchange and deregister such common stock from SEC reporting requirements in accordance with the proposed Transaction being considered. The Special Committee discussed in detail the previous draft opinion and other materials from Imperial Capital consisting of a revised comparable stock split analysis of other companies which was similar to the previous Comparable Stock Split Analysis of other companies, but contained additional analysis of the market value of the comparable companies at the time of the reverse stock split. Also provided by Imperial Capital, and discussed extensively by the Special Committee, was an analysis of how much it would cost Mercury to undertake the reverse stock split at various prices (Cash Buy-Out Analysis). Management provided to the Special Committee its estimate that ongoing compliance costs would range from \$500,000 to \$1,000,000 per year. Bingham McCutchen requested that the Special Committee be presented with data supporting the annual ongoing costs. Management was asked to provide support for its estimate. In addition, the Special Committee previously had been furnished with a draft of a preliminary proxy statement that included a discussion of the proposed Transaction. After reviewing the draft of the preliminary proxy statement, the Special Committee determined to further reflect on the issues presented, to further review the material provided, including a further update to the draft of the preliminary proxy statement, and to meet again the following week.

The Special Committee next met on March 8, 2005 with Bingham McCutchen and Imperial Capital. Management and M&K reported to the Special Committee on unusual price and volume activity that was occurring that day in Mercury's common stock and reviewed with the Special Committee a proposed press release to be released later that day. The Special Committee reviewed in detail a Mercury historical price and volume analysis setting forth the price and volume of Mercury's common stock for the preceding two years; a cash buy-out analysis updated to reflect various premiums based on the March 7, 2005 closing price of Mercury's common stock, the draft fairness opinion issued by Imperial Capital with respect to the proposed transaction, which was previously provided to the Special Committee, the latest draft of the proxy statement, and the latest draft of the step-by-step memorandum previously provided to the Special Committee. Imperial Capital discussed with the Special Committee, based on the documents summarized above, Mercury's historical trading prices and volumes for its common stock and provided a detailed review of its draft fairness opinion. Imperial also reviewed typical premiums paid in going private transactions, how the Special Committee might approach determining the price to be paid to holders of fractional shares and how this information should be compared with Mercury's range of implied equity values set forth in Imperial Capital's draft fairness opinion.

The two members of Mercury's Special Committee next met on March 9, 2005 with Bingham McCutchen to review with the third independent director, who was not a member of the Special Committee, a summary of the discussions that the Special Committee had engaged in to date, the information and reports it had previously received, including a revised cash buy-out analysis based on the closing price on March 8, 2005, the draft fairness opinion from Imperial Capital and the most recent draft of proposed proxy materials. The independent directors again reviewed with counsel their fiduciary duties, the advantages and disadvantages of the proposed Transaction as detailed in the draft proxy statement and the methodology for determining the cash price for fractional shares in the event that the Special Committee recommended the proposed Transaction to the Board of Directors.

At a meeting on March 10, 2005, the Special Committee, along with the third independent director, again reviewed the procedures and process that had been followed by the Special Committee in considering the proposed Transaction and the advice and information that had been furnished to the Special Committee. The Special Committee reviewed in

detail a revised cash buy-out analysis based on the closing price on March 10, 2005, a revised comparable stock split analysis which was similar to the previous comparable stock split analysis documents but contained additional information on the 20-day average premium on the comparable companies presented, and the latest draft of the fairness opinion, which set forth updates to the calculations in the appendices. The Special Committee also reviewed in detail computations of cost savings projections from two sources: Sen/Pro Consulting/Casey & Co., which was previously provided to the Special Committee, and a separate report from Parson Consulting also setting forth cost savings projections which was presented to the Special Committee by Mercury's Chief Financial Officer. The report from Parson Consulting estimated that projected Sarbanes-Oxley costs attributable to direct billings from that consultant would be \$600,000 to \$900,000. However, this was exclusive of other costs that were included in the SenPro Consulting/Casey & Co. report such as increased audit fees, systems enhancements, and increased personnel costs, which Mercury's Chief Financial Officer stated would make the costs

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from the two consultants comparable. The report also outlined the five phases of Sarbanes-Oxley compliance and summarized Parson Consulting's credentials. Mercury's Chief Financial Officer noted that Parsons Consulting had contacted Mercury and provided its estimate based on the study prepared by SenPro Consulting/Casey & Co. Parson Consulting has performed over 50 Sarbanes-Oxley estimates. No material relationships existed during the past two years or its mutually understood to be contemplated between Parson Consulting and its affiliates and Mercury and its affiliates. Mr. Rosenthal stated to the Committee that he was comfortable with the range of projected initial and ongoing Sarbanes-Oxley compliance costs as stated in Mercury's public filings and the proposed preliminary proxy statement. He stated that in prior conversations with various audit firms, they told him that the Sarbanes-Oxley compliance cost will be at least 200% of the company's audit fees with ongoing costs of 65% to 70% of the initial cost. Mr. Rosenthal stated that the costs likely could be significantly higher. Following a discussion of the report, management stated that a new draft of the preliminary proxy materials was to be furnished to the independent directors not later than March 11, 2005 and would be reviewed by the independent directors before the meeting of the Special Committee on March 14, 2005.

On March 14, 2005, the Special Committee again met with the third independent director, with Bingham McCutchen, with members of senior management and with Imperial Capital and thoroughly discussed the additional information it received since its last meeting. Such additional information included: revised preliminary proxy material prepared by M&K; an updated draft of the fairness opinion which again set forth updates to the calculations in the appendices, a cash buy-out analysis based on the closing price of Mercury's stock on March 14, 2005 (all from Imperial Capital); data from management detailing estimated annual Sarbanes-Oxley Section 404 compliance costs; and a summary of the determination of the existence of a legal source under Delaware law for the proposed purchase of fractional shares. The status of requested changes to the loan agreement with Bank of America, and the additional data on annual Section 404 compliance costs, also were discussed. The Special Committee members and the third independent director again reviewed with Imperial Capital and counsel whether to recommend the proposed Transaction to the Board and, if so, the methodology for determining the cash consideration to be paid that would be advisable, fair and in the best interests of Mercury and all of its stockholders, including unaffiliated stockholders.

The Special Committee, along with the third independent director, met again on March 21, 2005 to review in detail: the advice that it had received; the information and reports provided from all sources, including a cash buy-out analysis, based on the closing price of Mercury's common stock on March 18, 2005, an expanded cash buy-out analysis, based on the closing price of Mercury's common stock on March 21, 2005 and the most recent draft of the fairness opinion issued by Imperial Capital with respect to the proposed Transaction, which was similar to the previous draft opinions except for updates to the calculations in the appendices. In considering the cash consideration to be paid to stockholders who would receive less than one share in the reverse stock split, the Special Committee reviewed a number of factors as discussed in Special Factors Recommendation of the Special Committee beginning on page 25 below. The Special Committee also considered the advice received from Imperial Capital, including Imperial Capital's fairness opinion. The full text of Imperial Capital's opinion is attached as Appendix B. Mr. Janowiak noted that Mr. Czyzyk had suggested that the Special Committee consider a repurchase price of \$3.65, which then represented a premium of \$.29 to the \$3.36 March 21, 2005 closing price for the Company's common stock. Both committee members considered the range of implied equity values as set forth in Imperial Capital's analysis of value, as well as the closing prices over the last 10, 20 and 30 trading days and one month average closing prices. Mr. Janowiak proposed a \$4.00 repurchase price, representing a premium of \$.64 or 19% over the closing price on March 21, 2005. Mr. Pusateri agreed and subject to Board approval and stockholder approval, the Special Committee unanimously recommended the cash consideration of \$4.00 per share and determined that: (i) both the Transaction and the payment of cash consideration of \$4.00 per share of common stock to stockholders who otherwise would receive less than one share in the reverse stock split are advisable, fair and in the best interests of Mercury and all of its stockholders, including all unaffiliated stockholders, and (ii) the proposed Transaction, including the cash consideration, be recommended to Mercury's Board of Directors for adoption.

At the special Board meeting on March 21, 2005, Mr. Janowiak, chairman of the Special Committee, reported on the Special Committee meeting held earlier that day. The Board discussed extensively the Special Committee's review of the reverse stock split, the estimated cost to accomplish the Transaction, and the cost savings that would be realized

by SEC deregistration. The Board and its counsel, M&K, specifically discussed the preliminary proxy materials previously furnished to the Board members and the cash consideration of \$4.00 per pre-split share to be paid to stockholders who would otherwise receive less than one share in the reverse stock split. In considering the price for the cash consideration, the Board reviewed a number of factors as discussed in Special Factors Recommendation of the Board; Fairness of the Transaction beginning on page 39. The Board also considered the Special Committee's recommendation and the opinion of the Special Committee's financial advisor. With Messrs. Czyzyk and Kopko abstaining, the remainder of the Board unanimously voted to approve the Transaction and directed that the Transaction be submitted to stockholders for a vote at a Special Meeting of Stockholders. The Board recommended that stockholders approve the Transaction.

Table of Contents**PURPOSE OF AND REASONS FOR THE TRANSACTION**

The purpose of the Transaction is to cash-out the equity interests in Mercury of stockholders who, as of the effective date, hold fewer than 501 shares of common stock in any discrete account at a price determined to be fair by the entire Board in order to enable Mercury to deregister its common stock under the Exchange Act and thus terminate its obligation to comply with Section 404 of the Sarbanes-Oxley Act. The Transaction will also terminate Mercury's obligation to file annual and periodic reports and make other filings with the SEC, although Mercury currently intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com.

