

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): **February 7, 2011**

**Kratos Defense & Security Solutions, Inc.**

(Exact Name of Registrant as Specified in Charter)

<b>Delaware</b> (State or Other Jurisdiction of Incorporation)	<b>0-27231</b> Commission File Number	<b>13-3818604</b> (I.R.S. Employer Identification Number)
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**4820 Eastgate Mall, San Diego, CA 92121**  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(858) 812-7300**

N/A

(Former Name, or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## Item 1.01. Entry into a Material Definitive Agreement.

### Merger Agreement

On February 7, 2011, Kratos Defense & Security Solutions, Inc. (the "Company") entered into an Agreement and Plan of Merger (the "Merger Agreement") with Lanza Acquisition Co., a Delaware corporation and its indirect wholly-owned subsidiary ("Merger Sub"), and Herley Industries, Inc., a Delaware corporation ("Herley"). The boards of directors of the Company and Herley have approved the Merger Agreement and the transactions contemplated thereby. Pursuant to the terms of the Merger Agreement, Merger Sub will commence a tender offer (the "Offer") to purchase all of Herley's issued and outstanding shares of common stock, par value \$0.10 per share (the "Herley Common Stock"), at a price of \$19.00 per share in cash, without any interest thereon (the "Offer Price"). Merger Sub is obligated to commence the Offer as promptly as practicable and in any event no later than February 25, 2011. The Offer will remain open for 20 business days, subject to periods of extension through June 30, 2011 if the conditions to the Offer have not been satisfied at the end of any Offer period (subject to the parties' termination rights under the Merger Agreement).

The consummation of the Offer is subject to customary closing conditions, including, among other things, the expiration of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and, subject to the terms of the Merger Agreement, any other applicable competition laws and the valid tender of shares of Herley Common Stock representing at least a majority of the total outstanding shares of Herley Common Stock, calculated on a fully diluted basis, and other offer conditions set forth in Annex A to the Merger Agreement. The consummation of the Offer is not subject to any financing condition.

Upon completion of the Offer, and subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, Merger Sub will be merged (the "Merger") with and into Herley, with Herley surviving as a wholly-owned subsidiary of the Company. At the effective time of the Merger (the "Effective Time"), each outstanding share of Herley Common Stock, other than shares of Herley Common Stock owned by Merger Sub, the Company or any of its subsidiaries or Herley or any of its subsidiaries immediately prior to the Effective Time, or by stockholders who have validly exercised their appraisal rights under Delaware law, will be canceled and converted into the right to receive an amount in cash equal to the Offer Price payable to the holder thereof, on the terms and subject to the conditions set forth in the Merger Agreement. In addition, at the Effective Time, (i) at the election of the holder thereof, each in-the-money option to purchase Herley Common Stock will be canceled and exchanged for a cash payment equal to: (a) the excess, if any, of the Offer Price over the per share exercise price of such in-the-money option, multiplied by (b) the number of shares subject to such in-the-money option; (ii) all other options to purchase Herley Common Stock shall be assumed by the Company (the "Assumed Options") and shall thereafter represent an option to purchase a number of shares of the Company's common stock, with the number of shares of common stock of the Company subject to and the exercise price applicable to such option being appropriately adjusted based on an exchange ratio equal to the fraction obtained by dividing the Offer Price by the average closing sales price for one share of common stock of the Company on the NASDAQ Global Select Market for the 10 trading-day period ending on the first business day immediately preceding the date of the Merger Agreement; and (iii) each restricted stock award granted under any compensation plan or arrangement of Herley and outstanding immediately prior to the Effective Time shall be cancelled at the Effective Time in exchange for the merger consideration payable in respect of such stock.

The closing of the Merger is subject to, among other conditions, the adoption of the Merger Agreement by holders of a majority of the outstanding shares of Herley Common Stock, if required by applicable law. However, the parties have agreed that if, following completion of the Offer, Merger Sub owns at least 90% of the then outstanding shares of Herley Common Stock, the Merger will be completed without a meeting of the Herley stockholders pursuant to the "short-form merger"

provisions of the Delaware General Corporation Law. In furtherance thereof, Merger Sub may, but is not required to, provide for a "subsequent offering period" in accordance with applicable law following the consummation of the Offer in order to seek additional shares of Herley Common Stock to facilitate the consummation of the Merger using such "short-form merger" provisions. The Merger Agreement also provides that, subject to certain conditions and limitations, Merger Sub will have an irrevocable option (the "Top-Up Option"), exercisable after the completion of the Offer, to acquire a number of shares of Herley Common Stock equal to the lesser of (i) the lowest number of shares that, when added to the number of shares of Herley Common Stock owned by the Company or Merger Sub at the time of the exercise of the Top-Up Option, will constitute one share more than 90% of the number of shares of Herley Common Stock that will be outstanding after giving effect to the exercise of the Top-Up Option, at a price per share equal to the Offer Price, and (ii) the aggregate number of shares held as treasury shares by Herley and the number of additional shares that Herley is authorized to issue under its certificate of incorporation. The Top-Up Option is intended to expedite the timing of the completion of the Merger by permitting the Merger to occur without a meeting of the Herley stockholders pursuant to the "short-form merger" provisions of the Delaware General Corporation Law.

The Company, Herley and Merger Sub have made customary representations, warranties and covenants in the Merger Agreement. Herley's covenants include, among other things, covenants regarding the operation of the business prior to the closing and covenants prohibiting Herley from soliciting, providing information to third parties in connection with or entering into discussions concerning, proposals relating to alternative business combination transactions, except in limited circumstances relating to unsolicited proposals that would reasonably constitute, or would reasonably be expected to lead to, a proposal superior to the transactions contemplated by the Merger Agreement.

The Merger Agreement contains certain termination rights for each of Herley and the Company. In addition, upon the termination of the Merger Agreement under specified circumstances, Herley will be required to pay the Company a termination fee in an amount equal to \$9,440,000.

The foregoing description of the Merger Agreement, the Offer and the Merger does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Merger Agreement, a copy of which is attached hereto as Exhibit 2.1 and the terms of which are incorporated herein by reference.

The Merger Agreement has been attached hereto pursuant to applicable rules and regulations of the Securities and Exchange Commission ("SEC") in order to provide investors and stockholders with information regarding its terms. However, it is not intended to provide any other factual information about the Company, Herley, their respective subsidiaries and affiliates or any other party. In particular, the representations, warranties and covenants contained in the Merger Agreement have been made only for the purpose of the Merger Agreement and, as such, are intended solely for the benefit of the parties to the Merger Agreement. In many cases, these representations, warranties and covenants are as of specific dates, subject to limitations agreed upon by the parties and qualified by certain disclosures exchanged by the parties in connection with the execution of the Merger Agreement. Furthermore, many of the representations and warranties in the Merger Agreement are the result of a negotiated allocation of contractual risk among the parties and, taken in isolation, do not necessarily reflect facts about the Company, Herley, their respective subsidiaries and affiliates or any other party. Likewise, any references to materiality contained in the representations and warranties may not correspond to concepts of materiality applicable to investors or stockholders. Finally, information concerning the subject matter of the representations and warranties may change after the date of the Merger Agreement and these changes may not be fully reflected in the Company's public disclosures.

## Financing Arrangements

On February 7, 2011, in connection with the Offer, the Company entered into a commitment letter (the "Commitment Letter") with Jefferies Group, Inc., Key Capital Corporation and OPY Credit Corp. (collectively, the "Committing Parties"), pursuant to which the Committing Parties have committed to provide debt financing of up to an aggregate of \$307.5 million for the Offer. The amount of the commitment is subject to reduction by the amount of net proceeds that the Company raises in its proposed public equity offering; provided that the maximum amount of such reduction shall not exceed \$40 million. The commitment of the Committing Parties under the Commitment Letter is subject to customary conditions, including the absence of any material adverse effect on the financial condition of Herley or the Company's ability to consummate the transactions described in the Commitment Letter. The Company intends to commence a private offering to eligible purchasers, subject to market and other conditions, of up to \$325 million in aggregate principal amount of senior secured notes due 2017 (the "New Notes"). This Current Report on Form 8-K does not constitute an offer to sell or the solicitation of an offer to buy the New Notes and shall not constitute an offer, solicitation or sale in any jurisdiction in which such offering, solicitation or sale would be unlawful.

In connection with the offering of the New Notes, the Company has received the consent of the holders of a majority of its existing 10% Senior Secured Notes due 2017 (the "Existing Notes") and has entered into a supplemental indenture (the "Supplemental Indenture") related to the Existing Notes in which such holders agreed to permit the Company to issue the New Notes in an aggregate principal amount not to exceed \$325 million in connection with the acquisition of Herley and for general corporate purposes irrespective of whether such New Notes may be issued in compliance with the minimum consolidated fixed charge coverage ratio test contained in the limitation of incurrence of additional indebtedness covenant in the indenture governing the Existing Notes. In addition, the Company has entered into an amendment (the "Amendment") to its existing senior secured credit agreement (the "Credit Agreement") with KeyBank National Association ("KeyBank"), pursuant to which KeyBank has agreed to waive any restrictions in the Credit Agreement with respect to the acquisition of Herley and the issuance of the New Notes. Wilmington Trust FSB and KeyBank also entered into an amendment to the existing intercreditor agreement to make certain changes to such agreement so as to permit the consummation of the acquisition of Herley.

The foregoing descriptions of the Commitment Letter, the Supplemental Indenture and the Amendment do not purport to be complete and are subject to, and qualified in their entireties by, the full text of each of the Commitment Letter, the Supplemental Indenture and the Amendment, a copy of each of which is attached hereto as Exhibit 10.1, Exhibit 10.2 and Exhibit 10.3, respectively, and the terms of which are incorporated herein by reference.

### *Additional Information and Where to Find It*

No statement in this document or the attached exhibits is an offer to purchase or a solicitation of an offer to sell securities. The Offer for the shares of Herley Common Stock has not commenced. The Company intends to file a tender offer statement on Schedule TO with the SEC, and Herley also intends to file a solicitation/recommendation statement on Schedule 14D-9, with respect to the Offer described in this Current Report on Form 8-K and the exhibits attached hereto. Any offers to purchase or solicitations of offers to sell will be made only pursuant to such tender offer statement. The tender offer statement (including an offer to purchase, a related letter of transmittal and other offer documents) and the related solicitation/recommendation statement will contain important information, including the various terms of, and conditions to, the Offer, that should be read carefully by Herley's stockholders before they make any decision with respect to the Offer. Such materials, when prepared and ready for release, will be made available to Herley's stockholders at no expense to them. In addition, at such time such materials (and all other offer documents filed with the SEC) will be

available at no charge on the SEC's website: [www.sec.gov](http://www.sec.gov) and may also be obtained by directing a request to the Corporate Secretary of Kratos Defense & Security Solutions, Inc., at (858) 812-7300.

The issuer has filed a registration statement (including a prospectus) and a preliminary prospectus supplement with the SEC for an underwritten public offering in connection with its proposed acquisition of Herley. Before you invest in such offering, you should read the preliminary prospectus supplement, including the base registration statement (and accompanying prospectus), and other documents the issuer has filed with the SEC for more complete information about the issuer and the offering. You may get these documents for free by visiting EDGAR on the SEC website at [www.sec.gov](http://www.sec.gov). Alternatively, the issuer or any underwriter participating in the offering will arrange to send you the preliminary prospectus supplement and accompanying prospectus if you request them by calling toll-free (877) 547-6340.

## **Item 2.02. Results of Operations and Financial Condition**

On February 7, 2011, the Company issued a press release regarding the Company's preliminary financial results for the fourth quarter and fiscal year 2010. The full text of the Company's press release is attached hereto as Exhibit 99.1 and incorporated herein by reference.

## **Item 8.01 Other Events.**

On February 7, 2011, the Company (i) issued a press release announcing the proposed acquisition of Herley, a copy of which is attached hereto as Exhibit 99.2 and incorporated herein by reference, (ii) issued a press release announcing the launch of an underwritten public offering of its common stock, a copy of which is attached hereto as Exhibit 99.3 and incorporated herein by reference, and (iii) conducted a conference call (the "Conference Call") to discuss the acquisition of Herley and to provide preliminary financial results for the fourth quarter and fiscal year 2010. A copy of the Conference Call script is attached hereto as Exhibit 99.4 and incorporated herein by reference.

## **Item 9.01. Financial Statements and Exhibits.**

### **(a) *Financial Statements of Businesses Acquired.***

This Current Report on Form 8-K incorporates by reference to Annex B of Kratos' Prospectus Supplement to Registration Statement on Form S-3 (File No. 333-161340), filed with the SEC on February 7, 2011 (the "Prospectus Supplement"), the following financial statements of Herley (including the notes thereto): (i) audited consolidated (a) balance sheets as of August 1, 2010 and August 2, 2009, (b) statements of operations for the fifty-two weeks ended August 1, 2010 and August 2, 2009, and the fifty-three weeks ended August 3, 2008, (c) statements of shareholders' equity for the fifty-two weeks ended August 1, 2010 and August 2, 2009 and the fifty-three weeks ended August 3, 2008, (d) statements of cash flows for the fifty-two weeks ended August 1, 2010 and August 2, 2009 and the fifty-three weeks ended August 3, 2008; and (ii) condensed consolidated (a) balance sheets as of October 31, 2010 (unaudited) and August 1, 2010, (b) statements of income for the thirteen weeks ended October 31, 2010 (unaudited) and November 1, 2009, and (c) statements of cash flows for the thirteen weeks ended October 31, 2010 (unaudited) and November 1, 2009 (collectively, the "Herley Financial Statements").

Also incorporated herein by reference to the Prospectus Supplement are the following reports related to the foregoing financial statements of Herley: (i) Report of Independent Certified Public Accountants, Grant Thornton LLP, dated October 14, 2010, (ii) Reports of Independent Registered Public Accounting Firm, Brightman Almagor Zohar & Co., each dated October 4, 2010, (iii) Report of Independent Registered Public Accounting Firm, Grant Thornton, dated October 14, 2010, and (iv) Report of Independent Registered Public Accounting Firm, Marcum LLP, dated October 16, 2009 (collectively, the "Herley Reports" and together with the Herley Financial Statements the "Herley

Financials"). The Herley Financials are attached hereto as Exhibit 99.5 and hereby incorporated by reference.

A copy of each of the consents of the registered public accounting firms relating to certain financial statements of Gichner Holdings, Inc. ("Gichner"), acquired by the Company on May 19, 2010, Henry Bros. Electronics, Inc. ("HBE"), acquired by the Company on December 15, 2010, Herley and General Microwave Israel Corp., a subsidiary of Herley, is attached hereto as Exhibit 23.1, Exhibit 23.2, Exhibit 23.3 and Exhibit 23.4, and Exhibit 23.5, respectively, and hereby incorporated by reference.

**(b) Pro Forma Financial Information.**

This Current Report on Form 8-K incorporates by reference to the Prospectus Supplement Kratos' unaudited pro forma condensed combined (i) balance sheet of as of September 26, 2010; (ii) statements of operations for the nine months ended September 26, 2010; and (iii) statements of operations for the twelve months ended December 27, 2009. The foregoing unaudited pro forma condensed combined financial data is intended to show how the acquisition of Herley, Gichner and HBE might have affected historical financial statements of Kratos if such acquisitions had been completed at an earlier time and was prepared based on the historical financial results reported by Kratos, Herley, Gichner and HBE. A copy of the foregoing unaudited pro forma condensed combined financial statements are included herein as Exhibit 99.6 and are hereby incorporated by reference.

**(d) Exhibits.**

- 2.1 Agreement and Plan of Merger, dated February 7, 2011, by and among Kratos Defense & Security Solutions, Inc., Lanza Acquisition, Co. and Herley Industries, Inc. (incorporated by reference to Annex A to the Prospectus Supplement dated February 7, 2011, pursuant to the Registration Statement on Form S-3 of Kratos Defense & Security Solutions, Inc. (File No. 333-161340)).
- 10.1 Commitment Letter, dated February 7, 2011, by and among Kratos Defense & Security Solutions, Inc. and Jefferies Group, Inc., Key Capital Corporation and OPY Credit Corp.
- 10.2 First Supplemental Indenture, dated as of February 7, 2011, by and among Kratos Defense & Security Solutions, Inc., the guarantors listed on Exhibit A thereto and Wilmington Trust FSB.
- 10.3 Second Amendment Agreement, dated as of February 7, 2011, among Kratos Defense & Security Solutions, the lenders named therein, and KeyBank National Association.
- 23.1 Consent of Registered Public Accounting Firm, Plante & Moran, PLLC.
- 23.2 Consent of Registered Public Accounting Firm, Amper, Politziner & Mattia LLP.
- 23.3 Consent of Registered Public Accounting Firm, Marcum LLP.
- 23.4 Consent of Registered Public Accounting Firm, Grant Thornton LLP.
- 23.5 Consent of Registered Public Accounting Firm, Brightman Almagor Zohar & Co.
- 99.1 Press release dated February 7, 2011, announcing preliminary fourth quarter and fiscal year 2010 financial results
- 99.2 Press release dated February 7, 2011, announcing the proposed acquisition of Herley Industries, Inc.

- 99.3 Press release dated February 7, 2011, announcing the underwritten public offering of common stock.
- 99.4 Conference call script, February 7, 2011.
- 99.5 Audited financial statements of Herley Industries, Inc. for the (i) fifty-two weeks ended August 1, 2010 and August 2, 2009, and the fifty-three weeks ended August 3, 2008, including the auditor's reports related thereto and (ii) thirteen weeks ended October 31, 2010 (unaudited) and November 1, 2009 (incorporated by reference to Annex B to the Prospectus Supplement dated February 7, 2011, pursuant to the Registration Statement on Form S-3 of Kratos Defense & Security Solutions, Inc. (File No. 333-161340)).
- 99.6 Kratos Defense & Security Solutions, Inc.'s unaudited pro forma condensed combined (i) balance sheet as of September 26, 2010; (ii) statements of operations for the nine months ended September 26, 2010; and (iii) statements of operations for the twelve months ended December 27, 2009 (incorporated by reference to the Prospectus Supplement dated February 7, 2011, pursuant to the Registration Statement on Form S-3 of Kratos Defense & Security Solutions, Inc. (File No. 333-161340)).

### **Forward-Looking Statements**

Certain statements in this Current Report on Form 8-K and in the press releases attached hereto may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to a variety of matters, including but not limited to: the timing and anticipated completion of the Offer and the proposed Merger; and other statements that are not purely statements of historical fact. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the management of the Company and Herley and are subject to significant risks and uncertainty. Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and neither the Company nor Herley undertakes any obligation to update or revise these statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from the forward-looking statements contained herein include, but are not limited to: any operational or cultural difficulties associated with the integration of the businesses of the Company and Herley; potential adverse reactions or changes to business relationships resulting from the announcement or completion of the proposed acquisition of Herley; unexpected costs, charges or expenses resulting from the proposed acquisition of Herley; litigation or adverse judgments relating to the proposed acquisition of Herley; risks relating to the consummation of the contemplated acquisition of Herley, including the risk that the closing conditions to the Offer or the proposed Merger will not be satisfied; the failure to realize synergies and cost savings from the transaction or delay in realization thereof; any difficulties associated with requests or directions from governmental authorities resulting from their reviews of the transaction; and any changes in general economic and/or industry-specific conditions. Additional factors that could cause actual results to differ materially from those described in the forward-looking statements are set forth in the Company's Annual Report on Form 10-K for the year ended December 27, 2009, which was filed with the SEC on March 11, 2010, under the heading "Item 1A—Risk Factors," in the Annual Report on Form 10-K of Herley for the year ended August 1, 2010, which was filed with the SEC on October 14, 2010, under the heading "Item 1A—Risk Factors" and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by each of the Company and Herley.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**Kratos Defense & Security Solutions, Inc.**

By: /s/ Eric DeMarco

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Eric DeMarco  
President and Chief Executive Officer

Date: February 7, 2011

## QuickLinks

[Item 1.01. Entry into a Material Definitive Agreement.](#)

[Item 2.02. Results of Operations and Financial Condition](#)

[Item 8.01 Other Events.](#)

[Item 9.01. Financial Statements and Exhibits.](#)

[SIGNATURES](#)

**JEFFERIES GROUP, INC.**  
520 Madison Avenue  
New York, New York 10022

**KEY CAPITAL CORPORATION**  
127 Public Square  
Cleveland, Ohio 44114

**OPY CREDIT CORP.**  
300 Madison Avenue  
New York, New York 10017

February 7, 2011

**COMMITMENT LETTER**

Kratos Defense & Security Solutions, Inc.  
4820 Eastgate Mall  
San Diego, California 92121

Attention: Eric DeMarco  
President and Chief Executive Officer  
**Re: Herley Industries, Inc.**

Ladies and Gentlemen:

You have advised Jefferies Group, Inc. ("**Jefferies**"), Key Capital Corporation ("**Key**") and OPY Credit Corp. ("**Oppenheimer**", and together with Jefferies and Key, the "**Commitment Parties**", "**we**" or "**us**") that Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "**Acquiror**" or "**you**"), intends to, indirectly, acquire (the "**Acquisition**") all of the issued and outstanding capital stock of Herley Industries, Inc., a Delaware corporation (the "**Target**" and, together with its subsidiaries, the "**Acquired Business**"), from the shareholders of the Target (collectively, the "**Seller**") and to refinance (together with any applicable prepayment premium or fee, with the commitments thereunder being terminated, and all guarantees and security in respect thereof being released) approximately \$13.0 million of existing debt (the "**Existing Debt**") of the Acquired Business (the "**Refinancing**"). We understand that the Acquisition is expected to include a tender offer (the "**Tender Offer**") for all of the issued and outstanding shares of capital stock of Target (the "**Shares**") and will be effected by means of a merger (the "**Merger**") of a newly-formed indirect wholly owned domestic subsidiary ("**AcquisitionCo**") of the Acquiror with and into the Target with the Target being the surviving entity of such merger. Capitalized terms used but not defined herein and defined in any exhibit hereto have the meanings assigned to them in such exhibit.

You have advised us that the total purchase price for the Acquisition (including related fees, commissions and expenses and the Refinancing) (the "**Purchase Price**") will be approximately \$315.8 million, and that the Purchase Price will be financed with:

- (i) the issuance and sale (the "**Notes Offering**") of senior secured notes (the "**Notes**") by a newly-formed direct wholly owned domestic subsidiary ("**AcquisitionCo Parent**") of the Acquiror and the direct parent of AcquisitionCo, yielding gross proceeds of \$307.5 million (which amount will be reduced on a dollar-for-dollar basis by the amount of net proceeds, if any, raised in the Acquiror's contemplated equity offering of its shares of common stock (the "**Equity Offering**")),
- (ii) approximately \$5.0 million of borrowings (the "**Revolver Borrowings**") under the Credit Agreement (as defined in that certain Indenture, dated as of May 19, 2010 (the "**Existing Indenture**"), among you, the guarantors parties thereto and Wilmington Trust FSB, as trustee and collateral agent), which will be contributed by the Acquiror to AcquisitionCo Parent (the "**Revolver Proceeds Contribution**"), and
- (iii) to the extent the Acquiror completes the Equity Offering, the net proceeds of the Equity Offering, which we expect to be in the amount of approximately \$40.0 million, will be contributed by the Acquiror, together with unrestricted cash on hand of the Acquiror in an amount equal to (A) if at least \$40.0 million in net proceeds is raised from the Equity Offering, \$3.3 million and (B) if at least \$40.0 million in net proceeds is not raised from the Equity Offering, \$4.8 million, to AcquisitionCo Parent (the "**Acquiror Cash Contribution**" and, together with the Revolver Proceeds

Contribution, the "**Contributions**"). The cash so contributed pursuant to the Acquiror Cash Contribution is referred to hereinafter as the "**Acquiror Cash**".

The indenture that will govern the Notes will require that (x) promptly following the earlier to occur of (1) the Merger and (2) the consummation of the Escrow Redemption (as defined in Exhibit A hereto), AcquisitionCo Parent will merge (the "**Second Merger**") with and into the Acquiror such that the Acquiror will be the surviving entity of the Second Merger and the issuer of the Notes with Target as its direct wholly owned subsidiary and (y) contemporaneous with the Second Merger, the Acquiror will mandatorily exchange (the "**Notes Exchange**") the Notes for 10% Senior Secured Notes due 2017 (the "**Exchange Notes**") that will be issued by it under the Existing Indenture in an aggregate principal amount equal to the Notes then outstanding.

The transaction described in clause (i) of the preceding paragraph is referred to as the "**Debt Financing**" and, together with the Acquisition, Tender Offer, the Merger, the Revolver Borrowings, the Refinancing, the Contributions, the Second Merger, the Notes Exchange and the payment of all related fees, commissions and expenses are collectively referred to as the "**Transactions**." You and your affiliates and the Target and its affiliates are referred to herein as the "**Company**." The anticipated sources and uses for the financing of the Transactions are as set forth on Annex A hereto. As used in this Commitment Letter and the other Debt Financing Letters (as defined below), the words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation."

1. The Commitments.

Each of Jefferies, Key and Oppenheimer is pleased to inform you that it hereby commits, severally and not jointly, directly or through one or more of its affiliates, to purchase 80.0%, 10.0% and 10.0%, respectively, of the Notes, having the terms set forth in Exhibit A hereto.

It is expressly understood and acknowledged that Jefferies, Key and Oppenheimer are not and shall not be deemed for any purpose to be acting as an agent, joint venturer or partner of one another and that none of Jefferies, Key or Oppenheimer assumes responsibility, express or implied, for any actions or omissions of, or the performance of services by, the others in connection with the Transaction or otherwise. For the avoidance of doubt, the respective Commitments of Jefferies, Key and Oppenheimer hereunder shall be several (and not joint and several) in all respects.

The commitments described in this Section 1 are collectively referred to herein as the "**Commitments**." Our respective Commitments are, in each case, on the terms and subject to (i) the conditions set forth in this letter (including the exhibits, schedules and annexes hereto, collectively, this "**Commitment Letter**") and (ii) the execution and delivery of the fee letter, dated as of the date hereof (the "**Fee Letter**") among you and us and the engagement letter, dated as of the date hereof (including any exhibits, schedules and annexes thereto, collectively, the "**Engagement Letter**" and, together with this Commitment Letter and the Fee Letter, the "**Debt Financing Letters**"), among you, Jefferies & Company, Inc. ("**Jefco**"), KeyBanc Capital Markets Inc. ("**KeyBanc**") and Oppenheimer & Co. Inc. ("**OpCo**"). Notwithstanding anything to the contrary in any Debt Financing Letter, the terms of this Commitment Letter are intended as a summary of the material provisions of the documents governing the Notes Offering, but do not include all of the terms, conditions, covenants, representations, warranties, default clauses and other provisions that will be contained in the definitive documents relating to the Debt Financing, which shall be prepared by our counsel (collectively, the "**Definitive Debt Documents**"); *provided*, that the Definitive Debt Documents shall not contain any conditions precedent to the purchase of the Notes by us other than those contained in this Commitment Letter (including Exhibit B hereto). Those matters that are not covered or made clear in the Debt Financing Letters are subject to mutual agreement of the parties hereto. No party hereto has been authorized by us to make any oral or written statements or representations that are inconsistent with the Debt Financing Letters.

2. Titles and Roles. As consideration for our respective Commitments, you hereby agree that:

(a) You hereby retain and will cause your affiliates (including AcquisitionCo Parent) to retain:

(i) Jefco, KeyBanc and OpCo to act in their respective capacities and in connection with the matters set forth in the Engagement Letter, and

(ii) Jefferies or its designee to act as the sole book-runner and sole lead arranger and KeyBanc, OpCo, or their respective designees, to act as co-managers, in each case, for you and your affiliates (including AcquisitionCo Parent) in connection with the Notes Offering, and Jefferies or its designee to act as the sole administrative agent, sole collateral agent, sole book-runner, sole lead arranger and sole syndication agent and KeyBanc, OpCo, or their respective designees, to act as co-managers, in each case, for you and your affiliates in connection with any other debt financing (other than, so long as the maximum aggregate amount of credit extensions that can be incurred by the Acquiror or any of its subsidiaries thereunder does not exceed \$35.0 million unless our (and our affiliates') respective Commitments and the aggregate principal of any Notes held by us (and our affiliates) have been reduced to zero dollars in the aggregate, the Credit Agreement) not covered by clause (i) above, any portion of the proceeds of which is applied, directly or indirectly, to finance (x) any portion of the purchase price to be paid in connection with the Acquisition (or any alternative transaction pursuant to which you or any of your respective affiliates acquires direct or indirect control of the Target) or (y) any indebtedness incurred, issued or assumed in connection therewith.

(b) No other titles shall be awarded and no compensation (other than that expressly contemplated by the Debt Financing Letters) shall be paid in connection with the Notes Offering. To the extent any such titles are awarded with Jefferies' consent, Jefferies' and Jefco shall have "left" placement in all marketing materials and other documentation used in connection with the Notes Offering.

Without limiting the foregoing, neither you nor any of your subsidiaries shall, directly or indirectly, contact or use any other financial institution or other source of capital in connection with any financing referred to in Section 2(a) above.

3. Conditions Precedent. Our purchase of the Notes is conditioned upon satisfaction of each of the following conditions: (i) there shall not have been any event, development, change, occurrence or circumstance since August 1, 2010 (*i.e.*, the date of the most recent audited financial statements of the Acquired Business) that, either individually or in the aggregate, has caused or could reasonably be expected to cause a Material Adverse Effect (as defined in Exhibit B hereto); and (ii) the other conditions set forth in Exhibit B to this Commitment Letter shall have been satisfied.

4. Syndication.

(a) We reserve the right, at any time prior to or after execution of the definitive documentation for the Notes Offering, to syndicate all or part of our respective Commitments to third parties identified by Jefferies in consultation with you (collectively, including the proposed purchasers of the Notes in the Notes Offering, the "**Investors**"). We agree that we will not be released from our respective Commitments hereunder in connection with syndication to any Investor unless (A) such Investor has entered into an amendment or joinder with respect to this Commitment Letter committing to purchase a portion of the Notes or (B) such Investor shall have entered into the applicable Definitive Debt Documents (including, without limitation, by entry into an assignment and assumption agreement) committing to purchase a portion of the Notes (in which case our respective Commitments hereunder shall be reduced on a pro rata basis at such time by an amount equal to the commitment assumed by such Investor). Until, our (and our affiliates') respective Commitments and the aggregate

principal of any Notes held by us (and our affiliates) is reduced to zero dollars in the aggregate, Jefferies will exclusively manage all aspects of any syndication or assumption of any Commitment and any syndication or resale of the Notes in consultation with you, including decisions as to the selection of prospective Investors to be approached, when they will be approached, when their commitments will be accepted, which prospective Investors will participate, the allocation of the commitments among the Investors, and the amount and distribution of fees. Any syndication or resale of the Notes, whether prior to or after the Acquisition, shall only include Notes (or portions thereof) held by us and our respective affiliates on a pro rata basis (based on the principal amount of Notes held by each Commitment Party and its affiliates), in an aggregate principal amount equal to the principal amount of the Notes purchased by such Investor. If any Commitment Party or any of its affiliates shall sell its Commitment, any of its Notes or a participation in its Commitment or any such Note (other than to any of their respective affiliates) in violation of the foregoing, such Commitment Party shall assume Commitments or purchase Notes, as the case may be, from each other Commitment Party and such other Commitment Party's affiliates to the extent necessary to give effect to the foregoing. To assist Jefferies in its syndication efforts and the Notes Offering, you agree to prepare and provide (and to use your reasonable efforts to cause the Acquired Business to prepare and provide) promptly to us all customary information with respect to the Company, the Transactions and the other transactions contemplated hereby, including such Projections (defined below) as Jefferies may reasonably request in connection with the syndication of our respective Commitments; *provided that*, following the consummation of the Acquisition, you shall cause the Acquired Business to prepare and provide us with such information.