Joseph A. Czyzyk, Frederick H. Kopko, Jr. and CK Partners, the Transaction Affiliates, fully support the Transaction for the same reasons as stated above and concur with the reasons for and benefits and disadvantages of the Transaction set forth below. The Transaction Affiliates believe that the Transaction is in the best interests of Mercury. While the ownership interest of the Transaction Affiliates in Mercury will increase as a result of the Transaction, this increase will be small due to the small number of shares being bought out in the Transaction. (See - Benefits of the Transaction to Affiliates of Mercury beginning on page 22). Unaffiliated stockholders who will remain stockholders after the Transaction will also experience an increase in their ownership interest of Mercury as a result of the Transaction. The Transaction Affiliates are not engaging in this Transaction to increase their ownership interest in Mercury, but because they believe that it will benefit and be in the best interest of Mercury, since the substantial costs and burdens associated with compliance with the Sarbanes-Oxley Act of 2002 will be largely eliminated.

The reasons for the Transaction and subsequent deregistration of Mercury as an SEC reporting company include: eliminating the costs and investment of management time associated with compliance with Section 404 of the Sarbanes-Oxley Act and related regulations; and

affording stockholders holding fewer than 501 shares immediately before the Transaction the opportunity to receive cash for their shares, without having to pay brokerage commissions and other transaction costs, at a price that represents a premium of 19% over the closing price of \$3.36 on March 21, 2005, which was the last trading day before the public announcement that the proposed Transaction had been approved by the Special Committee and the Board.

BENEFITS OF THE TRANSACTION*Benefits and Cost Savings of Termination as an SEC Reporting Company*

Mercury anticipates it will save up to \$3,000,000 through June 30, 2007, and approximately \$500,000 per year thereafter, by not having to comply with Section 404 of the Sarbanes-Oxley Act. Mercury will also save approximately \$15,000 per year in American Stock Exchange fees. Mercury also incurs substantial additional costs as a result of its status as a reporting company and being required to file annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements and stockholder reports as required by Regulation 14A under the Exchange Act, and current reports on Form 8-K; however, these costs are not enumerated below as Mercury intends to continue to provide reports as to its financial condition and results of operation.

The annual savings that Mercury expects to realize as a result of the Transaction are estimated as follows:

Compliance with Section 404 of the Sarbanes-Oxley Act*	\$ 500,000
American Stock Exchange Fees	\$ 15,000
Total	\$ 515,000

* Initial compliance with Section 404 of the Sarbanes-Oxley Act is estimated

to cost up to \$3,000,000, through June 30, 2007. This figure does not take into account any additional costs that may be necessary to remediate any deficiencies, if any, in Mercury's internal controls. Thereafter, annual costs for compliance with Section 404 are expected to be approximately \$500,000.

Estimates of the annual savings expected to be realized if the Transaction is implemented are based upon a study prepared by SenPro Consulting/Casey & Co., in the case of costs of complying with Section 404 of the Sarbanes-Oxley Act of 2002, and actual costs to Mercury in the case of the American Stock Exchange listing fee.

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In addition to the above costs, Mercury believes that there will be a reduction in auditing fees if Mercury ceased to be an SEC reporting company as there will not be any fees for the auditors to attest to internal controls pursuant to Section 404 of the Sarbanes-Oxley Act.

The estimate regarding Section 404 of the Sarbanes-Oxley Act of 2002 is only an estimate, and the actual savings to be realized may be higher or lower than estimated above. In addition, Mercury expects the various costs associated with remaining an SEC reporting company will continue to increase as a result of enactment of the Sarbanes-Oxley Act of 2002 and regulations adopted pursuant to that legislation. Based on Mercury's size and resources, the Board does not believe the costs associated with remaining an SEC reporting company are justified.

Comparing the Benefits of Termination versus Remaining an SEC Reporting Company

The Board believes that Mercury will not benefit significantly from remaining an SEC reporting company. Even as an SEC reporting company that is listed on the American Stock Exchange, there is a very limited trading market for Mercury's shares, especially for sales of larger blocks of Mercury's shares, and stockholders derive little benefit from Mercury's status as an SEC reporting company that is listed on the American Stock Exchange. During the 30-day period prior to the announcement that the Special Committee and the Board had approved the Transaction, the average daily trading volume on the American Stock Exchange of Mercury's common stock was approximately 9,093 shares. Mercury's small public float and limited trading volume have limited the ability of Mercury's stockholders to sell their shares without also reducing Mercury's trading price.

Further, the Board has no present intention to raise capital through sales of securities in a public offering in the future or to acquire other business entities using Mercury's stock as the consideration for any acquisition, and Mercury is therefore unlikely to have the opportunity to take advantage of its current status as an SEC reporting company for these purposes. If for any reason the Board of Directors decides in the future to access the public capital markets, Mercury could do so by filing a registration statement for such securities.

Benefits of the Transaction to Affiliates of Mercury

Benefits of the Transaction to affiliates of Mercury are expected to include the following:

assuming the exercise of all options that are exercisable within sixty days of the date of this proxy statement, Mercury's officers and directors, including the Transaction Affiliates, will increase their percentage ownership in Mercury from 42.8% to 45.1%;

assuming the exercise of all options that are exercisable within sixty days of June 30, 2005, the Transaction Affiliates will increase their percentage ownership in Mercury from 37.7% to 39.8%;

affiliated stockholders may benefit from the reduction in total shares outstanding or from the cost savings by Mercury not being public, either or both of which may result in higher earnings per share, which in turn may result in a higher price for their shares than they would have received if Mercury remained public;

Mercury's officers and employees will benefit from eliminating the time and effort associated with implementation of the Section 404 internal controls certification provisions of the Sarbanes-Oxley Act;

Mercury's officers and directors, and persons holding 5% or more of Mercury's common stock, including the Transaction Affiliates, will benefit because, after the 90 day waiting period, tender offer transactions by issuers and affiliates will no longer be regulated;

Mercury's officers and directors, and persons holding 5% or more of Mercury's common stock, including the Transaction Affiliates, will benefit because, after the 90 day waiting period, such officers, directors and 5% stockholders will no longer be required to report their acquisition, disposition or ownership of shares under the Exchange Act; and

remaining affiliated stockholders may benefit from future operating results of Mercury.

See Interests of Mercury's Directors and Executive Officers in the Transaction beginning on page 34.

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Benefits of the Transaction to Unaffiliated Stockholders

Benefits of the Transaction to unaffiliated stockholders of Mercury are expected to include the following: unaffiliated stockholders holding fewer than 501 shares immediately before the Transaction will have the opportunity to receive cash for their shares at a price that represents a premium of approximately 19% over the closing price of \$3.36 on March 21, 2005, which was the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee and the Board, without having to pay brokerage commissions and other transaction costs;

unaffiliated stockholders receiving \$4.00 for their shares are receiving an amount that is within the range of implied equity values in the per share analyses presented by Imperial Capital, financial advisor to the Special Committee and the Board. (See Opinion of Imperial Capital, LLC beginning on page 34);

unaffiliated stockholders who remain stockholders of Mercury after the Transaction may benefit from the reduction in total shares outstanding or from the cost savings by Mercury not being public, either or both of which may result in higher earnings per share, which in turn may result in a higher price for their shares than they would have received if Mercury remained public; and

remaining unaffiliated stockholders may benefit from future operating results of Mercury.

DISADVANTAGES OF THE TRANSACTION

Disadvantages of the Transaction to Mercury

Disadvantages of the Transaction to Mercury are expected to include the following:

Mercury's working capital and assets will be decreased and/or indebtedness increased, to fund the purchase of fractional shares, and to pay the other costs of the Transaction; and

the limited ability that Mercury has to raise capital in the public securities markets or to use its stock as an acquisition currency will be effectively eliminated.

Disadvantages of the Transaction to Affiliates of Mercury

Disadvantage of the Transaction to affiliates of Mercury are expected to include the following:

Mercury's officers and directors, including the Transaction Affiliates, are likely to experience reduced liquidity for their shares of common stock, even if the common stock trades on the pink sheets, and this reduced liquidity may adversely affect the market price of the common stock.

Disadvantages of the Transaction to Unaffiliated Stockholders of Mercury

Disadvantages of the Transaction to unaffiliated stockholders of Mercury are expected to include the following:

the cash price offered to stockholders under the proposed Transaction could be less than the market price at the time the Board decides to implement the Transaction and is less than the \$4.54 book value of the common stock as of March 31, 2005;

remaining stockholders are likely to experience reduced liquidity for their shares of common stock, even if the common stock trades on the pink sheets, and this reduced liquidity may adversely affect the market price of the common stock;

less public information about Mercury will be required or available after the Transaction and officers will no longer be required to certify the accuracy of Mercury's financial statements although Mercury currently intends to provide reports as to its financial condition and results of operations, which Mercury expects may be accessed at www.pinksheets.com;

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after the 90 day waiting period, officers, directors and persons holding or acquiring 5% of Mercury's common stock will no longer be required to report their beneficial ownership, or changes in beneficial ownership, under the Exchange Act;

the 90 day waiting period, tender offers for the beneficial ownership of more than 5% of Mercury's common stock will no longer be regulated;

after the 90 day waiting period, tender offer transactions by issuers and affiliates will no longer be regulated;

stockholders who are cashed out will be unable to participate in any future operating results of Mercury unless they buy stock after the Transaction; and

who are cashed out for \$4.00 per pre-reverse split share in the Transaction may receive less for their shares than they would if the common stock continued trading on the American Stock Exchange.

See "Certain Effects of the Transaction" beginning on page 38.

TIMING OF THE TRANSACTION

In light of the foregoing, the Board believes that it is in the best interests of Mercury and its stockholders, including unaffiliated stockholders, to change the status of Mercury to a non-SEC reporting company at this time because the sooner the proposal can be implemented, the sooner Mercury will cease to incur the expenses and burdens (which are only expected to increase in the near future) and the sooner stockholders who are to receive cash in the Transaction will receive and be able to reinvest or otherwise make use of such cash payments.

ALTERNATIVES CONSIDERED

The Special Committee, the Board and the Transaction Affiliates considered several other alternatives to accomplish the reduction in the number of record stockholders to fewer than 300, but ultimately rejected these alternatives because the Special Committee, the Board and the Transaction Affiliates believed that the proposed Transaction consisting of a reverse stock split followed by a forward stock split structure would be the simplest and least costly method. The other alternatives considered were:

CASH TENDER OFFER BY MERCURY AT A SIMILAR PRICE PER SHARE. The Special Committee, the Board and the Transaction Affiliates did not believe that a tender offer would necessarily result in the purchase of a sufficient number of shares to reduce the number of record holders to fewer than 300 because many stockholders with a small number of shares might not make the effort to tender their shares and the cost of completing the tender offer could be significant in relation to the value of the shares that are sought to be purchased. Alternatively, if most of the holders of Mercury's common stock tendered their shares, Mercury would be required to purchase shares from all tendering stockholders up to the maximum number of shares specified in the cash tender offer, which would result in a substantially greater cash amount necessary to complete the Transaction. Regardless, a tender offer would provide no guarantee that the number of record holders would ultimately be reduced to fewer than 300. In comparison, the Transaction, if successfully completed, is likely to allow Mercury to accomplish its SEC deregistration objectives.

CASH-OUT MERGER. The Special Committee, the Board and the Transaction Affiliates considered and rejected this alternative because the proposed Transaction would be more simple and cost-effective than a cash-out merger.

PURCHASE OF SHARES BY MERCURY IN THE OPEN MARKET. The Special Committee, the Board and the Transaction Affiliates rejected this alternative because they each concluded it was unlikely that Mercury could acquire shares from a sufficient number of record holders to accomplish the Special Committee's and the Board's objectives in large part because Mercury would not be able to dictate that open share purchases only be from record holders selling all of their shares. Even if enough open market purchases resulted in lowering the number of record holders to less than 300, such purchases would likely be more

costly than the proposed Transaction.

REVERSE STOCK SPLIT WITHOUT A FORWARD STOCK SPLIT. This alternative would accomplish the objective of reducing the number of record holders below the 300 threshold, assuming approval of the reverse stock split by Mercury's stockholders. In a reverse stock split without a subsequent forward stock split, Mercury would acquire the interests of the cashed-out stockholders and the fractional share interests of those stockholders who are not cashed-out (as compared to the

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proposed Transaction in which only those stockholders whose shares are converted to less than one whole share after the reverse stock split would have their fractional interests cashed-out; and all fractional interests held by stockholders holding more than one whole share after the reverse stock split would be reconverted to whole shares in the forward stock split). Thus, the Special Committee, the Board and the Transaction Affiliates rejected this alternative due to the higher cost involved of conducting a reverse stock split without a forward stock split.

SALE OF CERTAIN DIVISIONS OF THE COMPANY. From time to time, the Board has explored the possibility of a sale of certain divisions of Mercury. Although the Company's FBO Business was sold in April 2004, no acceptable firm offers for any other division of the Company were received. See Corporate Developments in Last Four Years beginning on page 12.

DIFFERENT REVERSE/FORWARD STOCK SPLIT RATIOS. The Special Committee, the Board and the Transaction Affiliates also considered reverse stock splits followed by forward stock splits at different ratios than the Transaction, such as reverse stock splits in the amount of 1-for-100, 1-for-200, 1-for-300, 1-for-400, 1-for-500, 1-for-1,000, 1-for-1,500 or 1-for-5,000 followed by, in each case, forward stock splits in the same ratio. Although the lower ratios would be less costly for the Company, and would also reduce the number of record holders below 300, the Special Committee, the Board and the Transaction Affiliates concluded that the additional cost savings would not be worth the risk of Mercury having to re-register as a reporting Company, which would be required if a sufficient number of beneficial owners elected to take record ownership of their shares, causing the number of record owners to exceed 500.

In addition to various alternatives considered by Mercury, the Transaction Affiliates also considered a cash tender offer for Mercury's shares. In January 2005, Messrs. Czyzyk and Kopko met with two independent entities for the purpose of obtaining financing for a possible cash tender offer. However, the independent entities would not commit to any financing, and Messrs. Czyzyk and Kopko determined that a cash tender offer would entail significant financial risk. The discussions with these entities did not advance to the points where pricing was considered.

In summary, the Special Committee, the Board and the Transaction Affiliates considered these alternatives in order for Mercury to terminate its registration as an SEC reporting company and its obligation to comply with Section 404 of the Sarbanes-Oxley Act. As discussed above, these alternatives were considered inferior for the reason that either there would be no guarantee that they would accomplish Mercury's objective, such as in the case of a cash tender offer by Mercury at a similar price per share, or in the case of a different reverse/forward stock split ratio, or for the reason that the alternatives would be more costly, such as in the case of a cash-out merger, or in the case of a reverse stock split without a forward stock split. Moreover, in the case of a purchase of shares in the open market, both uncertainty of completion and cost considerations made this alternative inferior to the Transaction. A sale of certain divisions of the Company was also considered inferior because the Board, the Special Committee and the Transaction Affiliates did not believe any sale could be accomplished at an acceptable price and within an acceptable time frame. Consequently, the Special Committee, the Board and the Transaction Affiliates concluded that the Transaction is the most expeditious and economical alternative to accomplish Mercury's objectives.

RECOMMENDATION OF THE SPECIAL COMMITTEE

The composition of the Special Committee consisted of two directors, Messrs. Michael Janowiak and Angelo Pusateri. Each of these directors has been deemed independent by the Board of Directors as independence is defined in NASD Rule 4200(a)(15) and Rule 10A-3(b)(1) of the Exchange Act. The Special Committee retained Imperial Capital as its financial advisor and Bingham McCutchen as independent legal counsel.

In evaluating the proposed Transaction and the cash consideration, the Special Committee relied on its knowledge of the business, financial condition and prospects of Mercury as well as the advice of its financial advisors and legal counsel. In view of the wide variety of factors considered in connection with the evaluation of the Transaction and cash consideration, the Special Committee did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors it considered in reaching its determinations.

The discussion herein of the information and factors considered by the Special Committee is not intended to be exhaustive, but is believed to include all material factors considered by the Special Committee. In determining that the Special Committee would recommend the Transaction and the cash consideration to the Board of Directors, the Special Committee considered the following substantive factors in the aggregate, which in the view of the Special Committee, supported such determination.

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CURRENT AND HISTORICAL PRICES OF MERCURY'S COMMON STOCK. The Special Committee considered both the historical market prices and recent trading activity and current market prices of Mercury common stock. The Special Committee reviewed the high and low sales prices for the common stock from January 1, 2003 to March 21, 2005 and from March 21, 2004 to March 21, 2005, the latter period of which ranged from \$3.08 to \$8.45 per share. You should read the discussion under "Market for Common Stock and Related Stockholder Matters" on page 46 for more information about Mercury's stock prices. On March 8, 2005, the day before the public announcement that the Special Committee was considering the Transaction, the closing price of the common stock was \$4.49 per share. The closing price of Mercury common stock on March 21, 2005, the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee and the Board, was \$3.36 per share.

The Special Committee noted that, as a positive factor, the cash payment of \$4.00 per share payable to stockholders in lieu of fractional shares represents a premium of approximately 19% over the \$3.36 closing sales price of Mercury's common stock on March 21, 2005, which was the last trading day before the public announcement that the Special Committee and the Board had approved the Transaction. In addition to stockholders receiving a premium to the trading price of Mercury's common stock on any shares redeemed as a result of the reverse stock split, such stockholders will achieve liquidity without incurring brokerage commissions and other transaction costs. The Special Committee also noted that although the cash consideration represented a 53% discount to the Mercury share price of \$8.45 (the highest sales price since March 21, 2004) and a 34% discount to the last closing price of \$6.05 one year before the last trading day prior to the public announcement of the approval of the proposed Transaction by the Board and the Special Committee, such historical price data did not take account of the special dividend of \$5.70 per share paid as of November 5, 2004 and therefore was of lesser relevance than more recent trading data and in light of the premiums that the cash consideration represents over the average closing sales price of Mercury's common stock for the 10 trading days, 20 trading days, 30 trading days, and one-month trading periods immediately prior to the public announcement of the approval of the proposed Transaction by the Special Committee and the Board and over the closing sales price of Mercury's common stock immediately prior to such public announcement.

GOING CONCERN VALUE. In determining the cash amount to be paid to cashed-out stockholders in the Transaction, the Special Committee considered the analyses as presented in Imperial Capital's report, without giving effect to any anticipated effects of the Transaction. In considering going concern value, the Special Committee considered multiples of EBITDA and revenue of comparable SEC reporting air cargo handling and fuel services companies and discounted cash flow valuations.