(b) Jefferies intends to commence its syndication efforts and the Notes Offering promptly upon execution of this Commitment Letter, and you agree to assist Jefferies actively (and, in all events, using your reasonable efforts) in completing the Notes Offering and in reducing our (and our affiliates') Commitments and the aggregate principal of any Notes held by us and our affiliates to zero dollars in the aggregate. Such assistance shall include:

(i) your using reasonable efforts to ensure that Jefferies' efforts benefit materially from your existing lending and investment banking relationships,

(ii) direct contact between your senior management, representatives and advisors and, on the one hand, and the senior management representatives and advisors of the proposed Investors, on the other hand (and (x) prior to the consummation of the Acquisition, your using reasonable efforts to cause, and (y) thereafter, to cause direct contact between senior management, representatives and advisors of the Acquired Business and the proposed Investors on the one hand, and the senior management representatives and advisors of the proposed Investors, on the other hand),

(iii) your assistance (and (x) prior to the consummation of the Acquisition, your using reasonable efforts to cause, and (y) thereafter, to cause the Acquired Business to assist) in the preparation of an offering memorandum (an "**Offering Memorandum**") for the Notes Offering, and other marketing materials to be used in connection with the Notes Offering (together with all Offering Memoranda, the "**Materials**"),

(iv) the provision to us of copies of any due diligence reports or memoranda prepared at your direction or any of your affiliates by legal, accounting, tax or other third party advisors in connection with the Acquisition, subject to (x) the delivery by us to you of customary non-disclosure and non-reliance agreements as shall be reasonably requested and (y) such due diligence report or memoranda not being the subject of attorney-client privilege, and

(v) the hosting, with us, of meetings with prospective Investors at such times and in such places as Jefferies' may reasonably request.

(c) You agree that all Materials and Information (as defined below) (including draft and execution versions of the Definitive Debt Documents and draft and final offering materials relating to contemporaneous or prior securities issuances by the Company) may be disseminated in accordance with our standard syndication practices (including through hard copy and via one or more internet sites (including on IntraLinks, SyndTrak or similar workspace), e-mail or other electronic transmissions). Without limiting the foregoing, upon our request, you shall authorize, and will use your reasonable efforts to obtain contractual undertakings from the Acquired Business to authorize, the use of your and its logos in connection with any such dissemination. You further agree that, at our expense and following your approval not to be unreasonably withheld or delayed, we may place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web as we may choose, and circulate similar promotional materials, after the closing of the Transactions in the form of a "tombstone" or otherwise, containing information customarily included in such advertisements and materials, including (i) the names of the Company and its affiliates (or any of them), (ii) our and our affiliates' titles and roles in connection with the Transactions, and (iii) the amount, type and closing date of such Transactions.

(d) Without limiting your obligations to assist with the syndication efforts as set forth herein, we agree that the completion of the syndication of the Notes Offering shall not constitute a condition to our obligations to purchase the Notes on the Closing Date.

5. Information. You represent, warrant and covenant that:

(a) all information (including the Materials, the "**Information**") that has been or will be made available to us by or on behalf of you or the Acquired Business or any of your or its representatives is or will be, when furnished, taken as a whole, complete and correct in all material respects,

(b) the Information (other than the Projections (as defined below)) shall not, when furnished or on the Closing Date, taken as a whole, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading in light of the circumstances under which such statements are made, and

(c) all projections and other forward-looking information that have been or will be made available to us by or on behalf of you or the Acquired Business or any of your or its representatives (collectively, the "**Projections**") have been or will be prepared in good faith based upon (i) accounting principles consistent with the most recent historical audited financial statements of the Acquiror or the Acquired Business, as applicable, and (ii) assumptions that are reasonable at the time made and at the time the related Projections are made available to us (it being recognized that such Projections are not to be viewed as facts and that actual results during the periods covered by the Projections may differ from the projected results, and such differences may be material).

You agree that, if at any time any of the representations and warranties in the preceding sentence would be incorrect if the Information or Projections were then being furnished and such representations and warranties were then being made, you shall, at such time, supplement promptly such Information and/or Projections, as the case may be, in order that such representations and warranties will be correct under those circumstances.

You shall be solely responsible for Information, including the contents of all Materials. We (i) will be relying on Information and data provided by or on behalf of you or the Acquired Business or any of your or its representatives or otherwise available from generally recognized public sources, without having independently verified the accuracy or completeness of the same, (ii) do not assume responsibility for the accuracy or completeness of any such Information and data and (iii) will not make an appraisal of your assets or liabilities or the Acquired Business. You shall (i) furnish us with all Information and data that we may reasonably request in connection with our activities on behalf of you and your affiliates and (ii) provide us full access, as reasonably requested, to your officers, directors,

employees and professional advisors and use reasonable efforts to provide us full access, as reasonably requested, to those of the Acquired Business; *provided* that, following the consummation of the Acquisition, you shall cause the Acquired Business to provide us full access, as reasonably requested, to such persons or entities.

6. Clear Market. You agree that, from the date hereof until the earlier of (i) the date on which we (and our affiliates) have completed the Notes Offering and have reduced our (and our affiliates') respective Commitments and the aggregate principal of any Notes held by us (and our affiliates) to zero dollars in the aggregate or (ii) the date that is the 180<sup>th</sup> day following the Closing Date, neither you nor any of your subsidiaries will, and, following the consummation of the Acquisition, you will not permit the Acquired Business to, directly or indirectly, (a) syndicate, place, sell or issue, (b) attempt or offer to syndicate, place, sell or issue, (c) announce or authorize the announcement of the syndication, placement, sale or issuance of, or (d) engage in discussions concerning the syndication, placement, offering, sale or issuance of, any debt facility, or debt, equity-linked or equity security of you, any of your subsidiaries or, following the consummation of the Acquisition, the Acquired Business (other than the financings included in the Transactions), including any renewals or refinancings of any existing debt facility (other than a renewal or refinancing of the Credit Agreement, *provided* that the maximum aggregate amount of credit extensions that can be incurred thereunder does not exceed \$35.0 million and such credit extensions consist solely of revolving loans and letters of credit), without Jefferies' prior written consent, which may be given or withheld in Jefferies' sole discretion.

7. Fees and Expenses. As consideration for our respective Commitments and our other undertakings hereunder, you hereby agree to pay or cause to be paid to each of the Commitment Parties, Jefco, KeyBanc and OpCo for their respective accounts, the fees, expenses and other amounts set forth in the Debt Financing Letters.

8. Indemnification and Waivers. As consideration for our respective Commitments and our other undertakings hereunder, you agree to the provisions with respect to indemnification, waivers and other matters contained in Annex B hereto, which is hereby incorporated by reference in this Commitment Letter.

9. Confidentiality. This Commitment Letter is delivered to you on the understanding that neither the existence of this Commitment Letter or any other Debt Financing Letter nor any of their terms or substance will be disclosed, directly or indirectly, to any other person or entity except (a) as required by applicable law, including all applicable securities laws, or compulsory legal process (in which case you agree, to the extent permitted by law, to inform us promptly thereof and to cooperate with us in securing a protective order in respect thereof), (b) to your officers, directors, employees, attorneys, accountants and advisors on a confidential and need-to-know basis and only in connection with the Transactions, (c) to rating agencies in connection with their review of the Notes Offering or the Company, (d) upon notice to the parties to this Commitment Letter, this Commitment Letter and the existence and contents hereof (but not the Fee Letter or the contents thereof other than the existence thereof and the contents thereof as part of projections, pro forma information and a generic disclosure of aggregate sources and uses to the extent customary in marketing materials and other disclosures) may be disclosed in any prospectus or offering memoranda relating to the Notes or in connection with any public filing requirement, and (e) this Commitment Letter (but not any other Debt Financing Letter (other than Section 2 of the Fee Letter)) may be disclosed to the Acquired Business and its officers, directors, employees, attorneys, accountants and advisors, in each case on a confidential and need-to-know basis and only in connection with the Transactions.

Notwithstanding anything herein to the contrary, you and we (and any of your and our respective employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by the Debt Financing Letters and all materials of any kind (including opinions or other tax analyses) that are provided to you

or us relating to such tax treatment and tax structure, except that (i) tax treatment and tax structure shall not include the identity of any existing or future party (or any affiliate of such party) to any Debt Financing Letter, and (ii) neither you nor we shall disclose any information relating to such tax treatment and tax structure to the extent nondisclosure is reasonably necessary in order to comply with applicable securities laws. For this purpose, the tax treatment of the transactions contemplated by the Debt Financing Letters is the purported or claimed U.S. federal income tax treatment of such transactions and the tax structure of such transactions is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of such transactions.

10. Conflicts of Interest. You acknowledge and agree that:

(a) each Commitment Party and/or its affiliates and subsidiaries (with respect to such Commitment Party, its "**Commitment Party Group**"), in such Commitment Party's and their respective capacities as principal or agent are involved in a wide range of commercial banking and investment banking activities globally (including investment advisory, asset management, research, securities issuance, trading, and brokerage) from which conflicting interests or duties may arise and, therefore, conflicts may arise between (i) the interests and duties hereunder of such Commitment Party and (ii) the duties or interests or other duties or interests of another member of its Commitment Party Group,

(b) each Commitment Party and any other member of its Commitment Party Group may, at any time, (i) provide services to any other person, (ii) engage in any transaction (on such Commitment Party's or such other member's own account or otherwise) with respect to you or any member of the same group as you or (iii) act in relation to any matter for any other person whose interests may be adverse to you or any member of your group (a "**Third Party**"), and may retain for such Commitment Party's or such other member's own benefit any related remuneration or profit, notwithstanding that a conflict of interest exists or may arise and/or any member of its Commitment Party Group is in possession or has come or comes into possession (whether before, during or after the consummation of the transactions contemplated hereunder) of information confidential to you; *provided* that such confidential information shall not be shared with, or used by, such Commitment Party or any other member of its Commitment Party Group in performing services or providing advice to any Third Party. You accept that permanent or *ad hoc* arrangements/information barriers will be used between and within such Commitment Party's divisions or divisions of other members of its Commitment Party Group for this purpose and that locating directors, officers or employees in separate workplaces is not necessary for such purpose,

(c) information that is held elsewhere within any Commitment Party or its Commitment Party Group, but of which none of the individual directors, officers or employees having primary responsibility for the consummation of the transactions contemplated by this Commitment Letter actually has knowledge (or can properly obtain knowledge without breach of internal procedures), shall not for any purpose be taken into account in determining such Commitment Party's responsibilities to you hereunder,

(d) neither any Commitment Party nor any other member of its Commitment Party Group shall have any duty to disclose to you, or utilize for your benefit, any non-public information acquired in the course of providing services to any other person, engaging in any transaction (on such Commitment Party's or such other member's own account or otherwise) or otherwise carrying on such Commitment Party's or such other member's business,

(e) (i) neither any Commitment Party nor any of its affiliates has assumed any advisory responsibility or any other obligation in favor of the Company or any of its affiliates except the obligations expressly provided for under the Debt Financing Letters (and solely with respect to Oppenheimer, the obligations of OpCo expressly provided for under that certain letter agreement, dated November 22, 2010 (the "**Buyside Advisor Letter**"), between the Acquiror and OpCo, (ii) each

Commitment Party and its affiliates, on the one hand, and the Company and its affiliates, on the other hand, have an arm's-length business relationship that does not directly or indirectly give rise to, nor does the Company or any of its affiliates rely on, any fiduciary duty on the part of such Commitment Party or any of its affiliates and (iii) each Commitment Party is (and is affiliated with) full service financial firms and as such may effect from time to time transactions for its own account or the account of customers, and hold long or short positions in debt, equity-linked or equity securities or loans of companies that may be the subject of the transactions contemplated by this Commitment Letter (and, in particular, such Commitment Party and any other member of its Commitment Party Group may at any time hold debt or equity securities for such Commitment Party's or such other member's own account in the Company). With respect to any securities and/or financial instruments so held by such Commitment Party, any of its affiliates or any of such Commitment Party's or any such affiliate's respective customers, all rights in respect of such securities and financial instruments, including any voting rights, will be exercised by the holder of such rights, in its sole discretion. You hereby waive and release, to the fullest extent permitted by law, any claims you have, or may have, with respect to (i) any breach or alleged breach of fiduciary duty or (ii) any conflict of interest arising from such transactions, activities, investments or holdings, or arising from any Commitment Party's failure or the failure of any of its affiliates to bring such transactions, activities, investments or holdings to your attention, and

(f) neither we nor any of our respective affiliates are advising you as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction. You shall consult with your own advisors concerning such matters and shall be responsible for making your own independent investigation and appraisal of the transactions contemplated by the Debt Financing Letters, and neither we nor our respective affiliates shall have responsibility or liability to you with respect thereto. Any review by us, or on our behalf, of the Company, the Transactions, the other transactions contemplated by the Debt Financing Letters or other matters relating to such transactions will be performed solely for our benefit and shall not be on behalf of you or any of your affiliates.

11. Choice of Law; Jurisdiction; Waivers. The Debt Financing Letters shall be governed by, and construed in accordance with, the laws of the State of New York without regard to conflict of law principles (other than sections 5-1401 and 5-1402 of the New York General Obligations Law). To the fullest extent permitted by applicable law, you hereby irrevocably submit to the exclusive jurisdiction of any New York State court or federal court sitting in the County of New York and the Borough of Manhattan in respect of any claim, suit, action or proceeding arising out of or relating to the provisions of any Debt Financing Letter and irrevocably agree that all claims in respect of any such claim, suit, action or proceeding may be heard and determined in any such court and that service of process therein may be made by certified mail, postage prepaid, to your address set forth above. You and we hereby waive, to the fullest extent permitted by applicable law, any objection that you or we may now or hereafter have to the laying of venue of any such claim, suit, action or proceeding brought in any such court, and any claim that any such claim, suit, action or proceeding brought in any such court has been brought in an inconvenient forum. You and we hereby waive, to the fullest extent permitted by applicable law, any right to trial by jury with respect to any claim, suit, action or proceeding arising out of or relating to the Debt Financing Letters, any of the Transactions or any of the other transactions contemplated hereby or thereby. In addition, you hereby waive, to the fullest extent permitted by applicable law, any right to seek specific performance against any of us or any of our respective affiliates with respect to any transaction contemplated hereby or under any other Debt Financing Letter. The provisions of this Section 11 are intended to be effective upon the execution of this Commitment Letter without any further action by you, and the introduction of a true copy of this Commitment Letter into evidence shall be conclusive and final evidence as to such matters.

12. Miscellaneous.

(a) This Commitment Letter may be executed in one or more counterparts, each of which will be deemed an original, but all of which taken together will constitute one and the same instrument. Delivery of an executed signature page of this Commitment Letter by facsimile, PDF or other electronic transmission will be effective as delivery of a manually executed counterpart hereof.