Also, the Special Committee did not consider the amount per share that might be realized in a sale of all or substantially all of the stock or assets of Mercury, believing that consideration of such amount was inappropriate in the context of a Transaction that would not result in a change in control of Mercury. In considering the going concern value of Mercury's shares, the Special Committee adopted the analyses of Imperial Capital, which indicated a share price of \$2.95, \$3.73 or \$4.17 per share, as the mean per share implied equity values of Mercury's common stock. See "Opinion of Imperial Capital, LLC" beginning on page 33. Accordingly, the Special Committee believes that the going concern analysis supports its determination that the Transaction is fair to stockholders.

NET BOOK VALUE. As of December 31, 2004, the net book value per common share was \$5.14, and the tangible net book value per common share (excluding intangibles) was \$3.65. The Special Committee noted that book value per common share is an historical accounting value which may be more or less than the net market value of Mercury's assets after payment of its liabilities, and a liquidation would not necessarily produce a higher value than book value per common share.

LIQUIDATION VALUE. Although no valuation of total assets was undertaken, the Special Committee believes that a liquidation or other Transaction designed to monetize Mercury's assets would likely result in recovery of a price for Mercury's tangible assets that is substantially less than tangible book value. The Special Committee considered that Mercury's non-cash assets consist primarily of accounts receivable and leasehold improvements. The Special Committee believes that the sale of accounts receivable would not sufficiently offset indebtedness and that the sale of leasehold improvements would not be practicable, given the difficulty in transferring the underlying leaseholds, and in any event would not offset the expense of satisfying lease and other contractual obligations in a liquidation. In view of these factors, the Special Committee agreed that it is highly unlikely that liquidation would generate net proceeds with a current value in excess of \$4.00 per share, although the aggregate amount received over a period of time could be greater.

EARNINGS. The Special Committee reviewed historic earnings of Mercury for the previous three years and the relevance of historic earnings to future prospects, and factored this review into the going concern analysis. For the three years ended June 30, 2004, 2003, and June 30, 2002, Mercury reported net income (loss) of \$615,000, \$(2,798,000) and \$4,517,000,

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respectively. The Special Committee believes the earnings analysis supports its determination that the Transaction is fair to stockholders.

PRICES AT WHICH MERCURY HAS REPURCHASED SHARES. The Special Committee took account of the fact that Mercury had purchased an aggregate of (i) 343,600 shares at \$10.44 per share in the fourth quarter of 2003 in a transaction with Hambro; (ii) 14,500 shares at \$6.17 per share in the second quarter of 2004; (iii) 150,000 shares at \$6.00 per share in the third quarter of 2004 in a transaction with Murdock; (iv) 3,000 other shares at \$6.55 per share in the third quarter of 2004 in other transactions; and (v) 8,750 shares at \$4.90 per share in the fourth quarter of 2004. The Special Committee believes these repurchases support its decision that the Transaction is fair to the stockholders, in that: (i) after adjusting for the \$5.70 per share special dividend, the repurchase from Hambro was at \$4.74 per share, which is close to the price of \$4.00 but also additional consideration was given by Hambro and the Transaction with Hambro occurred almost eighteen months ago; (ii) after adjusting for the \$5.70 per share special dividend, the purchase of 14,500 shares in the second quarter of 2004 was equivalent to a price of \$0.47 per share; (iii) after adjusting for the \$5.70 per share special dividend, the purchase of 150,000 shares in the Transaction with Murdock in the third quarter of 2004 was equivalent to a price of \$0.30 per share; (iv) after adjusting for the \$5.70 per share special dividend, the purchase of 150,000 shares in the Transaction with Murdock in the third quarter of 2004 was equivalent to a price of \$0.30 per share; (iv) after adjusting for the \$5.70 per share special dividend, the purchase of 3,000 additional shares in the third quarter of 2004 was equivalent to a price of \$0.85 per share; and (v) the purchase of 8,750 shares in the fourth quarter of 2004, although occurring after the special dividend, was not significantly higher than the price of \$4.00 in the Transaction and represented a purchase by Mercury from a former executive officer upon his termination of employment, and therefore is not strictly comparable to the proposed Transaction.

The Special Committee concluded that these stock purchases by Mercury support the price of \$4.00 per share to be paid in the Transaction. The Special Committee also took account of the fact that the Transaction Affiliates had purchased an aggregate of 418,807 shares at an average price of \$3.15 per share in the fourth quarter of 2004.

OPINION OF THE FINANCIAL ADVISOR. The Special Committee considered the opinion of Imperial Capital rendered to the Special Committee on March 21, 2005, to the effect that, as of the date of such opinion and based upon and subject to certain matters stated therein, the \$4.00 per share in cash to be paid to those stockholders of Mercury receiving such consideration, other than affiliates of Mercury, as to whom Imperial Capital expressed no view, is fair, from a financial point of view, to Mercury's common and preferred stockholders. For more information about the opinion you should read the discussion below under "Opinion of Imperial Capital, LLC" beginning on page 34 and a copy of the opinion of Imperial Capital attached as Appendix B to this proxy statement.

PRESENTATION OF THE SPECIAL COMMITTEE'S FINANCIAL ADVISOR. The Special Committee also considered the various financial information, valuation analyses and other factors set forth in the written presentations delivered to the Special Committee at the meetings of the Special Committee on February 21, 2005, February 25, 2005, March 1, 2005, March 3, 2005, March 8, 2005, March 9, 2005, March 10, 2005, March 14, 2005 and March 21, 2005.

LIMITED LIQUIDITY FOR MERCURY COMMON STOCK. The Special Committee recognized the lack of an active trading market and the very limited liquidity of Mercury's common stock. The Special Committee considered the effects of this factor on both the stockholders who own less than 501 shares of common stock and who will receive the cash consideration and those stockholders who will remain after the Transaction. With respect to the stockholders who will receive the cash consideration and cease to be stockholders, the Special Committee recognized that this Transaction presents such stockholders with an opportunity to

liquidate their holdings at a price which represented a premium to the closing price of Mercury's common stock on March 21, 2005, the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee and the Board, without incurring brokerage commissions and other transaction costs. With respect to the stockholders who will remain after the Transaction, the Special Committee noted that the effect of this Transaction on their liquidity is mitigated by the limited liquidity they currently experience and that the shares will likely be quoted on the pink sheets.

FUTURE COST SAVINGS. The Special Committee considered that both affiliated and unaffiliated stockholders remaining after the Transaction will benefit from the reduction of direct and indirect costs borne by Mercury to maintain its status as an SEC reporting company. Such a reduction will include, but not be limited to, the elimination of increased costs to comply with the additional requirements of SEC reporting companies imposed by Section 404 of the Sarbanes-Oxley Act. For a full discussion of the cost savings, see *Benefits of the Transaction – Benefits and Cost Savings of Termination as an SEC Reporting Company* on page 22.

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INTERESTS OF THE UNAFFILIATED STOCKHOLDERS WHO WILL REMAIN. The Special Committee considered the fairness of the Transaction to the unaffiliated common and preferred stockholders who will remain stockholders of Mercury after the Transaction. The Special Committee reasoned that such stockholders would benefit from the cost savings associated with the elimination of expenses attributable to remaining an SEC reporting company and the time and attention currently required of management to fulfill such requirements.

NO FIRM OFFERS. The Special Committee considered that, other than with respect to the sale of Mercury's FBOs to Allied Capital on April 12, 2004, Mercury did not receive any firm offers, during the past two years, from any unaffiliated persons, for (i) the merger or consolidation of Mercury with or into another company, (ii) the sale or other transfer of all or any substantial part of the assets of Mercury; or (iii) a purchase of Mercury's securities that would enable the holder to exercise control of Mercury. The Special Committee recognized that the sale of the FBOs to Allied Capital has no bearing on the present value of Mercury.

Despite the fact that no unaffiliated stockholder representative was retained to act solely on behalf of the unaffiliated stockholders in the Transaction to negotiate the terms or prepare a report on behalf of the unaffiliated stockholders and the approval of a majority of the unaffiliated holders of Mercury's common stock is not required, the Special Committee believes that the Transaction is procedurally fair because, among other things:

the Special Committee was established with sole power to make the decision to recommend the Transaction, and the Special Committee's membership consisted entirely of independent directors; and

the Special Committee retained its own independent legal counsel;

the Transaction is being effected in accordance with the applicable requirements of Delaware law;

the Transaction is being submitted to a vote of Mercury's stockholders and is subject to approval of a majority of the outstanding shares of common and preferred stock, voting as a single class;

stockholders can increase, divide or otherwise adjust their existing holdings, prior to the effective date of the Transaction, so as either to retain some or all other their shares or to be cashed-out with respect to some or all of their shares; and

stockholders who are cashed-out would likely have the option to repurchase shares of Mercury in the over-the-counter markets with the cash obtained in the Transaction.

Of particular importance to the belief of the Special Committee that the Transaction is procedurally fair, in the absence of dissenters rights, is the fact that stockholders can increase, divide or otherwise adjust their existing holdings, prior to the effective date of the Transaction, so as either to retain some or all of their shares or to cash-out some or all of their shares.

Based on the foregoing analyses, the Special Committee believes that the Transaction is procedurally and substantively fair to all stockholders, including the unaffiliated stockholders, regardless of whether a stockholder receives cash or continues to be a stockholder following the Transaction, and believes the \$4.00 cash amount to be fair consideration for those stockholders holding less than 501 shares. The Transaction was unanimously approved by the Special Committee, all members of the Special Committee being non-employees of Mercury.

RECOMMENDATION OF THE BOARD; FAIRNESS OF THE TRANSACTION

The Board and the Transaction Affiliates unanimously determined that the Transaction, taken as a whole, is fair to, and in the best interests of Mercury and its common and preferred stockholders, including unaffiliated stockholders, as discussed below, regardless of whether a stockholder receives cash in lieu of fractional shares, or remains a holder of Mercury's common stock. The Board and the Transaction Affiliates also believe that the process for approving the Transaction is procedurally fair. The Board recommends that stockholders vote FOR approval and adoption of the Transaction.

The Board has retained for itself the absolute authority to reject (and not implement) the Transaction (even after approval of the Transaction) if it determines subsequently that the Transaction is not then in the best interests of Mercury and its stockholders. If for

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any reason the Transaction is not approved, or, if approved, is not implemented, the common stock will not be deregistered until such time as Mercury otherwise is eligible and determines to do so.

As discussed above, the Board and the Transaction Affiliates considered alternatives to the Transaction, but ultimately approved the Transaction's structure. Please see "Alternatives Considered" beginning on page 25.

In considering whether the cash payment of \$4.00 per share payable to stockholders in lieu of fractional shares in connection with the Transaction is substantively fair from a financial point of view to our stockholders, the Board and the Transaction Affiliates considered, among other things, the financial analysis and opinion of Imperial Capital that was rendered to the Special Committee, the Board and the Transaction Affiliates adopted the analyses and conclusions of Imperial Capital. The Board and the Transaction Affiliates also considered the recommendation of the Special Committee.

The Board and the Transaction Affiliates also considered a number of factors in determining whether it was in the best interests of, and fair to, Mercury and its stockholders to undertake a Transaction to reduce the number of its common stockholders to fewer than 300 record holders in order to terminate the registration of its common stock under the Exchange Act. The discussion herein of the information and factors considered is not intended to be exhaustive, but is believed to include all material factors considered by the Board. The Board did not assign any specific weight to the factors below, and individual directors may have given differing weights to different factors. Factors considered included:

CURRENT AND HISTORICAL PRICES OF MERCURY'S COMMON STOCK.

The Board and the Transaction Affiliates considered both the historical market prices and recent trading activity and current market prices of Mercury common stock.

The Board and the Transaction Affiliates reviewed the high and low sales prices for the common stock from January 1, 2003 to March 21, 2005 and from March 21, 2004 to March 21, 2005, the latter period of which ranged from \$3.08 to \$8.45 per share. You should read the discussion under "Market for Common Stock and Related Stockholder Matters" on page 19 for more information about Mercury's stock prices. On March 8, 2005, the day before the public announcement that the Special Committee was considering the Transaction, the closing price of the common stock was \$4.49 per share. The closing price of Mercury common stock on March 21, 2005, the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee and the Board, was \$3.36 per share. The Board and the Transaction Affiliates noted that, as a positive factor, the cash payment of \$4.00 per share payable to stockholders in lieu of fractional shares represents a premium of approximately 19% over the closing sales price of Mercury's common stock of \$3.36 on March 21, 2005, which was the last trading day before the public announcement that the Special Committee and the Board had approved the Transaction. In addition to stockholders receiving a premium to the trading price of Mercury's common stock on any shares redeemed as a result of the reverse stock split, such stockholders will achieve liquidity without incurring brokerage commissions and other transaction costs.

The Board and the Transaction Affiliates also noted that although the cash consideration represented a 53% discount to Mercury share price of \$8.45 (the highest sales price since March 21, 2004) and a 34% discount to the last closing price of \$6.05 one year before the last trading day prior to the public announcement of the approval of the proposed Transaction by the Special Committee and the Board, such historical price data did not take account of the special dividend of \$5.70 per share paid as of November 5, 2004 and therefore was of lesser relevance than more recent trading data and in light of the premiums that the cash consideration represents over the average closing sales price of Mercury's common stock for the 10 trading days, 20 trading days, 30 trading days, and one-month trading periods immediately prior to the public announcement of the approval of the proposed Transaction by the Special Committee and the Board and over the last trading day immediately prior to such public announcement.

GOING CONCERN VALUE. In determining the cash amount to be paid to cashed-out stockholders in the Transaction, the Board and the Transaction Affiliates considered the analyses presented in Imperial Capital's report, without giving effect to any anticipated effects of the Transaction. In considering going concern value, the Board and the Transaction Affiliates considered multiples of EBITDA and revenue of comparable SEC reporting air cargo and fuel services companies and discounted cash flow valuations.

Also, the Board and the Transaction Affiliates did not consider the amount per share that might be realized in a sale of all or substantially all of the stock or assets of Mercury, believing that consideration of such amount was inappropriate in the

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context of a Transaction that would not result in a change in control of Mercury. In considering the going concern value of Mercury's shares, the Board and the Transaction Affiliates adopted the analyses of Imperial Capital, which indicated a share price range of \$2.95, \$3.73, or \$4.17 per share, as the mean per share implied equity values of Mercury's common stock. See Special Factors' Opinion of Imperial Capital, LLC beginning on page 34. Accordingly, the Board and the Transaction Affiliates believe that the going concern analysis supports its determination that the Transaction is fair to stockholders.

NET BOOK VALUE. As of December 31, 2004, the net book value per common share was \$5.14, and the tangible net book value per common share (excluding intangibles) was \$3.65. The Board and the Transaction Affiliates noted that book value per common share is an historical accounting value which may be more or less than the net market value of Mercury's assets after payment of its liabilities, and a liquidation would not necessarily produce a higher than book value per common share.

LIQUIDATION VALUE. Although no valuation of total assets was undertaken, the Board and the Transaction Affiliates believe that a liquidation or other Transaction designed to monetize Mercury's assets would likely result in recovery of a price for Mercury's tangible assets that is substantially less than tangible book value. The Board and the Transaction Affiliates considered that Mercury's non-cash assets consist primarily of accounts receivable and leasehold improvements. The Board and the Transaction Affiliates believe that the sale of accounts receivable would not sufficiently offset indebtedness, and that the sale of leasehold improvements would not be practicable, given the difficulty in transferring the underlying leaseholds, and in any event would not offset the expense of satisfying lease and other contractual obligations in a liquidation. In view of these factors, the Board and the Transaction Affiliates agreed that it is highly unlikely that liquidation would generate net proceeds in excess of \$4.00 per share, although the aggregate amount received over a period of time would be greater.

EARNINGS. The Board and the Transaction Affiliates reviewed historic earnings of Mercury for the previous three years and the relevance of historic earnings to future prospects, and factored this review into the going concern analysis. For the three years ended June 30, 2004, 2003, and 2002, Mercury reported net income of \$615,000, \$(2,798,000) and \$4,517,000, respectively. The Board and the Transaction Affiliates believe the earnings analysis support its determination that the Transaction is fair to stockholders.

PRICES AT WHICH MERCURY HAS REPURCHASED SHARES. The Board and the Transaction Affiliates took account of the fact that Mercury had purchased an aggregate of (i) 343,600 shares at \$10.44 per share in the fourth quarter of 2003 in a transaction with Hambro; (ii) 14,500 shares at \$6.17 per share in the second quarter of 2004; (iii) 150,000 shares at \$6.00 per share in the third quarter of 2004 in a transaction with Murdock; (iv) 3,000 other shares at \$6.55 per share in the third quarter of 2004 in other transactions; and (v) 8,750 shares at \$4.90 per share in the fourth quarter of 2004. The Board and the Transaction Affiliates believe these repurchases support its decision that the Transaction is fair to the stockholders, in that: (i) after adjusting for the \$5.70 per share special dividend, the repurchase from Hambro was at \$4.74 per share, which is close to the price of \$4.00 but also additional consideration was given by Hambro and the transaction with Hambro occurred almost eighteen months ago; (ii) after adjusting for the \$5.70 per share special dividend, the purchase of 14,500 shares in the second quarter of 2004 was equivalent to a price of \$0.47 per share; (iii) after adjusting for the \$5.70 per share special dividend, the purchase of 150,000 shares in the Transaction with Murdock in the third quarter of 2004 was equivalent to a price of \$0.30 per share; (iv) after adjusting for the \$5.70 per share special dividend, the purchase of 3,000 additional shares in the third quarter of 2004 was equivalent to a price of \$0.85 per share; and (v) the purchase of 8,750 shares in the fourth quarter of 2004, although occurring after the special dividend, was not significantly higher than the price of \$4.00 in the Transaction, and this represented a purchase by Mercury from a former executive officer upon his termination of employment, and therefore is not strictly comparable to the proposed Transaction. The Board and the

Transaction Affiliates concluded that these stock purchases by Mercury support the price of \$4.00 per share to be paid in the Transaction. The Board and the Transaction Affiliates also took account of the fact that certain affiliates of the Company had purchased an aggregate of 419,807 shares at an average price of \$3.15 per share in the fourth quarter of 2004.

OPINION OF THE FINANCIAL ADVISOR. The Board and the Transaction Affiliates considered the opinion of Imperial Capital rendered to the Special Committee on March 21, 2005, to the effect that, as of the date of such opinion and based upon and subject to certain matters stated therein, the \$4.00 per share in cash to be paid to those stockholders of Mercury receiving such consideration, other than affiliates of Mercury, as to whom Imperial Capital expressed no view, is fair, from a financial point of view, to such stockholders. For more information about the opinion you should read the discussion below under **Opinion of Imperial Capital, LLC** beginning on page 34 and a copy of the opinion of Imperial Capital attached as Appendix B to this proxy statement.

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PRESENTATION OF THE SPECIAL COMMITTEE'S FINANCIAL ADVISOR. The Board and the Transaction Affiliates also considered the various financial information, valuation analyses and other factors set forth in the written presentations delivered to the Special Committee at the meetings of the Special Committee on February 25, 2005, March 1, 2005, March 3, 2005, March 8, 2005, March 10, 2005, March 14, 2005 and March 21, 2005.