(b) You may not assign any of your rights, or be relieved of any of your obligations, under this Commitment Letter without our prior written consent, which may be given or withheld in our sole discretion (and any purported assignment without such consent, at our sole option, shall be null and void). We may at any time and from time to time assign all or any portion of our respective Commitments hereunder to one or more of our respective affiliates or, subject to the provisions of Section 4(a) hereof, to one or more Investors, whereupon we shall be released from the portion of our respective Commitments hereunder so assigned. Any and all obligations of, and services to be provided by, us hereunder (including our respective Commitments) may be performed, and any and all of our respective rights hereunder may be exercised, by or through any of our respective affiliates or branches and we reserve the right to allocate, in whole or in part, to our respective affiliates or branches certain fees payable to us in such manner as we and our respective affiliates may agree in our and their sole discretion. You further acknowledge that we may share with any of our respective affiliates, and such affiliates may share with us, any information relating to the Transactions, you or the Acquired Business (and your and its affiliates), or any of the matters contemplated in the Debt Financing Letters.

(c) This Commitment Letter has been and is made solely for the benefit of you, us and the indemnified persons (as defined in Annex B hereto) and your, our and their respective successors and assigns, and nothing in this Commitment Letter, expressed or implied, is intended to confer or does confer on any other person or entity any rights or remedies under or by reason of this Commitment Letter or your and our agreements contained herein.

(d) The Debt Financing Letters set forth the entire understanding of the parties hereto as to the scope of our respective Commitments and our respective obligations hereunder and thereunder. The Debt Financing Letters supersede all prior understandings and proposals, whether written or oral, between us and you relating to any financing or the transactions contemplated hereby and thereby.

(e) You acknowledge that one or more of Jefferies' affiliates has been retained as a sell-side financial advisor to the Target and its board of directors (in such capacity, the "**Sell-side Financial Advisor**") in connection with, among other things, the Transactions. You agree to any such retention, and not to assert any claim you might allege based on any actual or potential conflicts of interest that might be asserted to arise or result from, on the one hand, (i) the engagement of the Sell-side Financial Advisor or (ii) Jefferies or the Sell-side Financial Advisor or any of Jefferies' or the Sell-side Financial Advisor's affiliates arranging or providing (or contemplating arranging or providing) financing for a competing bidder and, on the other hand, Jefferies' relationship with you as described and referred to herein. You acknowledge that, in its capacity as such, (A) the Sell-side Financial Advisor may recommend to the Target and its board of directors that they not pursue or accept your offer or proposal to acquire the Acquired Business, (B) the Sell-side Financial Advisor may advise the Target and its board of directors in other manners adverse to your interests, including by providing advice on pricing, leverage levels, and timing and conditions of closing with respect to your bid, taking other actions with respect to your bid and taking action under any definitive agreement between you and the Target, and (C) the Sell-side Financial Advisor may possess information about the Acquired Business, the Acquisition and other potential purchasers and their respective strategies and proposals, but that nonetheless the Sell-side Financial Advisor shall have no obligation to disclose to you the substance of such information or the fact that it is in possession thereof.

Further, as you know, OpCo is acting as a financial advisor to you pursuant to the Buyside Advisor Letter in connection with the Acquisition. You agree not to assert any claim you might allege based on

any actual or potential conflicts of interest that might be asserted to arise or result from OpCo acting in the capacities described in the Buyside Advisor Letter and Oppenheimer and/or its affiliates acting in the capacities described herein and in the other Debt Financing Letters.

(f) You agree that we or any of our respective affiliates may disclose information about the Transactions to market data collectors and similar service providers to the financing community.

(g) We hereby notify you and each Guarantor (as defined in Exhibit A hereto), that pursuant to the requirements of the USA PATRIOT Improvement and Reauthorization Act, Pub. L. 109-177 (signed into law March 9, 2006) (as amended from time to time, the "**Patriot Act**"), we and each Investor may be required to obtain, verify and record information that identifies you and each Guarantor, which information includes the name, address, tax identification number and other information that will allow us or such Investor to identify you and each Guarantor in accordance with the Patriot Act. This notice is given in accordance with the requirements of the Patriot Act and is effective as to us and each Investor. You agree that we shall be permitted to share any or all such information with the Investors.

13. Amendment; Waiver. This Commitment Letter may not be modified or amended except in a writing duly executed by the parties hereto. No waiver by any party of any breach of, or any provision of, this Commitment Letter shall be deemed a waiver of any similar or any other breach or provision of this Commitment Letter at the same or any prior or subsequent time. To be effective, a waiver must be set forth in writing signed by the waiving party and must specifically refer to this Commitment Letter and the breach or provision being waived.

14. Surviving Provisions. Notwithstanding anything to the contrary in this Commitment Letter: (i) Sections 7 to and including 15 hereof shall survive the expiration or termination of this Commitment Letter, regardless of whether the Definitive Debt Documents have been executed and delivered or the Transactions consummated, and (ii) Sections 2 and 4 to and including 13 hereof shall survive execution and delivery of the Definitive Debt Documents and the consummation of the Transactions.

15. Acceptance, Expiration and Termination. Please indicate your acceptance of the terms of the Debt Financing Letters by returning to us executed counterparts of the Debt Financing Letters not later than 5:00 p.m., New York City time, on February 7, 2011 (the "**Deadline**"). The Debt Financing Letters are conditioned upon your contemporaneous execution and delivery to us, and the contemporaneous receipt by us, of executed counterparts of each Debt Financing Letter on or prior to the Deadline. This Commitment Letter will expire at such time in the event that you have not returned such executed counterparts to us by such time. Thereafter, except with respect to any provision that expressly survives pursuant to Section 14, this Commitment Letter (but not the other Debt Financing Letters) will terminate automatically on the earliest of (i) the date of termination or abandonment of the Acquisition, (ii) the closing of the Acquisition, (iii) the acceptance by the Target or any of its affiliates (or any of their respective equityholders) of an offer for all or any substantial part of the capital stock or property and assets of the Acquired Business other than as part of the Transactions, and (iv) 5:00 p.m., New York City time, on June 30, 2011. Prior to such date, we may terminate this Commitment Letter if any event occurs or information becomes available that, in our judgment, results in or is likely to result in the failure to satisfy any condition precedent set forth or referred to in this Commitment Letter.

*[Remainder of page intentionally blank]*

We are pleased to have the opportunity to work with you in connection with this important financing.

Very truly yours,

**JEFFERIES GROUP, INC.**

By:

/s/ Kevin A. Lockhart

\_\_\_\_\_  
Name: Kevin A. Lockhart  
Title: Managing Director

**KEY CAPITAL CORPORATION**

By:

/s/ Dennis W. Wagner

\_\_\_\_\_  
Name: Dennis W. Wagner  
Title: Chief Administrative Officer

**OPY CREDIT CORP.**

By:

/s/ Brian S. Perman

\_\_\_\_\_  
Name: Brian S. Perman  
Title: Managing Director

Accepted and agreed to as of the  
date first above written:

**KRATOS DEFENSE & SECURITY SOLUTIONS, INC.**

By:

/s/ Deanna H. Lund

\_\_\_\_\_  
Name: Deanna H. Lund  
Title: Executive Vice President and Chief Executive Officer

**ANNEX A TO COMMITMENT LETTER**  
**ANTICIPATED SOURCES AND USES OF FUNDS**

(\$ millions)

<u>SOURCES</u>		<u>USES</u>	
Revolving Credit Facility	\$ 5.0	Target Purchase Equity	\$ 269.8
Gross Proceeds of the Notes Offering	267.5	Refinancing of Existing Debt of Acquired Business	13.0
Net Proceeds of the Equity Offering	40.0	Transaction Fees and Expenses	33.0
Unrestricted Cash on Hand of Acquiror	3.3		
<b>Total Sources</b>	<b>\$ 315.8</b>	<b>Total Uses</b>	<b>\$ 315.8</b>

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Annex A-1

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**ANNEX B TO COMMITMENT LETTER**  
**INDEMNIFICATION AND WAIVER**

Except as otherwise defined in this Annex B, capitalized terms used but not defined herein have the meanings assigned to them elsewhere in this Commitment Letter.

The Acquiror ("**you**") hereby agree (i) to indemnify and hold harmless Jefferies Group, Inc. ("**Jefferies**"), Key Capital Corporation ("**Key**") and OPY Credit Corp. ("**Oppenheimer**", and together with Jefferies and Key, the "**Commitment Parties**", "**we**" or "**us**"), the Investors in the Debt Financing and each of our and their respective affiliates and subsidiaries (including Jefferies & Company, Inc. ("**Jefco**"), KeyBanc Capital Markets Inc. ("**KeyBanc**") and Oppenheimer & Co. Inc. ("**OpCo**") and each of the respective officers, directors, partners, trustees, employees, affiliates, shareholders, advisors, agents, representatives, attorneys-in-fact and controlling persons of each of the foregoing (each, an "**indemnified person**") from and against any and all losses, claims, damages and liabilities (collectively, "**Losses**") to which any such indemnified person, directly or indirectly, may become subject arising out of, relating to, resulting from or otherwise in connection with the Debt Financing Letters, the Debt Financing, the use of the proceeds therefrom, the Transactions, any of the other transactions contemplated by the Debt Financing Letters, or any action, claim, suit, litigation, investigation, inquiry or proceeding (each, a "**Claim**") directly or indirectly arising out of, relating to, resulting from or otherwise in connection with any of the foregoing (**IN ALL CASES, WHETHER OR NOT CAUSED OR ARISING, IN WHOLE OR IN PART, OUT OF THE COMPARATIVE, CONTRIBUTORY OR SOLE NEGLIGENCE OF THE INDEMNIFIED PERSON**), regardless of whether any indemnified person is a named party thereto or whether such Claim is brought by you (but subject to the proviso set forth below), any of your affiliates or a third party and (ii) to reimburse each indemnified person upon demand at any time and from time to time for all out-of-pocket legal and other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, or providing evidence in or preparing to serve or serving as a witness with respect to, any Claim, directly or indirectly, arising out of, relating to, resulting from or otherwise in connection with any of the foregoing (including in connection with the enforcement of the indemnification obligations and waivers set forth in this Annex B); *provided, however*, that no indemnified person will be entitled to indemnity hereunder in respect of any Loss to the extent that it is found by a final, non-appealable judgment of a court of competent jurisdiction that such Loss resulted primarily and directly from the gross negligence or willful misconduct of such indemnified person (or such indemnified person's officers, directors, partners, trustees, employees or affiliates). In addition, in no event will any indemnified person or you or your affiliates be liable for consequential, special, exemplary, punitive or indirect damages (including any loss of profits, business or anticipated savings), whether, directly or indirectly, as a result of any failure to fund all or any portion of the Debt Financing or otherwise arising out of, relating to, resulting from or otherwise in connection with the Debt Financing or arising out of, relating to, resulting from or otherwise in connection with any Claim or otherwise; *provided, however*, that this sentence shall not limit your indemnification obligations set forth above. In addition, no indemnified person will be liable for any damages arising from the use by unauthorized persons of Information, Projections or other Materials sent through electronic, telecommunications or other information transmission systems that are intercepted or otherwise obtained by such persons except to the extent such damages are found by a final, non-appealable judgment of a court of competent jurisdiction to have resulted solely from the gross negligence or willful misconduct of such indemnified person or its officers, directors, partners, trustees, employees or affiliates.

You shall not settle or compromise or consent to the entry of any judgment in or otherwise seek to terminate any pending or threatened Claim in which any indemnified person is or could be a party and as to which indemnification or contribution could have been sought by such indemnified person hereunder whether or not such indemnified person is a party to any Debt Financing Letter, unless (i) such indemnified person and each other indemnified person from which such indemnified person

could have sought indemnification or contribution have given their prior written consent, which may be given or withheld in their sole discretion or (ii) the settlement, compromise, consent or termination includes an express unconditional release of all indemnified persons and their respective affiliates from all Losses, directly or indirectly, arising out of, relating to, resulting from or otherwise in connection with such Claim.

If for any reason (other than the gross negligence or willful misconduct of an indemnified person (or such indemnified person's officers, directors, partners, trustees, employees or affiliates) as provided above) the foregoing indemnity is unavailable to an indemnified person or insufficient to hold an indemnified person harmless, then you, to the fullest extent permitted by law, shall contribute to the amount paid or payable by such indemnified person as a result of such Losses in such proportion as is appropriate to reflect the relative benefits received by you, on the one hand, and by us, on the other hand, from the Transactions or, if allocation on that basis is not permitted under applicable law, in such proportion as is appropriate to reflect not only the relative benefits received by you, on the one hand, and us, on the other hand, but also the relative fault of you, on the one hand, and us, on the other hand, as well as any relevant equitable considerations. Notwithstanding the provisions hereof, the aggregate contribution of all indemnified persons related to Jefferies and Jefco, Key and KeyBanc and Oppenheimer and OpCo to all Losses shall not exceed the amount of fees actually received, respectively, by Jefferies and Jefco, Key and KeyBanc and Oppenheimer and OpCo pursuant to the Fee Letter and the Engagement Letter. For the purposes of this paragraph, it is hereby further agreed that (i) the relative benefits to you, on the one hand, and each of Jefferies, Key and Oppenheimer, on the other hand, with respect to the Transactions shall be deemed to be in the same proportion as (x) the total value paid or received or contemplated to be paid or received by you, your equityholders and/or your or their respective affiliates, as the case may be, in the Transactions, whether or not the Transactions are consummated, bears to (y) the fees actually paid to Jefferies and Jefco, Key and KeyBanc and Oppenheimer and OpCo, respectively, under the Fee Letter and the Engagement Letter and (ii) the relative fault of you, on the one hand, and us, on the other hand, with respect to the Transactions shall be determined by reference to, among other things, whether any untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by you, any of your affiliates and/or any of your or their respective officers, directors, partners, trustees, employees, affiliates, shareholders, advisors, agents, representatives, attorneys-in-fact and controlling persons (collectively, the "**Acquiror Group**") or by us, as well as your and our relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

In addition, you shall reimburse the indemnified persons for all documented reasonably incurred expenses (including fees and expenses of internal counsel of Jefferies and a primary outside counsel, one local counsel in each relevant jurisdiction and, if applicable, one special counsel, in each case, selected by Jefferies and, in the case of an actual or perceived conflict of interest, where an indemnified person affected by such conflict informs you of such conflict and thereafter, after receipt of your consent (which shall not be unreasonably withheld or delayed), retains its own counsel, of another firm of counsel for such affected indemnified person), as incurred, in connection with investigating, preparing, defending or settling any Claim for which indemnification or contribution may be sought by the indemnified person, whether or not any indemnified person is a named party thereto or whether such Claim is brought by you, any of your affiliates or a third party. Without limiting the generality of the foregoing, if any of our or our respective affiliates' personnel (including, for the purposes of this paragraph, any of our or their respective officers, directors, employees, agents, advisors or other representatives) appear as witnesses, are deposed or are otherwise involved in the defense of any Claim against any indemnified person, you or any of the Acquiror Group of any of the foregoing, you shall (i) pay us or such affiliate, as the case may be, (x) with respect to each day that one of our or such affiliate's personnel appears as a witness or is deposed, a fee of \$4,000 per day for each such person and/or (y) with respect to each day that one of our or such affiliate's personnel is involved in the

preparation for any such appearance, at a rate of \$400 per hour of preparation (as reasonably determined by us) for each such person and (ii) reimburse us or such affiliate, as the case may be, for all expenses incurred by us or such affiliate, as the case may be, by reason of any of our or such affiliate's personnel being, directly or indirectly, involved in any such Claim.