LIMITED LIQUIDITY FOR MERCURY COMMON STOCK. The Board and the Transaction Affiliates recognized the lack of an active trading market and the very limited liquidity of Mercury's common stock. The Board and the Transaction Affiliates considered the effects of this factor on both the stockholders who own less than 501 shares of common stock and who will receive the cash consideration and those stockholders who will remain after the Transaction. With respect to the stockholders who will receive the cash consideration and cease to be stockholders, the Board and the Transaction Affiliates recognized that this Transaction presents such stockholders with an opportunity to liquidate their holdings at a price which represented a premium to the closing price of Mercury's common stock on March 21, 2005, the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee and the Board, without incurring brokerage commissions and other transaction costs. With respect to the stockholders who will remain after the Transaction, the Board and the Transaction Affiliates noted that the effect of this Transaction on their liquidity is mitigated by the limited liquidity they currently experience and that the shares will likely be quoted on the pink sheets.

FUTURE COST SAVINGS. The Board and the Transaction Affiliates considered that both affiliated and unaffiliated stockholders remaining after the Transaction will benefit from the reduction of direct and indirect costs borne by Mercury to maintain its status as an SEC reporting company. Such a reduction will include, but not be limited to, the elimination of increased costs to comply with the additional requirements of SEC reporting companies imposed by Section 404 of the Sarbanes-Oxley Act. For a full discussion of the cost savings, see Benefits of the Transaction Benefits and Cost Savings of Termination as an SEC Reporting Company on page 22.

INTERESTS OF THE UNAFFILIATED STOCKHOLDERS WHO WILL REMAIN. The Board and the Transaction Affiliates considered the fairness of the Transaction to the unaffiliated common and preferred stockholders who will remain stockholders of Mercury after the Transaction. The Board and the Transaction Affiliates reasoned that that such stockholders would benefit from the cost savings associated with the elimination of expenses attributable to remaining an SEC reporting company and the time and attention currently required of management to fulfill such requirements.

NO FIRM OFFERS. The Board of Directors and the Transaction Affiliates considered that, other than with respect to the sale of Mercury's FBOs to Allied Capital on April 12, 2004, Mercury did not receive any firm offers, during the past two years, by any unaffiliated persons, for (i) the merger or consolidation of Mercury with or into another company, (ii) the sale or other transfer of all or any substantial part of the assets of Mercury; or (iii) a purchase of Mercury's securities that would enable the holder to exercise control of Mercury. The Board and the Transaction Affiliates recognized that the sale of the FBOs to Allied Capital has no bearing on the present value of Mercury.

UNAFFILIATED REPRESENTATIVES; NON-EMPLOYEE SPECIAL COMMITTEE. No unaffiliated representative was retained to act solely on behalf of the unaffiliated stockholders in the Transaction to negotiate the terms or prepare a report on behalf of the unaffiliated stockholders. The Board determined that an unaffiliated stockholder representative was not necessary to ensure the procedural and substantive fairness of the Transaction because it believed there was sufficient representation in the decision-making at the Special Committee and Board levels to protect the interests of unaffiliated stockholders. The Board also noted that the proposed Transaction would increase ownership in Mercury by the officers and directors as a group of less than

three percent. In addition, the Board believed that the expense of separate representatives and advisors would have been cost prohibitive. With respect to unaffiliated stockholders' access to Mercury's corporate files, the Board determined that this proxy statement, together with Mercury's other filings with the SEC, provide adequate information for unaffiliated stockholders to make an informed decision with respect to the Transaction.

APPROVAL OF MAJORITY OF UNAFFILIATED HOLDERS IS NOT REQUIRED. The Transaction is not structured so that approval of at least a majority of unaffiliated stockholders is required. The Board determined that any such requirement would prevent affiliated stockholders from participating in considering the proposed Transaction. As affiliated stockholders beneficially own approximately 42.8% of Mercury as of March 1, 2005, and the Transaction will not result in any change in control of Mercury, the Board did not believe the participation of affiliated stockholders in voting upon the Transaction was unfair to non-affiliated stockholders.

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Despite the fact that no unaffiliated stockholder representative was retained to act solely on behalf of the unaffiliated stockholders in the Transaction to negotiate the terms or prepare a report on behalf of the unaffiliated stockholders and the approval of a majority of the unaffiliated holders of Mercury common stock is not required, the Board and the Transaction Affiliates also believe that the Transaction is procedurally fair because, among other things:

the Special Committee was established with sole power to make the decision to recommend the Transaction, and the Special Committee's membership consisted entirely of independent directors;

the Special Committee retained its own independent legal counsel;

the Transaction is being effected in accordance with the applicable requirements of Delaware law;

the Transaction is being submitted to a vote of Mercury stockholders and is subject to approval of a majority of the outstanding shares of common and preferred stock;

stockholders can increase, divide or otherwise adjust their existing holdings, prior to the effective date of the Transaction, so as either to retain some or all of their shares or to be cashed-out with respect to some or all of their shares; and

stockholders who are cashed-out would likely have the option to repurchase shares of Mercury in the over-the-counter markets with the cash obtained in the Transaction.

Of particular importance to the belief of the Board and the Transaction Affiliates that the Transaction is procedurally fair, in the absence of dissenters rights, is the fact that stockholders can increase, divide or otherwise adjust their existing holdings, prior to the effective date of the Transaction, so as either to retain some or all of their shares or to cash-out some or all of their shares.

At the Board's meeting on March 21, 2005, Mr. Janowiak, chairman of the Special Committee, reviewed Imperial Capital's fairness opinion with the Board and presented a summary of the principal financial analyses supporting its financial opinion. The Board and the Transaction Affiliates had an opportunity to ask questions and discuss each of the analyses individually. Although it is difficult to determine what the Board as a whole or any individual Board member concluded from any one particular analysis, certain issues were discussed at length. Additionally, in determining the \$4.00 per share price to be paid as cash consideration in the Transaction, the Board and the Transaction Affiliates determined that while Mercury common stock traded at both higher and lower levels in the recent year, such historical price data did not take account of the special dividend of \$5.70 per share paid as of November 5, 2004 and therefore was of lesser relevance than more recent trading data and in light of the premiums that the cash consideration represents over the average closing sales price of Mercury's common stock for the previous 10 trading days, previous 20 trading days, previous 30 trading days, and previous one month periods immediately prior to the date that a public announcement is proposed to be made of the approval of the proposed Transaction by the Special Committee and the Board and over the closing price of Mercury's common stock on the last day immediately prior to such public announcement. After careful consideration of these factors, the Board and the Transaction Affiliates concluded that \$4.00 per share was not only a fair price to stockholders being cashed-out, but also to stockholders remaining after the Transaction.

The Board and the Transaction Affiliates also considered the fact that, in addition to the deregistration of Mercury's common stock under the Exchange Act as a result of the Transaction, the common stock would cease to be quoted on the American Stock Exchange. The Board and the Transaction Affiliates determined, however, that the current limited market for Mercury's common stock provides little benefit to Mercury's stockholders.

Based on the foregoing analysis, the Board and the Transaction Affiliates believe that the Transaction is procedurally and substantively fair to all common and preferred stockholders, including the unaffiliated stockholders, regardless of whether a stockholder receives cash or continues to be a stockholder following the Transaction. Four of Mercury's five directors are not employees of the Company. The Transaction was approved by the Board, including all non-employee directors, with Messrs. Czyzyk and Kopko abstaining from the vote.

DETERMINATION OF FAIRNESS OF THE TRANSACTION BY THE TRANSACTION AFFILIATES.

The Transaction Affiliates agreed with the Board and separately determined that the Transaction is fair to unaffiliated stockholders who will be cashed out in the Transaction and who will remain after the Transaction, and that the cash price of \$4.00 per share to be

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paid to holders of less than 501 shares of Common Stock is fair. In reaching this determination, the Transaction Affiliates considered the same procedural and substantive factors as the Special Committee and the Board. For a full description of the matters considered by the Special Committee, the Board and the Transaction Affiliates, see

Recommendation of the Board; Fairness of the Transaction beginning on page 29.

INTERESTS OF MERCURY'S DIRECTORS AND EXECUTIVE OFFICERS IN THE TRANSACTION

In considering the recommendation of the Board of Directors with respect to the Transaction, stockholders should be aware that Mercury's executive officers and directors have interests in the Transaction that are in addition to, or different from, the stockholders generally. These interests may create potential conflicts of interest and include the following:

each executive officer and each member of the Board of Directors, except Kent Rosenthal, holds shares or vested options in excess of 501 shares and will, therefore, retain shares of common stock or options to purchase common stock after the Transaction; and

as a result of the Transaction, the stockholders who own of record on the record date, more shares than 501 shares, including Mercury's executive officers and directors, will increase their percentage ownership interest in Mercury as a result of the Transaction. For example, assuming the Transaction is implemented and based on information and estimates of record ownership and shares outstanding and other ownership information and assumptions as of May 1, 2005 Mercury's officers and directors, including the Transaction Affiliates, who currently own 42.8% of Mercury's common and preferred stock (including options currently exercisable) will increase their percentage ownership in Mercury from 42.8% to 45.1%.

OPINION OF IMPERIAL CAPITAL, LLC

On February 24, 2005, the Special Committee and the Board of Directors formally retained Imperial to consider the fairness, from a financial point of view, of the cash consideration (as defined below) to be paid to those stockholders of Mercury receiving the cash consideration, other than affiliates of Mercury, as to whom Imperial Capital expresses no view. As a result of the Transaction, (a) each stockholder owning fewer than 501 shares immediately before the Transaction will receive from Mercury consideration of \$4.00 in cash for each of such stockholder's pre-split shares; and (b) each share of common stock held by a stockholder owning 501 or more shares will continue to represent one share of Mercury after completion of the Transaction. At a meeting of the Special Committee held on March 21, 2005, Imperial Capital delivered its oral opinion to the Special Committee, and immediately following the meeting, delivered its written opinion to all the members of the Special Committee that, as of March 21, 2005, the cash consideration to be paid to those stockholders receiving the cash consideration, other than the affiliates of Mercury, was fair, from a financial point of view, to such holders. Imperial Capital subsequently confirmed its opinion in writing.

The Special Committee and the Board retained Imperial Capital based upon the following factors: Imperial Capital is an independent and experienced provider of valuation and fairness opinions; it does not have an advisory or other potentially conflicting role in the Transaction; and it is thoroughly familiar with Mercury and its operations from having rendered prior fairness opinions in unrelated transactions and could therefore perform the analysis more expeditiously and cost effectively than other financial advisors. No limitations were imposed by the Special Committee or the Board on Imperial Capital with respect to the investigations made or procedures followed by Imperial Capital in rendering its opinion.

Imperial Capital's opinion was prepared at the request and for the information and use of the Special Committee and the Board in connection with its consideration of the Transaction. Imperial Capital's opinion does not address the business decision by Mercury to engage in the Transaction or address the relative merits of any alternatives discussed by the Special Committee and the Board. Imperial Capital's opinion does not constitute a recommendation as to how any stockholder should vote with respect to the Transaction. Imperial Capital did not make, and was not requested by Mercury or any other person to make, any recommendations as to the relative merits of any alternative discussed by the Board.

THE FULL TEXT OF IMPERIAL CAPITAL'S WRITTEN OPINION IS ATTACHED AS APPENDIX B TO THIS PROXY STATEMENT, AND DESCRIBES THE ASSUMPTIONS MADE, MATTERS CONSIDERED AND

LIMITS ON THE REVIEW UNDERTAKEN. THE DESCRIPTION OF IMPERIAL CAPITAL'S OPINION CONTAINED IN THIS PROXY STATEMENT SHOULD BE REVIEWED TOGETHER WITH THE FULL TEXT OF THE WRITTEN OPINION, WHICH YOU ARE URGED TO READ CAREFULLY IN ITS ENTIRETY. THE SUMMARY OF THE OPINION OF IMPERIAL CAPITAL SET FORTH IN THIS PROXY STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF IMPERIAL CAPITAL'S WRITTEN OPINION, WHICH IS ATTACHED AS APPENDIX B HERETO.

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THE PROJECTIONS UPON WHICH IMPERIAL CAPITAL'S OPINION IS IN PART BASED ARE ATTACHED AS EXHIBIT (C)27 TO THE AMENDMENT NO. 3 TO SCHEDULE 13E-3 FILED AS OF THE DATE HEREOF BY MERCURY. PLEASE BE ADVISED THAT THE PROJECTIONS WERE PREPARED ONLY FOR THE USE OF IMPERIAL CAPITAL, AND ARE NOT TO BE USED BY ANY OTHER PERSON OR ENTITY. IN ADDITION, THE PROJECTIONS SPEAK AS OF THE DATE THEREOF, AND MERCURY DOES NOT INTEND TO UPDATE SUCH PROJECTIONS.

In connection with the rendering of its opinion, Imperial Capital has:

1. reviewed the draft proxy statement and related documents outlining the Transaction;
2. analyzed certain publicly available information that Imperial Capital believes to be relevant to its analysis, including the Company's annual report on Form 10-K for the fiscal year ended (FYE) June 30, 2004 and the Company's quarterly reports on Form 10-Q for the quarters ended September 30, 2004 and December 31, 2004;
3. reviewed certain information including financial forecasts relating to the business, earnings and cash flow of the Company, furnished to Imperial Capital by senior management of Mercury;
4. reviewed the Company's projections for FYE June 30, 2004 through 2008 furnished to Imperial Capital by senior management of Mercury;
5. reviewed certain publicly available business and financial information relating to Mercury that Imperial Capital deemed to be relevant;
6. conducted discussions with members of senior management of Mercury concerning the matters described in clauses (1) through (5) above, as well as the prospects and strategic objectives of Mercury;
7. reviewed public information with respect to certain other companies with financial profiles which Imperial Capital deemed to be relevant.

In connection with this review, with Mercury's consent, Imperial Capital relied upon the accuracy and completeness of the foregoing financial and other information and has not assumed responsibility for independent verification of such information or conducted or has been furnished with any independent valuation or appraisal of any assets of Mercury or any appraisal or estimate of liabilities of Mercury. With respect to the financial forecasts, Imperial Capital assumed, with Mercury's consent, that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of senior management of Mercury as to the future financial performance of Mercury. Imperial Capital also relied upon the assurances of senior management of Mercury that they are unaware of any facts that would make the information or financial forecasts provided to Imperial Capital incomplete or misleading. Imperial Capital assumed no responsibility for, and expressed no view, as to such financial forecasts or the assumptions on which they are based.

Imperial Capital's opinion was based upon economic, monetary and market conditions existing on the date of the opinion and does not address the fairness of the Transaction Consideration as of any other date. Imperial Capital expressed no opinion, nor should one be implied, as to the current fair market value of Mercury's common stock or the prices at which Mercury's common stock will trade at any time.

In preparing its opinion, Imperial Capital performed certain financial and comparative analyses summarized in the following paragraphs. Imperial Capital believes that its analyses must be considered as a whole and that selecting portions of such analyses and the factors it considered, without considering all such analyses and factors, could create an incomplete view of the analyses and the process underlying the opinion. While the conclusions reached in connection with each analysis were considered carefully by Imperial Capital in arriving at its opinion, Imperial Capital made various subjective judgments in arriving at its opinion and did not consider it practicable to, nor did it attempt to, assign relative weights to the individual analyses and specific factors considered in reaching its opinion.

Historical Stock Trading Analysis. Imperial reviewed the historical performance of Mercury's common stock based on an historical analysis of closing prices and trading volumes for the one-year period prior to the date of the fairness opinion. Imperial

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noted that the closing price for Mercury's common stock over this period ranged from \$3.08 to \$8.45. The following chart summarizes the average closing prices and volume of trading of Mercury's common stock over the last year.

Mercury Common Stock Trading History

	Average Price	Average Volume
Previous 10 Trading Days	\$3.56	19,830
Previous 30 Trading Days	\$3.58	9,093
Previous 60 Trading Days	\$3.81	9,350
Previous 90 Trading Days	\$3.91	18,089
52-Week High	\$8.45(a)	226,300
52-Week Low	\$3.08(b)	0

(a) Occurred on November 5, 2004, the day the special dividend was paid.

(b) Occurred on November 8, 2004, the first trading day after the special dividend was paid.

Imperial Capital noted that Mercury paid a Special Dividend totaling approximately \$17,500,000 (\$5.70 per share) to holders of the Company's common stock on November 5, 2004, which had a significant impact on the trading price and volume of Mercury's common stock.

Imperial noted that the Transaction Consideration was above the average closing prices of Mercury's common stock for the 5-day, 10-day, 30-day and one month periods reviewed as part of the historical stock trading analysis.

Comparable Company Analysis. Imperial Capital's comparable company analysis was based on a comparison of Mercury's valuation multiples with those of a selected group of comparable public companies (the Company Comparables).

In selecting the Company Comparables, Imperial Capital searched comprehensive lists and directories of public companies. When selecting the Company Comparables, certain determinant factors included: (i) the company had to provide products or services for the fuel services and air cargo handling industries; (ii) the company had to make its financial information public; and (iii) the company was required to have an active trading market to measure public perception. The Company Comparables selected were:

Air T, Inc. (NasdaqSC: AIRT)

AirNet Systems, Inc. (NYSE: ANS)

AutoInfo (OTCBB: AUTO)

Streicher Mobile Fueling, Inc. (NASDAQ: FUEL)

World Fuel Services Corp. (NYSE: INT)

Due to the lack of public companies that provide the same range of services as Mercury, Imperial Capital chose to select Company Comparables with businesses focused on air cargo handling and fuel services. Imperial Capital's decision to select such companies was due in part to their exposure to similar macroeconomic and industry-specific risks as those faced by the Company including, but not limited to, exposure to commercial and general aviation industry trends; geo-political risks (e.g., post-September 11 downturn in commercial aviation, oil prices, etc.); and similar customer bases.

No company included in the selected Company Comparables is identical to Mercury. In selecting and evaluating the Company Comparables, Imperial Capital made subjective judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions, and other matters. Because of the inherent differences between the business, operations, financial condition and prospects of Mercury and those of the selected Company Comparables, Imperial Capital believed it was inappropriate to, and therefore did not, rely solely on the quantitative results of the Company Comparables analysis.

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Imperial Capital then compared market values of, among other things, current enterprise value (equity value, plus total debt, minority interest, preferred stock and convertible instruments, less instruments in unconsolidated affiliates, cash and cash equivalents) (EV) as multiples of the latest twelve months EBITDA. Based on a comparison of Mercury with the Company Comparables, Imperial Capital arrived at an aggregate range of values between \$0.00 per share and \$7.79 per share, with a mean value of \$4.17 per share. Imperial Capital noted that the cash consideration was in the range of these values and was slightly lower than the mean value.