The indemnity, contribution and expense reimbursement obligations set forth herein (i) shall be in addition to any liability you may have to any indemnified person at law, in equity or otherwise, (ii) shall survive the expiration or termination of the Debt Financing Letters (notwithstanding any other provision of any Debt Financing Letter or the Definitive Debt Documents), (iii) shall apply to any modification, amendment, waiver or supplement of our and any of our respective affiliates' commitment and/or engagement, (iv) shall remain operative and in full force and effect regardless of any investigation made by or on behalf of us or any other indemnified person and (v) shall be binding on any successor or assign of you and the successors or assigns to any substantial portion of your business and assets.

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Annex B-3

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**EXHIBIT A TO COMMITMENT LETTER**  
**SUMMARY OF TERMS OF NOTES**

Set forth below is a summary of certain of the terms of the Notes and the documentation related thereto. Capitalized terms used and not otherwise defined in this Exhibit A have the meanings set forth elsewhere in this Commitment Letter.

<b>Issuer</b>	Prior to the occurrence of the third business day following the Merger, a newly-formed direct wholly owned domestic subsidiary (" <b>AcquisitionCo Parent</b> ") of Kratos Defense & Security Solutions, Inc. (the " <b>Acquiror</b> ") and commencing with the third business day following the occurrence of the Merger, the Acquiror (as applicable, the " <b>Issuer</b> "). Each of AcquisitionCo Parent and each of its subsidiaries will be an Unrestricted Subsidiary under and as defined in the Existing Indenture until the occurrence of the Second Merger.
<b>Guarantors</b>	A newly-formed direct wholly owned domestic subsidiary (" <b>AcquisitionCo</b> ") of AcquisitionCo Parent. Following the consummation of the Second Merger, each domestic subsidiary of the Issuer that guarantees or is required to guarantee the Existing Notes pursuant to the Existing Indenture.
<b>Initial Purchasers</b>	Jefferies Group, Inc. and/or one or more of its designees (" <b>Jefferies</b> "), Key Capital Corporation and/or one or more of its designees (" <b>Key</b> ") and OPY Credit Corp. and/or one or more of its designees (" <b>Oppenheimer</b> ", and together with Jefferies and Key, in such capacity, the " <b>Initial Purchasers</b> ").
<b>Securities Offered</b>	10% Senior Secured Notes due 2017 (the " <b>Notes</b> ") yielding gross proceeds of \$307.5 million (subject to reduction as set forth in the Commitment Letter).
<b>Placement Type</b>	144A/Regulation S with registration rights.
<b>Closing Date</b>	The date, on or before the date on which the Commitments are terminated in accordance with <u>Section 15</u> of this Commitment Letter, on which the conditions to the purchase of the Notes shall have been satisfied under the Commitment Letter, including the conditions set forth in <u>Exhibit B</u> thereto (the " <b>Closing Date</b> ").
<b>Issue Price</b>	_____ (exclusive of any underwriting commission); <i>provided, however</i> , that if the gross proceeds of the Notes issued exceeds \$267.5 million, then the Issue Price with respect to all Notes shall instead be _____ (exclusive of any underwriting commission); <i>provided further, however</i> , that the Issue Price shall for the avoidance of doubt be subject to the terms of Section 2 of the Fee Letter.

<b>Premium/Original Issue Discount</b>	The Notes will be issued to the Initial Purchasers (exclusive of any underwriting commission) at the Issue Price of their principal amount. All calculations of fees, however, will be calculated on the basis of the gross proceeds of the Notes.
<b>Maturity Date</b>	June 1, 2017.
<b>Interest Rate</b>	10% <i>per annum</i> .
<b>Interest Payment Dates</b>	The Issuer will pay interest on the Notes in cash semiannually, beginning on June 1, 2011.
<b>Use of Proceeds</b>	To finance a portion of the Acquisition and the Refinancing and to pay fees and expenses in connection with the Transactions.
<b>Guarantees</b>	The Guarantors will unconditionally guarantee the obligations of the Issuer in respect of the Notes (the " <b>Guarantees</b> "). Such Guarantees will be on the same terms as the guarantees of the 10% Senior Secured Notes due 2017 of the Acquiror that were previously issued under the Existing Indenture (the " <b>Existing Notes</b> "). All Guarantees shall be guarantees of payment and performance, and not of collection.
<b>Escrow Account</b>	<p>On the Closing Date, AcquisitionCo Parent shall deposit the gross proceeds of the Notes Offering (net of all fees, expenses and costs related thereto) and all of the proceeds of the Contributions, in each case, to the extent not applied on such date to (i) purchase Shares that were validly tendered and not withdrawn in the Tender Offer and (ii) consummate the Refinancing, into a securities account (the "<b>Escrow Account</b>") that will be maintained as a trust account with an escrow agent (the "<b>Escrow Agent</b>") that is mutually acceptable to AcquisitionCo Parent and Jefferies. The Escrow Account will be maintained by the Escrow Agent pursuant to an escrow agreement, dated as of the Closing Date (the "<b>Escrow Agreement</b>"), among the Escrow Agent, the collateral agent (the "<b>Collateral Agent</b>") acting on behalf of the holders of the Notes and AcquisitionCo Parent. Pursuant to the Escrow Agreement, the Collateral Agent will have "control" over the Escrow Account and all funds and investments credited thereto (collectively, the "<b>Escrowed Investments</b>" and, together with the Escrow Account, the "<b>Escrowed Assets</b>") for the benefit of the holders of the Notes.</p> <p>The Escrow Agreement will provide that Escrowed Investments may only be released to the AcquisitionCo Parent on the following dates for the following purposes and upon satisfaction of the following conditions:</p>

1. **Merger:** On the date (occurring on or prior to the 90<sup>th</sup> day following the Closing Date (such 90<sup>th</sup> day, the "**Merger Deadline Date**") on which the Merger is consummated in accordance with the Merger Agreement (with no provision thereof having been waived, amended, supplemented or otherwise modified in a manner which could reasonably be expected to be materially adverse to the rights or interests of the Acquiror or any holder of the Notes without the consent from the holders of at least a majority in aggregate principal amount thereof), AcquisitionCo Parent may obtain a release of all of the Escrowed Investments on the date of the Merger (i) to make a contribution to AcquisitionCo to enable it to concurrently consummate the Merger and (ii) to use any remaining funds following the consummation of the Merger for any other purpose permitted under the indenture governing the Notes;
2. **Interest Payment:** On the date that any scheduled payment of interest may be due on the Notes, AcquisitionCo Parent may obtain a release of Escrowed Investments in the maximum amount necessary to concurrently make such interest payment in full; and
3. **Escrow Redemption:** If the Merger shall not have occurred on or prior to the Merger Deadline Date or the Acquisition shall have been terminated or abandoned prior to such date, AcquisitionCo may obtain a release of all of the Escrowed Investments on the Escrow Redemption Date (as defined below) to concurrently consummate the Escrow Redemption (as defined below) using all such Escrowed Investments (it being agreed that any Escrowed Investments remaining after the consummation of the Escrow Redemption may be used by the Acquiror for any legally permitted purpose),

in each case, upon delivery of an officers' certificate by the Issuer to the Escrow Agent certifying that all such conditions in respect of the applicable disbursement have been satisfied.

#### **Collateral**

The Notes and the Guarantees shall be secured by a perfected security interest in all assets of the Issuer and the Guarantors; *provided* that (i) the Collateral Agent, for the benefit of the holders of the Notes, shall have been granted "control" over the Escrowed Assets pursuant to the Escrow Agreement and (ii) the collateral shall not include any assets of the Acquired Business or the Shares until the Merger shall have occurred.

**Ranking**

The Notes and the Guarantees will be senior secured indebtedness of the Issuer and the Guarantors, ranking pari passu in right of payment with all other senior indebtedness of the Issuer and the Guarantors, and senior in right of payment to all subordinated indebtedness of the Issuer and the Guarantors; *provided, however*, that the Notes will be structurally subordinated to any indebtedness or other liabilities of the Acquired Business until the occurrence of the Merger (at which time the Target and its domestic subsidiaries will be required to become Guarantors and provide Guarantees in respect of the Notes on a secured basis).

**Mandatory Redemption**

Escrow Redemption. If the Merger shall not have occurred on or prior to the Merger Deadline Date (or the Acquisition shall have been terminated or abandoned prior to such date), the Issuer shall, no later than the sixth day following the Merger Deadline Date (or in the case where the Acquisition shall have been terminated or abandoned prior to the Merger Deadline Date, no later than the date that is the earlier of (x) the date that is the 30<sup>th</sup> day following the date of such termination or abandonment and (y) the sixth day following the Merger Deadline Date), give the holders of the Notes at least 30 days' (but no more than 35 days') notice of an escrow redemption and redeem all of the Notes then outstanding (the "**Escrow Redemption**") at a redemption price equal to the greater of (i) par and (ii) the Issue Price of the Notes on the Closing Date, together with accrued but unpaid interest thereon to the date of such redemption (the "**Escrow Redemption Date**"), with all of the Escrowed Investments credited to the Escrow Account. Any amounts remaining in the Escrow Account following such Escrow Redemption shall be remitted to the Acquiror.

**Optional Redemption**

Same as under the Existing Indenture.

**Change of Control**

Same as under the Existing Indenture.

**Asset Sale Proceeds**

Same as under the Existing Indenture; *provided* that unless the Merger shall have occurred, the Issuer shall neither (i) sell or otherwise dispose of any of the Shares or assets of the Acquired Business unless the consideration received therefor shall constitute cash or cash equivalents and be equal to the fair market value of such disposed Shares or assets nor (ii) be required to make an asset sale offer for the Notes with proceeds from such sale or other disposition.

**Covenants**

Customary for offerings and transactions of this type (as reasonably determined by Jefferies) and others deemed appropriate by Jefferies for this transaction in particular, including the following:

1. Special Purpose: Special purpose corporation covenants shall apply to each of AcquisitionCo Parent and AcquisitionCo.

2. Notes Exchange: AcquisitionCo Parent shall (a) consummate the Second Merger promptly following the Merger (or if the Merger shall not have occurred by the Merger Deadline Date, promptly following the consummation of the Escrow Redemption) and (b) cause the Acquiror to contemporaneously (i) assume all of its obligations under the Definitive Debt Documents and (ii) consummate the Notes Exchange. The Exchange Notes will be issued by the Acquiror under the Existing Indenture in an aggregate principal amount equal to the aggregate principal amount of the Notes then outstanding and have the same terms as the Existing Notes, except for the date of the issuance thereof and the date on which interest shall accrue thereunder (which interest shall accrue from the date of the issuance of the Notes or if later, the last date on which a scheduled payment of interest was made thereon).

**Events of Default**

Customary for offerings and transactions of this type (as reasonably determined by Jefferies) and others deemed appropriate by Jefferies for this transaction in particular.

**Defeasance and Discharge**

Same as under the Existing Indenture.

**Voting**

Same as under the Existing Indenture.

## Purchase Agreement

The sale of the Notes will be governed by a purchase agreement with representations, warranties, covenants, and other provisions (including provisions in respect of expense reimbursement and indemnification) substantially the same as the purchase agreement entered into in connection with the issuance of the Existing Notes with such changes deemed appropriate by Jefferies for this transaction in particular. Notwithstanding the foregoing, the only representations and warranties relating to the Acquiror, the AcquisitionCo Parent and the AcquisitionCo, the accuracy of which shall be a condition to closing of the Transactions, shall be (a) such of the representations and warranties made by the Target in the Merger Agreement (as defined in Exhibit B hereto) as are material to your interests and the interests of your affiliates, but only to the extent that you or any of your affiliates has the right to terminate your or their obligations under the Merger Agreement as a result of a breach of such representations in the Merger Agreement and (b) the representations and warranties set forth in the Definitive Debt Documents relating to (i) due organization, (ii) corporate existence and qualification, (iii) good standing, (iv) power and authority, due authorization, execution and delivery and the enforceability of the Definitive Debt Documents, in each case as they relate to the entering into and performance of the Definitive Debt Documents, (v) effectiveness, validity and perfection of first priority liens under the security documents, (vi) no conflicts with (x) organizational documents, (y) applicable law or (z) contracts, except in the case of clause (y) or (z) any applicable law or contract the violation or breach of which could not reasonably be expected to have a material adverse effect on (1) the financial condition, business, results of operations, capitalization, assets liabilities or financial performance of the Acquiror and its subsidiaries (including the Acquired Business), when taken as a whole, (2) their ability to consummate the Acquisition or to the extent applicable, their obligations under the Definitive Debt Documents or the Exchange Notes or the Existing Indenture or (3) the rights of the Collateral Agent, the Initial Purchasers or the Investors under the Definitive Debt Documents, (vii) use of proceeds, (viii) solvency of the Acquiror and its subsidiaries (including the Acquired Business) on a consolidated basis on the Closing Date, (ix) Federal Reserve margin regulations, (x) the Patriot Act and (xi) the Investment Company Act (collectively, the "**Specified Representations**"). The Purchase Agreement and the other Definitive Debt Documents shall be in a form such that they do not impair the purchase of the Notes on the Closing Date if the conditions set forth in the Commitment Letter and Exhibit B thereto are satisfied. This paragraph, and the provisions herein, shall be referred to as the "**Certain Funds Provisions**."

**Transfer Restrictions**

The Notes will be subject to restrictions on transfer and may only be offered or sold through exemptions from the registration requirements of the Securities Act of 1933, as amended.

**Registration Rights**

Substantially the same as under the Registration Rights Agreement (as defined in the Existing Indenture); *provided, however*, that the Exchange Notes will constitute "registrable notes" under the registration rights agreement to be entered into by the Acquiror, the Guarantors (as defined in the Existing Indenture) and the Initial Purchasers.

**Governing Law and Forum**

State of New York.

**Counsel to Initial Purchasers**

White & Case LLP.

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Exhibit A-7

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**EXHIBIT B TO COMMITMENT LETTER**  
**CLOSING CONDITIONS**

Capitalized terms used but not defined in this Exhibit B have the meanings assigned to them elsewhere in this Commitment Letter. Our purchase of the Notes is conditioned upon satisfaction of the conditions precedent contained in Section 3 of this Commitment Letter and those summarized below. For purposes of this Exhibit B, references to "**we**", "**us**" or "**our**" means Jefferies Group, Inc. ("**Jefferies**"), Key Capital Corporation and OPY Credit Corp. and our respective affiliates.

**GENERAL CONDITIONS**

1. **Debt Financing.** The gross proceeds on the Closing Date from the Debt Financing shall, together with the Revolver Borrowings and the Acquiror Cash be sufficient to pay the Purchase Price and all related fees, commissions and expenses related thereto, the Refinancing and the Notes Offering. The Definitive Debt Documents shall be (i) prepared by our counsel, (ii) in form and substance reasonably satisfactory to Jefferies on terms and conditions consistent with this Commitment Letter and (iii) in full force and effect.

2. **Transactions.** The Merger Agreement evidencing the Acquisition (including all exhibits and schedules thereto) shall be in (i) full force and effect on the Closing Date and (ii) form and substance reasonably acceptable to Jefferies (it being acknowledged that (i) the draft Merger Agreement with a Paul Hastings draft date of February 5, 2011 received by our counsel at 6:34pm EST is the draft most recently received and reviewed by Jefferies and (ii) such draft is acceptable to Jefferies) and shall not be amended or modified or any consent granted thereunder in any manner materially adverse to us without Jefferies' prior written consent (such consent not to be unreasonably withheld) (it being understood that any change in the price or structure of the Transaction will be deemed to be materially adverse).

3. **Contributions.** Contributions consisting of the proceeds of the Revolver Borrowings plus the unrestricted cash on hand of the Acquiror (other than cash consisting of the net proceeds of the Equity Offering) shall be in an amount at least equal to (A) if at least \$40.0 million in net proceeds is raised from the Equity Offering, \$8.3 million and (B) if at least \$40.0 million in net proceeds is not raised from the Equity Offering, \$9.8 million, (*provided*, that the aggregate principal amount of the Revolver Borrowings shall not exceed \$10.0 million), and the Contributions shall have been made by the Acquiror to AcquisitionCo Parent, and AcquisitionCo Parent shall have deposited the gross proceeds of the Notes Offering (net of all fees, expenses and costs related thereto) and all of the proceeds of the Contributions, in each case, to the extent not applied on the Closing Date to (i) purchase Shares that were validly tendered and not withdrawn in the Tender Offer and (ii) consummate the Refinancing, into the Escrow Account.

4. **Tender Offer.** The Tender Offer shall have been consummated pursuant to the Merger Agreement (with no provision thereof having been waived, amended, supplemented or otherwise modified in a manner which could reasonably be expected to be materially adverse to the rights or interests of the Acquiror or any holder of the Notes without the consent from the holders of at least a majority in aggregate principal amount thereof) such that AcquisitionCo shall have accepted for purchase Shares which were validly tendered and not withdrawn and which when added to the Shares already held by AcquisitionCo constitute at least a majority of the issued and outstanding common stock of Target (or such higher percentage of common and other capital stock as shall be required under applicable law, the constituent documents of Target and the contractual arrangements of Target to enable AcquisitionCo to cause the Merger to occur on or prior to the Merger Deadline Date without the vote of any other shareholder or any director of Target), and AcquisitionCo Parent shall have made a contribution to AcquisitionCo with the gross proceeds of the Notes Offering (net of all fees, expenses and costs related thereto) and all of the proceeds of the Contributions to the extent

necessary to enable AcquisitionCo to concurrently consummate with the proceeds of such contribution (i) such purchase (the "**Tender Purchase**") and (ii) the Refinancing; *provided, however*, that notwithstanding anything to the contrary in this Exhibit or Exhibit A to the Commitment Letter, if the Merger shall be consummated substantially concurrently with the application of such proceeds to consummate the Tender Purchase and the Refinancing, AcquisitionCo Parent shall neither be required to fund the Escrow Account nor perfect a security interest therein and the section "Mandatory Redemption" contained in Exhibit A to the Commitment Letter shall not be given any effect.

5. Refinancing. The Existing Debt, together with any applicable prepayment premium or fee, shall have been paid in full, all commitments thereunder shall have been terminated, and all guarantees and security in respect thereof shall have been released, in each case, pursuant to the Refinancing; *provided*, that the aggregate amount of gross proceeds from the Notes Offering and the Contributions used for the Refinancing shall not exceed \$13.0 million.

6. Financial Statements. At least 9 business days prior to the Closing Date, we shall have received audited consolidated financial statements of each of the Acquiror and the Acquired Business for each of the three fiscal years immediately preceding the Acquisition and any appropriate unaudited financial statements (each of which shall have undergone a SAS 100 review) for any interim period or periods and all other recent, probable or pending acquisitions (including *pro forma* financial statements), all meeting the requirements of Regulation S-X under the Securities Act of 1933, as amended (the "**Securities Act**"), and all other accounting rules and regulations of the U.S. Securities and Exchange Commission promulgated thereunder prepared in accordance with generally accepted accounting principles in the United States, subject, in the case of unaudited financial statements only, to the absence of footnote disclosure and year-end adjustments.

7. No Material Adverse Effect. No Material Adverse Effect shall have occurred. "**Material Adverse Effect**" shall mean any fact, circumstance, event, change, effect, occurrence, violation or inaccuracy that, individually or in the aggregate with all other facts, circumstances, events, changes, effects, occurrences, violations or inaccuracies has or would be reasonably expected to have a material adverse effect on (a) the financial condition, business, results of operations, capitalization, assets, liabilities or financial performance of the Acquired Business, or (b) the ability of the Acquiror to consummate the Transactions or (c) the Acquiror's ability to vote, receive dividends with respect to or otherwise exercise ownership rights with respect to the stock of the Acquired Business; *provided, however*, that none of the following, and no effect arising out of or resulting from the following, shall be deemed to be a Material Adverse Effect and shall not be considered in determining whether there has occurred, or may, would or could occur, a Material Adverse Effect: (i) any changes, events, occurrences or conditions generally affecting the economy, political climate or the credit, financial or capital markets in the United States or elsewhere in the world, including changes in interest or exchange rates, (ii) changes, events, occurrences or effects arising out of, resulting from or attributable to acts of terrorism or war (whether or not declared), or any escalation or worsening of such acts of terrorism or war (whether or not declared), pandemics, earthquakes, hurricanes, tornados or other natural disaster occurring in the United States or elsewhere in the world, (iii) changes, events, occurrences or effects arising out of, resulting from or attributable to changes or prospective changes in law, generally accepted accounting principles in the U.S. or other accounting standards, regulations or principles or any changes or prospective changes in the interpretation or enforcement of any of the foregoing, or changes or prospective changes in regulatory or political conditions, (iv) any changes, events, occurrences or conditions (or changes in such conditions) affecting the industries or markets in which Acquired Business is involved, (v) changes as a result of any action or failure to take action, in each case, consented to or requested by the Acquiror, (vi) events primarily attributable to the announcement or performance of the Definitive Debt Documents or the consummation of the Transactions (including the loss or departure of officers or other employees of the Acquired Business, or the termination, reduction (or potential reduction) or any other negative effect (or potential negative effect) on the

Acquired Business' relationships or agreements with any of its customers, suppliers, distributors or other business partners, (vii) events primarily attributable to the taking of any action by the Acquiror, AcquisitionCo Parent or AcquisitionCo if that action is contemplated or required by, the Definitive Debt Documents, or with the Acquired Business' consent, or the consummation of the Transactions, (viii) in and of itself, a decline in the market price, or a change in the trading volume, of the Acquired Business' common stock, (ix) any change in the Acquired Business' credit ratings, (x) in and of itself, any failure by the Acquired Business to meet any published estimates, projections, predictions, or expectations of the Acquired Business' revenue, earnings or other financial performance or results of operations for any period, or any failure by the Acquired Business to meet any internal budgets, plans or forecasts of its revenues, earnings or other financial performance or results of operations including any budgets, plans or forecasts previously made available to the Acquiror, (xi) effects arising out of or relating to any matters disclosed on the Acquired Business' Disclosure Schedule as provided in the Merger Agreement, or (xii) effects arising out of or related to any legal proceedings commenced by or involving any of the current or former stockholders of the Acquired Business (on their own behalf or on behalf of the Acquired Business) arising out of or related to the Definitive Debt Documents or any of the Transactions, which, based on the underlying merits of such legal proceedings, are not reasonably expected to result in an award of material damages or injunctive relief against the Acquired Business or its directors; *provided, however*, that any fact, circumstance, event, change or occurrence referred to in clauses (i) through (xii) immediately above shall be taken into account in determining whether a Material Adverse Effect has occurred or is reasonably expected to occur to the extent (but only to the extent) that such fact, circumstance, event, change, occurrence, violation or inaccuracy has had, or would reasonably be expected to have, a materially disproportionate impact on the financial condition, business or results of operations of the Acquired Business, relative to other participants in the industries in which the Acquired Business is involved (in which event the extent of such material adverse change may be taken into account in determining whether a Material Adverse Effect has occurred).

8. Performance of Obligations. All costs, fees, expenses (including legal fees and expenses) and other compensation and amounts contemplated by the Debt Financing Letters or otherwise payable to us, the Investors or any of our or their respective affiliates, shall have been paid to the extent due. The Debt Financing Letters shall be in full force and effect.

9. Customary Closing Documents. All documents required to be delivered under the Definitive Debt Documents, including lien, litigation and tax searches, and customary legal opinions, corporate records and documents from public officials and officers' certificates shall have been delivered. Without limiting the foregoing, you shall have delivered (a) at least five business days prior to the Closing Date, all documentation and other information required by bank regulatory authorities under applicable "know-your-customer" and anti-money laundering rules and regulations, including the Patriot Act and (b) a certificate from the chief financial officer of the Company, in form and substance satisfactory to Jefferies, as to the solvency of the Acquiror and each of its subsidiaries (including the Acquired Business), on a consolidated basis, after giving effect to the Transactions.

10. Absence of Defaults. There shall not exist (*pro forma* for the purchase of the Notes) any "bankruptcy" or "insolvency" default or event of default under any of the Definitive Debt Documents.

11. Accuracy of Representations and Warranties. Subject to the Certain Funds Provisions, the representations and warranties in the each of the Definitive Debt Documents shall be true and correct in all material respects.

12. Absence of Legal Bar. There shall be no legal bar to the issuance of the Notes by the Acquiror or the purchase or resale thereof by either the Initial Purchasers or us.

13. Ratings. Prior to the launch of the syndication of the Notes Offering, the obtaining of monitored public ratings from each of Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("**S&P**"), and Moody's Investors Service, Inc. ("**Moody's**") for the Notes.

14. Prior Marketing of the Notes. Jefferies shall be satisfied that the Company shall have used its best efforts to cause the Notes to be issued and sold prior to the Closing Date, which efforts shall include (a) delivery to us (i) as soon as practicable and in no event later than 9 business days prior to the Closing Date, a complete (as determined by Jefferies) initial draft of a Rule 144A confidential offering memorandum relating to the issuance of the Notes, containing all financial statements and other data to be included therein (including all audited financial statements, all unaudited financial statements (each of which shall have undergone a SAS 100 review) and all appropriate *pro forma* financial statements) prepared in accordance with, or reconciled to, generally accepted accounting principles in the United States and prepared in accordance with Regulation S-X under the Securities Act, and all other data (including selected financial data) and other information that would be required in a registered offering of the Notes on a Form S-1 registration statement and/or that would be necessary for the Arranger of the Notes to receive customary "comfort" (including "negative assurance" comfort) from independent accountants in connection with the offering of the Notes (collectively, the "**Required Information**"), and (ii) as soon as practicable and in no event later than 8 business days prior to the Closing Date, a complete printed preliminary offering memorandum (the "**Preliminary Offering Memorandum**") usable in a customary high-yield road show relating to the issuance of the Notes that contains all Required Information and (b) the participation of senior management and representatives of the Acquiror and the Acquired Business in the road show. We shall have been offered a period of not less than 5 consecutive business days after delivery of such complete printed Preliminary Offering Memorandum to seek to place the Notes.

15. Comfort Letter. The independent accountants that have audited the financial statements contained in the Preliminary Offering Memorandum relating to the issuance of the Notes shall make available and have delivered to us, (i) no later than the delivery to us of the Preliminary Offering Memorandum in accordance with preceding paragraph, in a form they are prepared to execute, a draft, acceptable to Jefferies in its reasonable discretion (including, without limitation, the items included in the "circle-up" and the degree of comfort provided with respect thereto), of a comfort letter prepared in accordance with the requirements of SAS 72 covering the financial statements and other data included and incorporated by reference in the Preliminary Offering Memorandum (the "**Comfort Letter**"), (ii) no later than the pricing of the Notes Offering, an executed copy of the Comfort Letter, and (iii) on the Closing Date, a customary "bring down" comfort letter satisfactory to Jefferies in its reasonable discretion.

16. Security. The Collateral Agent, for the benefit of the holders of the Notes, shall have been granted "control" over the Escrowed Assets and a perfected first priority security interests in all assets of the Issuer and the initial Guarantor (other than any Shares) to the extent such security interests can be perfected by the filing of a UCC-1 financing statement.

\* \* \*

Exhibit B-4

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## QuickLinks

[Exhibit 10.1](#)

**KRATOS DEFENSE & SECURITY SOLUTIONS, INC.,**

as Issuer,

**THE GUARANTORS HEREAFTER PARTIES HERETO,**

as Guarantors

and

**WILMINGTON TRUST FSB,**

as Trustee and Collateral Agent

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**FIRST SUPPLEMENTAL INDENTURE**

Dated as of February 7, 2011

Supplementing the Indenture, Dated as of May 19, 2010

---

Providing for the

Amendment to the Terms of 10% Senior Secured Notes due 2017

---

**THIS FIRST SUPPLEMENTAL INDENTURE**, dated as of February 7, 2011 (the "*First Supplemental Indenture*"), is by and among KRATOS DEFENSE & SECURITY SOLUTIONS, INC., a corporation duly incorporated and existing under the laws of the State of Delaware (the "*Company*"), the guarantors listed on Exhibit A hereto (the "*Guarantors*") and WILMINGTON TRUST FSB, as trustee (the "*Trustee*") and collateral agent (the "*Collateral Agent*"), for the Company's 10% Senior Secured Notes due 2017 (the "*2017 Notes*").

Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to thereto in the Original Indenture (as defined below).

#### RECITALS

WHEREAS, the Company has heretofore executed and delivered to the Trustee an Indenture, dated as of May 19, 2010, providing for the issuance of the 2017 Notes (the "*Original Indenture*" and as amended, supplemented, waived or otherwise modified, the "*Indenture*");

WHEREAS, the Company intends to enter into an agreement and plan of merger with, among other parties, Herley Industries, Inc., a Delaware corporation ("*Herley*"), pursuant to which Herley will become a wholly owned subsidiary of the Company following the acquisition of all of Herley's issued and outstanding capital stock through a tender offer followed by a subsequent merger transaction (the "*Herley Acquisition*");

WHEREAS, the Company has formed a Wholly-Owned Unrestricted Subsidiary ("*Acquisition Holdco*"), which the Company intends to cause to issue up to \$325.0 million in aggregate principal amount of Acquisition Holdco's new senior secured notes (the "*Acquisition Notes*") to finance a portion of the purchase price of the Herley Acquisition and related transaction fees and expenses and for general corporate purposes;

WHEREAS, following the consummation of the Herley Acquisition, it is contemplated that Acquisition Holdco will be redesignated as a Restricted Subsidiary of the Company and will be merged into the Company, the Acquisition Notes will be exchanged (the "*Exchange Debt Offering*") by the Company for Additional Notes to be issued by the Company under the Indenture, which will be guaranteed by all of the Guarantors, and secured by the same collateral as the 2017 Notes on a pari passu basis;

WHEREAS, the Company's Consolidated Fixed Charge Coverage Ratio determined on a pro forma basis, after giving effect to the Herley Acquisition and the incurrence of such additional Indebtedness and the application of proceeds thereof, might not at the time of the Exchange Debt Offering be greater than 2.00 to 1.00 for purposes of the incurrence test contained in the proviso to Section 4.08(a) of the Original Indenture;

WHEREAS, as of the date of this First Supplemental Indenture, \$225.0 million aggregate principal amount of 2017 Notes remain outstanding;

WHEREAS, Section 9.02 of the Original Indenture provides that the Company and the Guarantors, when authorized by a Board Resolution, and the Trustee or Collateral Agent, as applicable, together, with the written consent of Holders representing at least a majority in aggregate principal amount of the outstanding 2017 Notes affected by such supplemental indenture may enter into an indenture supplemental to the Original Indenture for the purpose of amending or supplementing the Original Indenture;

WHEREAS, the Company has requested the Trustee to join with it in entering into this First Supplemental Indenture for the purpose of amending the Original Indenture to amend Section 4.08(a) in the Original Indenture, to permit the issuance of Additional Notes in connection with the Herley Acquisition, as permitted by Section 9.02 of the Original Indenture;

WHEREAS, the Company has been soliciting consents to this First Supplemental Indenture upon the terms and subject to the conditions set forth in its Consent Letter, dated January 31, 2011, and the

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related consent (which together, including any amendments, modifications or supplements thereto, constitute the "*Consent Solicitation*"); and

WHEREAS, (1) the Company and the Guarantors have been authorized by a Board Resolution to enter into an indenture supplemental to the Original Indenture, (2) the Company has received the written consent of the Holders of more than a majority in principal amount of the outstanding 2017 Notes, all as certified by an Officers' Certificate delivered to the Trustee simultaneously with the execution and delivery of this First Supplemental Indenture, (3) the Company has delivered to the Trustee simultaneously with the execution and delivery of this First Supplemental Indenture an Opinion of Counsel relating to this First Supplemental Indenture as contemplated by Section 11.04 of the Original Indenture and (4) the Company has satisfied all other conditions required under Article Nine of the Original Indenture to enable the Company and the Trustee to enter into this First Supplemental Indenture.