Comparable Transaction Analysis. Imperial Capital's comparable transaction analysis was based on a comparison of Mercury's valuation multiples with those implied by certain announced control transactions deemed relevant based on similarity of business operations (the Transaction Comparables).

In selecting the Transaction Comparables, Imperial Capital searched comprehensive lists and directories of public companies. When selecting the Transaction Comparables, certain determinant factors included: (i) the transaction had to involve controlling interests in companies in a similar industry or with operations similar to the principal business operations of Mercury; and (ii) the purchase price and the operating results of the acquired company had to be public.

Acquiror	Target	Date Announced	Transaction Details			Transaction Multiples	
			Enterprise Value	Target Revenue	Target EBITDA	EV/ Revenues	EV/ EBITDA
Express One International, Inc.	Central Florida Air Maintenance	07/21/04	NA	NA	NA	NM	NM
Alimentation Couche-Tard, Inc.	Circle K Corporation	10/06/03	811.7	3,900.0	NA	0.2	NM
The Pantry, Inc.	Golden Gallon, Inc.	08/25/03	187.0	387.0	NA	0.5	NM
Transforce Income Fund	Canadian Freightways Limited	08/15/03	60.7	150.7	NA	0.4	NM
The Carlyle Group	Air Cargo, Inc. Williams Lynxs Alaska	08/11/03	NA	NA	NA	NM	NM
Chevy Chase Trust Co.	CargPort	05/31/03	NA	NA	NA	NM	NM
DHL Worldwide Express	Airborne, Inc.	03/25/03	1,410.0	3,343.7	253.1	0.4	5.6
Management of Landair Corp.	Landair Corp.	10/11/02	101.7	102.9	19.5	1.0	5.2
United Defense Industries, Inc.	United States Marine Repair, Inc.	05/28/02	417.6	431.8	45.4	1.0	9.2
Pacific CMA, Inc.	Airgate International Corp.	03/19/02	3.4	29.1	0.6	0.1	5.6
Union Pacific Corp.	Motor Cargo Industries	11/15/01	96.9	130.9	17.2	0.7	5.6
Vinci SA	Worldwide Flight Services, Inc.	09/10/01	285.0	348.0	NA	0.8	NM
Avfuel Corporation	Texaco General Aviation Business	09/07/01	NA	NA	NA	NM	NM
BBA Group / Signature	Aircraft Services International	07/11/01	137.9	162.0	NA	0.9	NM
United Parcel Service		01/10/01	495.8	621.8	54.4	0.8	9.1

	Fritz Companies, Inc.							
World Fuel Services Corp.	Page Avjet Fuel Co LLC	01/03/01	NA	NA	NA	NM	NM	
EGL, Inc.	Circle Int 1 Group, Inc.	07/03/00	518.1	832.3	49.2	0.6	10.5	
					High	10x	10.5x	
					Median	0.7	5.6	
					Mean	0.6	7.3	
					Low	0.1	5.2	

No acquired company involved in the selected Transaction Comparables is identical to Mercury. In selecting and evaluating the Transaction Comparables, Imperial Capital made subjective judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions, and other matters. Because of the inherent differences between the business, operations, financial condition and prospects of Mercury and those of the acquired companies included in the selected Transaction

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Comparables, Imperial Capital believed it was inappropriate to, and therefore did not, rely solely on the quantitative results of the Transaction Comparables analysis.

Imperial Capital then compared market values of, among other things, current EV as multiples of the latest twelve months EBITDA. Based on a comparison of Mercury with the Transaction Comparables, Imperial Capital arrived at an aggregate range of values between \$1.20 per share and \$7.73 per share, with a mean value of \$3.73 per share. Imperial Capital noted that the cash consideration was in the range of these values and was slightly higher than the mean value.

Discounted Cash Flow Analysis. Imperial Capital performed a discounted cash flow analysis (DCF) on Mercury. The fundamental premise of the DCF approach is to estimate the available cash flows a prudent investor would expect a company to generate over its remaining life. To determine this amount, Imperial Capital relied on cash flow projections for FYE June 30, 2005 through 2008, as provided by Mercury's management. Imperial Capital estimated Mercury's weighted average cost of capital by performing analyses consistent with the Capital Asset Pricing Model. In its analyses Imperial Capital applied the average unlevered beta of 0.80 for the comparable group (this group consists of those companies specified in the Company Comparables analysis). Imperial Capital then applied a 0.0% to 5.0% company specific risk premium which reflects risks which affect the valuation of Mercury. Using a range of 9% to 11% (rounded) as the estimate of cost of capital, Imperial Capital calculated the present value of free cash flows for the 2005 through 2008 years and the present value of the terminal value of Mercury (the calculated value of Mercury at the end of the projection period). Imperial Capital calculated a terminal value at the end of 2008 that incorporated a perpetual growth rate of 2.8%. Imperial Capital arrived at an aggregate range of values between \$1.82 per share and \$4.43 per share, with a mean value of \$2.95 per share. Imperial Capital noted that the cash consideration is within the range of these values.

In the ordinary course of its business and in accordance with applicable state and federal securities laws, Imperial Capital may trade Mercury's securities for its own account and for the accounts of customers and, accordingly, may at any time hold long or short positions in such securities.

Imperial Capital received a fee of \$75,000 for rendering the fairness opinion attached as Appendix B, which fee was due and payable at the time such opinion was delivered to the Special Committee and the Board, and an additional fee of \$20,000 for rendering a related liquidity analysis, which fee was due and payable upon delivery of a liquidity analysis to the Special Committee and the Board. Imperial Capital has acted as financial advisor to Mercury in connection with the purchase of the Whitney Note and the sale of the FBO business and received a total fee of \$300,000 for its services, as set forth in Corporate Developments in Last Four Years Sale of FBO's. Mercury also agreed, in connection with the issuance of its opinion letter in connection with the Transaction, to indemnify Imperial Capital, its affiliates and each of its directors, officers, agents and employees and each person, if any, controlling Imperial Capital or any of its affiliates against certain liabilities, including liabilities under federal securities laws. Imperial Capital did not recommend the amount of consideration to be paid in the Transaction. The cash consideration of \$4.00 per share was recommended by the Special Committee.

CERTAIN EFFECTS OF THE TRANSACTION

The Transaction will have various effects on Mercury, the affiliated stockholders, including CK Partners, and the unaffiliated stockholders, which are described in the applicable sections below:

Effects on Mercury

If approved at the Special Meeting, the Transaction, if implemented, will have various effects on Mercury, as described below:

REDUCTION IN THE NUMBER OF STOCKHOLDERS AND THE NUMBER OF OUTSTANDING SHARES. Mercury believes that the Transaction will reduce the number of record common stockholders from approximately 331 to approximately 33. In calculating this number, Mercury assumes that, in addition to the approximately 30,202 common shares held by stockholders of record with fewer than 501 shares in their account, beneficial owners of approximately 162,411 additional shares also will receive cash for their shares in the Transaction. Accordingly the number of outstanding shares of common stock will decrease from 3,056,355 shares, as of June 30, 2005, to approximately 2,863,742 shares. In addition, Mercury believes that the number of beneficial owners of its common stock will decrease from approximately 2,039 to approximately

561 as a result of the Transaction.

DECREASE IN BOOK VALUE PER SHARE. As a result of the approximately 192,613 pre-split shares of common stock expected to be cashed-out at \$4.00 per share for a total cost (including expenses on an after tax basis) of \$1,092,000:

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aggregate stockholders' equity of Mercury as of March 31, 2005, will be reduced from approximately \$13,869,000 on a historical basis to approximately \$12,786,000 on a pro forma basis; and

the book value per share of common stock as of March 31, 2005, will be reduced from \$4.54 per share on a historical basis to approximately \$4.46 per share on a pro forma basis.

TERMINATION OF EXCHANGE ACT REGISTRATION. Mercury's common stock is currently registered under the Exchange Act. Mercury plans to file a Form 15 with the SEC following the Transaction to terminate this registration if its common stock is no longer held by 300 or more stockholders of record. Termination of registration of Mercury's common stock under the Exchange Act would substantially reduce the information Mercury is required to furnish to its stockholders and to the SEC. It would also make certain provisions of the Exchange Act, such as the short-swing profit recovery provisions of Section 16(b) of the Exchange Act, Section 16(a) reporting for officers, directors, and 10% stockholders, proxy statement disclosure in connection with stockholder meetings, and the related requirement of an annual report to stockholders, no longer applicable. Mercury intends to apply for such termination as soon as practicable following the Transaction. However, Mercury currently intends to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com.

EFFECT ON MARKET FOR COMMON STOCK. Mercury's common stock is currently listed on the American Stock Exchange. Mercury expects that after the Transaction, its common stock will be delisted from the American Stock Exchange. This delisting could further reduce the liquidity of the common stock. Any trading in Mercury's common stock after the Transaction and deregistration of the common stock will only occur in the over-the-counter market or in privately negotiated sales, and Mercury's common stock will likely only be quoted in the pink sheets.

FINANCIAL EFFECTS OF THE TRANSACTION. Mercury expects that it will use approximately \$1,271,000 of cash, or \$1,092,000 net of taxes, to complete the Transaction, including Transaction costs, and that this use of cash will not have any materially adverse effect on Mercury's liquidity, results of operation, or cash flow. Because Mercury does not know the exact amount of shares that will be cashed-out, it can only estimate the total amount to be paid to stockholders in the Transaction. Mercury has sufficient cash and short term cash equivalents, or credit availability, to fund the Transaction. See also