NOW, THEREFORE, in consideration of the above premises, each party hereby agrees, for the benefit of the others and for the equal and ratable benefit of the Holders of the 2017 Notes, as follows:

## AGREEMENTS

### ARTICLE I

#### AMENDMENTS TO INDENTURE; EFFECTIVENESS OF AMENDMENTS

##### Section 1.1 Amendments to the Indenture.

(a) Section 1.01 of the Indenture is hereby amended by adding the following definitions:

"*Herley*" means Herley Industries, Inc., a Delaware corporation.

"*Herley Acquisition*" means the acquisition by the Company through one or more of its Subsidiaries of all of the issued and outstanding capital stock of Herley.

(b) Section 4.08(a) of the Indenture is hereby amended by adding a new sentence at the end thereof as follows:

"Notwithstanding the foregoing proviso, the Company may incur Indebtedness and any of its Restricted Subsidiaries that is a Guarantor may incur Indebtedness in the form of Additional Notes in an aggregate principal amount of up to \$325.0 million to the extent issued in exchange for Indebtedness incurred by an Unrestricted Subsidiary and to the extent incurred by such Unrestricted Subsidiary of the Company to fund a portion of the purchase price of the Herley Acquisition and related transaction fees and expenses and for general corporate purposes without regard to the Consolidated Fixed Charge Coverage Ratio of the Company at the time of such incurrence or after giving effect to the incurrence thereof."

Section 1.2 Effectiveness of this First Supplemental Indenture. This First Supplemental Indenture is entered into pursuant to and consistent with Section 9.02 of the Indenture, and nothing herein shall constitute a waiver, amendment, modification or deletion of the Indenture requiring the approval of each Holder affected thereby pursuant to clauses (1) through (9) of the first paragraph of Section 9.02 of the Indenture. Upon the execution of this First Supplemental Indenture by the Company, the Guarantors, the Trustee and the Collateral Agent, the Indenture shall be amended and supplemented in accordance herewith, and this First Supplemental Indenture shall form a part of the Indenture for all purposes and each Holder shall be bound thereby; provided, however, that the provisions of the Indenture referred to in Section 1.1 above (such provisions being referred to as the "Section 1.1 Provisions") will remain in effect in the form they existed prior to the execution of this First Supplemental Indenture, and the waivers, amendments and modifications to the Section 1.1 Provisions will not become operative, and the terms of the Indenture will not be waived, amended or modified, in each case, unless (x) at least one Business Day prior to the consummation of the Exchange Debt Offering, the Company has not delivered to the Trustee an Officers' Certificate pursuant to which the Company notifies the Trustee that it does not desire this First Supplemental Indenture to become

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effective (in which case this First Supplemental Indenture shall thereafter be deemed to be ineffective for all purposes under the Indenture), (y) the Company has made a cash payment to the Trustee immediately prior to the consummation of the Exchange Debt Offering in an amount equal to \$5 per \$1,000 principal amount of all 2017 Notes for the account of each Holder in whose name a 2017 Note was registered at 5:00 p.m., New York City time, on January 28, 2011, regardless of whether such Holder consented to the proposed amendments to the Indenture contained herein and (z) Herley becomes a Wholly-Owned Restricted Subsidiary of the Company and a Guarantor substantially contemporaneously with the consummation of the Exchange Debt Offering.

## ARTICLE II

### MISCELLANEOUS PROVISIONS

Section 2.1 **Confirmation of the Original Indenture.** The Original Indenture, as heretofore supplemented and amended by this First Supplemental Indenture, as well as the 2017 Notes, are in all respects ratified and confirmed and all the terms shall remain in full force and effect. This First Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of 2017 Notes, heretofore or hereafter authenticated and delivered under the Indenture shall be bound hereby and all terms and conditions of each shall be read together as though they constitute a single instrument, except that in the case of conflict the provisions of this First Supplemental Indenture shall control.

Section 2.2 **Governing Law.** This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made or instruments entered into and, in each case, performed in said state.

Section 2.3 **Successors.** All agreements of the Company in this First Supplemental Indenture shall bind their respective successors. All agreements of the Trustee in this First Supplemental Indenture shall bind its successors.

Section 2.4 **Duplicate Originals.** All parties may sign any number of copies of this First Supplemental Indenture. Each signed copy shall be an original, but all of them together shall represent the same agreement. The exchange of copies of this First Supplemental Indenture and of signature pages by facsimile or pdf shall constitute effective execution and delivery of this First Supplemental Indenture. Signatures of the parties hereto transmitted by facsimile or pdf shall be deemed to be their original signatures for all purposes.

Section 2.5 **Severability.** In case any one or more of the provisions in this First Supplemental Indenture or in the 2017 Notes shall be held invalid, illegal or unenforceable, in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions shall not in any way be affected or impaired thereby, it being intended that all of the provisions hereof shall be enforceable to the full extent permitted by law.

Section 2.6 **Trustee Not Responsible for Recitals.** The recitals contained herein shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this First Supplemental Indenture.

Section 2.7 **Effect of Headings.** The Section headings herein are for convenience only and shall not affect the construction thereof.

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KRATOS DEFENSE SYSTEMS & SOLUTIONS, INC.

By: /s/ Deanna H. Lund

\_\_\_\_\_  
Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

AI METRIX, INC.

By: /s/ Deanna H. Lund

\_\_\_\_\_  
Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

DEFENSE SYSTEMS, INCORPORATED

By: /s/ Deanna H. Lund

\_\_\_\_\_  
Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

DIGITAL FUSION SOLUTIONS, INC.

By: /s/ Deanna H. Lund

\_\_\_\_\_  
Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

DIGITAL FUSION, INC.

By: /s/ Deanna H. Lund

\_\_\_\_\_  
Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

DTI ASSOCIATES, INC.

By: /s/ Deanna H. Lund

\_\_\_\_\_  
Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

HAVERSTICK CONSULTING, INC.

By: /s/ Deanna H. Lund

\_\_\_\_\_  
Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

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HAVERSTICK GOVERNMENT SOLUTIONS, INC.

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

HGS HOLDINGS, INC.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

JMA ASSOCIATES, INC.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

KRATOS COMMERCIAL SOLUTIONS, INC.

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

KRATOS GOVERNMENT SOLUTIONS, INC.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

KRATOS MID-ATLANTIC, INC.

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

KRATOS SOUTHEAST, INC.

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

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KRATOS SOUTHWEST, L.P.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

KRATOS TEXAS, INC.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

MADISON RESEARCH CORPORATION

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

POLEXIS, INC.

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

REALITY BASED IT SERVICES, LTD.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

ROCKET SUPPORT SERVICES, LLC

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

SHADOW I, INC.

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

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SHADOW II, INC.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

SHADOW III, INC.

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

SUMMIT RESEARCH CORPORATION

By: /s/ Deanna H. Lund

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Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

SYS

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

WFI NMC CORP.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

CHARLESTON MARINE CONTAINERS, INC.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

DALLASTOWN REALTY I, LLC

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

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DALLASTOWN REALTY II, LLC

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

GICHNER HOLDINGS, INC.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

GICHNER SYSTEMS GROUP, INC.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

GICHNER SYSTEMS INTERNATIONAL, INC.

By: /s/ Deanna H. Lund

---

Name: Deanna H. Lund  
Title: Executive Vice President & Chief Financial Officer

WILMINGTON TRUST FSB, as Trustee and Collateral Agent

By: /s/ Jane Schweiger

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Name: Jane Schweiger  
Title: Vice President

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**EXHIBIT A**

Guarantors

AI METRIX, INC.

DEFENSE SYSTEMS, INCORPORATED

DIGITAL FUSION SOLUTIONS, INC.

DIGITAL FUSION, INC.

DTI ASSOCIATES, INC.

HAVERSTICK CONSULTING, INC.

HAVERSTICK GOVERNMENT SOLUTIONS, INC.

HGS HOLDINGS, INC.

JMA ASSOCIATES, INC.

KRATOS COMMERCIAL SOLUTIONS, INC.

KRATOS GOVERNMENT SOLUTIONS, INC.

KRATOS MID-ATLANTIC, INC.

KRATOS SOUTHEAST, INC.

KRATOS SOUTHWEST, L.P.

KRATOS TEXAS, INC.

MADISON RESEARCH CORPORATION

POLEXIS, INC.

REALITY BASED IT SERVICES, LTD.

ROCKET SUPPORT SERVICES, LLC

SHADOW I, INC.

SHADOW II, INC.

SHADOW III, INC.

SUMMIT RESEARCH CORPORATION

SYS

WFI NMC CORP.

CHARLESTON MARINE CONTAINERS, INC.

DALLASTOWN REALTY I, LLC

DALLASTOWN REALTY II, LLC

GICHNER HOLDINGS, INC.

GICHNER SYSTEMS GROUP, INC.

GICHNER SYSTEMS INTERNATIONAL, INC.

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## QuickLinks

[Exhibit 10.2](#)

## SECOND AMENDMENT AGREEMENT

This SECOND AMENDMENT AGREEMENT (this "Amendment") is made as of the 7<sup>th</sup> day of February, 2011 among:

(a) KRATOS DEFENSE & SECURITY SOLUTIONS, INC., a Delaware corporation ("Borrower");

(b) the Lenders, as defined in the Credit Agreement, as hereinafter defined; and

(c) KEYBANK NATIONAL ASSOCIATION, as the lead arranger, sole book runner and administrative agent for the Lenders under the Credit Agreement ("Agent").

WHEREAS, Borrower, Agent and the Lenders are parties to that certain Credit and Security Agreement, dated as of May 19, 2010, that provides, among other things, for loans and letters of credit aggregating Thirty-Five Million Dollars (\$35,000,000), all upon certain terms and conditions (as amended and as the same may from time to time be further amended, restated or otherwise modified, the "Credit Agreement");

WHEREAS, Borrower, Agent and the Lenders desire to amend the Credit Agreement to modify certain provisions thereof and add certain provisions thereto;

WHEREAS, each capitalized term used herein and defined in the Credit Agreement, but not otherwise defined herein, shall have the meaning given such term in the Credit Agreement; and

WHEREAS, unless otherwise specifically provided herein, the provisions of the Credit Agreement revised herein are amended effective as of the date of this Amendment;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Borrower, Agent and the Lenders agree as follows:

1. Amendments to Definitions in the Credit Agreement. Section 1.1 of the Credit Agreement is hereby amended to delete the definitions of "Consolidated EBITDA" and "Consolidated Fixed Charges" therefrom and to insert in place thereof, respectively, the following:

"Consolidated EBITDA" means, for any period, as determined on a Consolidated basis, (a) Consolidated Net Income for such period plus, without duplication, the aggregate amounts deducted in determining such Consolidated Net Income in respect of (i) Consolidated Interest Expense, (ii) Consolidated Income Tax Expense, (iii) Consolidated Depreciation and Amortization Charges, (iv) non-cash losses or charges, (v) losses with respect to Kratos Southeast, Inc. (so long as Kratos Southeast, Inc. is held as a discontinued operation and is sold or otherwise divested on or prior to the last day of the 2010 fiscal year of Borrower) for (A) the 2009 fiscal year of Borrower, and (B) the Quarterly Reporting Periods in 2010 in an aggregate amount not to exceed Two Million Dollars (\$2,000,000), (vi) losses with respect to discontinued operations, in an aggregate amount not to exceed Two Million Dollars (\$2,000,000); (vii) non-recurring transaction costs incurred in connection with the SCT Acquisition and the HBE Acquisition, in an aggregate amount not to exceed One Million Seven Hundred Thousand Dollars (\$1,700,000); and (viii) non-recurring transaction costs incurred in connection with the Herley Transactions, in an aggregate amount not to exceed Eleven Million Dollars (\$11,000,000); minus (b) to the extent included in Consolidated Net Income for such period, non-cash gains.

"Consolidated Fixed Charges" means, for any period, as determined on a Consolidated basis, the aggregate, without duplication, of (a) Consolidated Interest Expense, and (b) principal payments on Consolidated Funded Indebtedness (including, without limitation, performance based contingent obligations incurred in connection with one or more Acquisitions and payments on Capitalized Lease Obligations); provided that, for the purposes of calculating Consolidated Fixed Charges, principal payments on Consolidated Funded Indebtedness shall exclude (i) optional

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prepayments of the Revolving Loans, (ii) payments of the Indebtedness of HBE made at the time of the HBE Acquisition, in an aggregate amount not to exceed Three Million Four Hundred Thousand Dollars (\$3,400,000), and (iii) payments of the Indebtedness of Herley made at the time of the Herley Transactions, in an aggregate amount not to exceed Fifteen Million Dollars (\$15,000,000).

2. Amendment to the Definition of Permitted Foreign Subsidiary Loans, Guaranties and Investments. The definition of "Permitted Foreign Subsidiary Loans, Guaranties and Investments" in the Credit Agreement is hereby amended to delete subpart (d) therefrom and to insert in place thereof the following new subpart (d), and to add the following new subpart (e) at the end thereof:

(d) intercompany loans and investments from Herley or a Domestic Subsidiary of Herley to a Foreign Subsidiary of Herley, in an aggregate principal amount for all such loans and investments of all Credit Parties, permitted pursuant to this subpart (d), not to exceed, at any time, Thirty-Three Million Dollars (\$33,000,000); and

(e) additional loans and investments by Borrower or a Domestic Subsidiary to or in a Foreign Subsidiary, or guaranties by Borrower or a Domestic Subsidiary of the Indebtedness or contract performance of a Foreign Subsidiary, made on or after the Closing Date in the ordinary course of business, so long as the aggregate amount of all such loans and investments of all Credit Parties does not exceed, at any time, an aggregate amount of Four Million Dollars (\$4,000,000).

3. Additions to Definitions in the Credit Agreement. Section 1.1 of the Credit Agreement is hereby amended to add the following new definitions thereto:

"Exchange Debt Offering" means that term as defined in Section 9(a) of the Second Amendment Agreement.

"HBE" means Henry Bros. Electronics, Inc., a Delaware corporation.

"HBE Acquisition" means that Acquisition by Borrower of HBE.

"Herley" means Herley Industries, Inc., a Delaware corporation.

"Herley Acquisition Notes" means that term as defined in Section 9(a) of the Second Amendment Agreement.

"Herley Tender Offer" means that term as defined in Section 9(a)(ii) of the Second Amendment Agreement.

"Herley Transactions" means that term as defined in Section 9(a) of the Second Amendment Agreement.

"SCT Acquisition" means that Acquisition by Borrower of SCT Acquisition, LLC, a Delaware corporation.

"Second Amendment Agreement" means that certain Second Amendment Agreement, dated as of the Second Amendment Effective Date, among Borrower, Agent and the Lenders.

"Second Amendment Effective Date" means February 7, 2011.

4. Amendment to Borrowing Covenant Provisions. Section 5.8 of the Credit Agreement is hereby amended to delete subsection (j) therefrom and to insert in place thereof the following revised subsection (j), and to add the following new subsections (l) and (m) at the end thereof:

(j) Indebtedness incurred in connection with (i) prior to the date of the Exchange Debt Offering, the Herley Acquisition Notes, resulting in aggregate gross proceeds not to exceed Three Hundred Twenty-Five Million Dollars (\$325,000,000), and (ii) on and after the date of the Exchange Debt Offering, the additional Senior Notes issued by Borrower in (A) the Exchange

Debt Offering, in an original principal amount not to exceed the aggregate principal amount of the Herley Acquisition Notes or (B) an exchange offer made by Borrower for any and all of the additional Senior Notes issued in the Exchange Debt Offering (the "Exchange Debt Offering Notes") such that the additional Senior Notes received in connection with such exchange offer will (1) have substantially identical terms to the Exchange Debt Offering Notes, (2) be for the same aggregate principal amount as the Exchange Debt Offering Notes, and (3) be registered under the Securities Act;

(l) the Indebtedness existing on the date of the completion of the Herley Tender Offer, in addition to the other Indebtedness permitted to be incurred pursuant to this Section 5.8, as set forth in Schedule 5.8A hereto (and any extension, renewal or refinancing thereof but only to the extent that the principal amount thereof does not increase after the date of the completion of the Herley Tender Offer);

(m) other Indebtedness, in addition to the Indebtedness listed above, in an aggregate principal amount for all Companies not to exceed Twenty-Five Million Dollars (\$25,000,000), with respect to (i) Indebtedness incurred in connection with the Senior Notes, (ii) unsecured Subordinated Indebtedness created pursuant to documentation in form and substance reasonably satisfactory to Agent and the Required Lenders, and on terms reasonably satisfactory to Agent and the Required Lenders, and (iii) other unsecured Indebtedness; so long as, in each case, as of the date such additional Indebtedness is incurred, (A) Borrower is in pro forma compliance with Section 5.7 hereof, both before and after giving effect to the incurrence of such Indebtedness, and (B) no Default or Event of Default shall then exist or immediately thereafter shall begin to exist.

5. Amendment to Permitted Liens Covenant. Section 5.9 of the Credit Agreement is hereby amended to delete subsection (h) therefrom and to insert in place thereof the following revised subsection (h), and to add the following new subsection (l) at the end thereof:

(h) the Liens securing the Indebtedness under the Senior Notes permitted pursuant to Sections 5.8(h), (j) and (m) hereof, so long as (i) such Liens are subject to the Intercreditor Agreement, and (ii) as of the issuance date of any additional Senior Notes issued after the date of the Exchange Debt Offering, (A) Borrower is in pro forma compliance with Section 5.7 hereof, both before and after giving effect to the issuance of such additional Senior Notes, and (B) no Default or Event of Default shall then exist or immediately thereafter shall begin to exist;

(l) the Liens existing on the date of the completion of the Herley Tender Offer, in addition to the other Liens permitted pursuant to this Section 5.9, as set forth in Schedule 5.9A hereto and replacements, extensions, renewals, refundings or refinancings thereof, but only to the extent that the amount of debt secured thereby, and the property encumbered thereby, shall not be increased.

6. Amendment to Investments, Loans and Guaranties Provisions. Section 5.11 of the Credit Agreement is hereby amended to delete subsection (v) therefrom and to insert in place thereof the following:

(v) the holding of each of the Subsidiaries listed on Schedule 6.1 hereto, and the creation, acquisition and holding of and any investment in any new Subsidiary after the Closing Date so long as such new Subsidiary shall have been created, acquired or held, and investments made, in accordance with the terms and conditions of this Agreement or the consent set forth in Section 9 of the Second Amendment Agreement;

7. Amendment to Permitted Acquisition Provisions. Section 5.13 of the Credit Agreement is hereby amended to delete subsection (j) therefrom and to insert in place thereof the following:

(j) the aggregate amount of cash Consideration (exclusive of the issuance of equity) paid for all such Acquisitions (including Distressed Acquisitions, but excluding the Herley Transactions)

after the Second Amendment Effective Date would not exceed Twenty-Five Million Dollars (\$25,000,000); provided that, to the extent any cash Consideration for any such Acquisition is funded with the net cash proceeds of an equity offering by Borrower, the aggregate amount of such net cash proceeds of an equity offering shall be excluded from the calculation of the maximum Dollar amounts set forth in this subsection (j); and

8. Addition of Schedules to the Credit Agreement. The Credit Agreement is hereby amended to add a new Schedule 5.8A and Schedule 5.9A thereto in the forms of the attached Schedule 5.8A and Schedule 5.9A, respectively, hereto.

9. Consent to the Herley Transactions.

(a) Herley Transactions. Borrower is seeking to acquire all of the capital stock of Herley through a series of transactions described below (collectively, the "Herley Transactions"), with the result that Herley will become a wholly-owned Subsidiary of Borrower. Specifically:

(i) Borrower will create a wholly-owned direct Subsidiary corporation ("Acquisition Holdco"), and will cause Acquisition Holdco to create a wholly-owned direct Subsidiary corporation ("Acquisition Co.");

(ii) Acquisition Holdco will, or will cause Acquisition Co. to, make a tender offer for all of the outstanding equity interest of Herley (the "Herley Tender Offer");

(iii) the completion of the Herley Tender Offer will be followed by a back-end squeeze-out merger, pursuant to which Herley will be merged with and into Acquisition Co, with Herley being the surviving entity and a wholly-owned direct Subsidiary of Acquisition Holdco (the "Squeeze-Out Merger"); and

(iv) promptly following the Squeeze-Out Merger, Acquisition Holdco will be merged with and into Borrower, with Borrower being the surviving entity (the "Roll-up Merger" and, together with the Squeeze-Out Merger, collectively, the "Mergers"), so that Herley will become a direct wholly-owned Subsidiary of Borrower.

To finance the Herley Transactions, pay fees and expenses of the Herley Transactions and provide working capital for general corporate purposes, Borrower (A) may issue common equity, from which it would expect to receive net proceeds of up to Forty Million Dollars (\$40,000,000) (the "Equity Offering"), (B) will cause Acquisition Holdco to issue new senior secured notes (the "Herley Acquisition Notes"), from which it expects to receive aggregate gross proceeds of up to Three Hundred Twenty-Five Million Dollars (\$325,000,000) less the net proceeds of the Equity Offering, (C) expects to draw up to Five Million Dollars (\$5,000,000) of Revolving Loans (the "Revolver Draw"), and (D) may use up to Four Million Eight Hundred Thousand Dollars (\$4,800,000) of unrestricted cash on hand of Borrower. Borrower will invest the net proceeds of the Equity Offering, the proceeds of the Revolver Draw and any necessary unrestricted cash on hand of Borrower in Acquisition Holdco, and Acquisition Holdco will use such funds, together with the net proceeds of the Herley Acquisition Notes, to consummate the Herley Tender Offer and the Squeeze-Out Merger.

The Herley Acquisition Notes will be guaranteed solely by Acquisition Co, and will be secured solely by the assets of Acquisition Holdco and Acquisition Co (other than the equity interests of Herley until Herley becomes a wholly-owned subsidiary of Acquisition Holdco). Prior to the Roll-up Merger, neither the Credit Agreement nor the Senior Notes will be guaranteed by, or secured by any of the assets of, Acquisition Holdco, Acquisition Co or Herley (or any of its Subsidiaries). Following the Roll-up Merger, all of the Herley Acquisition Notes will be exchanged for additional Senior Notes to be issued by Borrower under the Senior Notes Indenture (the "Exchange Debt Offering"), which additional Senior Notes will be guaranteed by each Guarantor of Payment and secured by the same collateral as the currently outstanding Senior Notes on a pari passu basis. Any guaranties of, and

security interests granted by, Acquisition Holdco and Acquisition Co relating to the Herley Acquisition Notes will terminate and be released upon exchange of the Herley Acquisition Notes for the additional Senior Notes to be issued by Borrower in the Exchange Debt Offering, and after the Roll-up Merger Herley and its Subsidiaries will give guaranties of the Obligations and the Senior Notes and grant security interests in their respective assets as required by the Credit Agreement and the Senior Notes Indenture.

If, in connection with the issuance of the Herley Acquisition Notes and the additional Senior Notes to be issued in the Exchange Debt Offering, Borrower is required to obtain a waiver from the Senior Noteholders (the "Senior Note Waiver"), Borrower may pay a fifty (50.00) basis points fee to each of the Senior Noteholders.

(b) Request for Consent. Certain of the Herley Transactions are prohibited by one or more provisions of the Credit Agreement, including but not limited to Sections 5.8 (Borrowing), 5.9 (Liens), 5.10 (Regulations T, U and X), 5.11 (Investments, Loans and Guaranties), 5.12 (Merger and Sale of Assets), 5.13 (Acquisitions), 5.15 (Restricted Payments), 5.17 (Affiliate Transactions), 5.20 (Subsidiary Guaranties, Security Documents and Pledge of Stock or Other Ownership Interest), 5.28 (Other Covenants and Provisions), 5.30 (Guaranty Under Material Indebtedness Agreement) and 5.31 (Senior Note Documents). Borrower hereby specifically requests that Agent and the Lenders consent to the Herley Transactions.

(c) Consent of Agent and the Lenders. Notwithstanding any provisions of the Credit Agreement that may restrict or prohibit the Herley Transactions, Agent and the Lenders hereby consent to the Herley Transactions and Borrower's consummation of the Herley Transactions, subject to the following conditions:

(i) after giving effect to the terms of this Amendment (including but not limited to the consent of Agent and the Lenders) and, if applicable, the Senior Note Waiver, Borrower shall be in pro forma compliance with the Credit Agreement both before and after consummating the Herley Transactions;

(ii) after giving effect to the terms of this Amendment (including but not limited to the consent of Agent and the Lenders) and, if applicable, the Senior Note Waiver, no Default or Event of Default shall exist under the Credit Agreement or any other Loan Document;

(iii) the Available Liquidity shall be no less than Twenty Million Dollars (\$20,000,000) both before and after giving pro forma effect to the Herley Transactions;

(iv) the Herley Transactions are structured and occur substantially as set forth in Section 9(a) hereof;

(v) the Roll-up Merger and the Exchange Debt Offering occur within four Business Days of the completion of the Squeeze-Out Merger;

(vi) the Herley Transactions are not prohibited by the terms of the Senior Notes Documents (as such terms may be modified by any consent given by the Senior Noteholders);

(vii) the additional Senior Notes issued by Borrower in the Exchange Debt Offering are issued pursuant to the Senior Notes Indenture and subject to the Intercreditor Agreement;

(viii) neither the Indenture Agent nor any Senior Noteholder files any U.C.C. Financing Statement on the assets of Herley or any of its subsidiaries prior to the date upon which Agent has filed such U.C.C. Financing Statements;

(ix) the Herley Transactions are completed on or before June 30, 2011; and

(x) Borrower complies with the requirements of Section 10 hereof.

This Amendment shall serve as evidence of such consent. The consent contained in this Section 9 shall not be deemed to waive or amend any provision of the Credit Agreement or the Loan Documents except with respect to the Herley Transactions, and shall not serve as consent to, or amendment of, any other matter inconsistent with the terms and conditions of the Credit Agreement or other Loan Documents. Except as specifically set forth in this Section 9, all of the terms of the Credit Agreement and the other Loan Documents remain in full force and effect, and constitute the legal, valid, binding and enforceable obligations of Borrower to Agent and the Lenders.

10. Closing Deliveries. Concurrently with the execution of this Amendment, Borrower shall:

- (a) cause each Guarantor of Payment to execute the attached Guarantor Acknowledgment and Agreement; and
- (b) pay all legal fees and expenses of Agent in connection with this Amendment and any other Loan Documents to the extent then invoiced.

11. Post-Closing Deliveries. On or before each of the dates specified in this Section 11 (unless a longer period is agreed to in writing by Agent), Borrower hereby covenants and agrees to satisfy each of the items specified in the subparts below:

(a) prior to or contemporaneously with the consummation of the Roll-up Merger, as defined in Section 9(a)(iv) hereof, Borrower shall enter into a further amendment to the Credit Agreement, to be prepared by and in form and substance satisfactory to Agent, that provides for, among other things, amendments to the schedules to the Credit Agreement to incorporate information relating to the assets acquired pursuant to the Herley Transactions and such other matters as shall be mutually agreed among Borrower, Agent and the Lenders;

(b) prior to or contemporaneously with the consummation of the Roll-up Merger, Borrower shall consent to an amendment to the Intercreditor Agreement, to be prepared by and in form and substance satisfactory to Agent, that, in the reasonable judgment of Agent, adequately and appropriately accounts for the additional Senior Notes to be issued by Borrower in the Exchange Debt Offering, which amendment shall also be signed by the Indenture Agent;

(c) within twenty (20) days after the Roll-up Merger (and, in any event, prior to or contemporaneously with (i) the grant of any security interest in the assets of Herley to the Senior Noteholders, or (ii) the guaranty by Herley or any of its subsidiaries of the additional Senior Notes issued by Borrower in the Exchange Debt Offering), Borrower shall cause Herley and, as appropriate, each Domestic Subsidiary of Herley, to execute and deliver all of the documentation required pursuant to Section 5.20 of the Credit Agreement; and

(d) within forty-five (45) days after the Roll-up Merger, Agent shall have received the results of a collateral field audit of Herley and its subsidiaries and, if required by Agent, an appraisal of the Inventory of Herley and its subsidiaries, each to be in form and substance satisfactory to Agent.

12. Representations and Warranties. Borrower hereby represents and warrants to Agent and the Lenders that (a) Borrower has the legal power and authority to execute and deliver this Amendment; (b) the officers executing this Amendment have been duly authorized to execute and deliver the same and bind Borrower with respect to the provisions hereof; (c) the execution and delivery hereof by Borrower and the performance and observance by Borrower of the provisions hereof do not violate or conflict with the Organizational Documents of Borrower or any law applicable to Borrower, or, after giving effect to this Amendment (including but not limited to the consent of Agent and the Lenders in Section 9 hereof) and the Senior Note Waiver, result in a breach of any provision of, or constitute a default under, any other agreement, instrument or document binding upon or enforceable against Borrower; (d) after giving effect to this Amendment (including but not limited to the consent of Agent

and the Lenders in Section 9 hereof) and the Senior Note Waiver, no Default or Event of Default exists, nor will any occur immediately after the execution and delivery of this Amendment or by the performance or observance of any provision hereof; (e) after giving effect to this Amendment (including but not limited to the consent of Agent and the Lenders in Section 9 hereof) and the Senior Note Waiver, each of the representations and warranties contained in the Loan Documents is true and correct in all material respects as of the Second Amendment Effective Date as if made on the Second Amendment Effective Date, except to the extent that any such representation or warranty expressly states that it relates to an earlier date (in which case such representation or warranty is true and correct in all material respects as of such earlier date); (f) Borrower is not aware of any claim or offset against, or defense or counterclaim to, Borrower's obligations or liabilities under the Credit Agreement or any Related Writing; and (g) this Amendment constitutes a valid and binding obligation of Borrower, enforceable in accordance with its terms.

13. No Course of Dealing. Borrower acknowledges and agrees that this Amendment is not intended to, nor shall it, establish any course of dealing with respect to the various provisions amended herein, or otherwise, among Borrower, Agent and the Lenders that is inconsistent with the express terms of the Loan Documents.

14. Waiver and Release. Borrower, by signing below, hereby waives and releases Agent, and each of the Lenders, and their respective directors, officers, employees, attorneys, affiliates and subsidiaries, from any and all claims, offsets, defenses and counterclaims of any kind or nature, absolute and contingent, of which Borrower is aware or should be aware on the date of this Amendment, such waiver and release being with full knowledge and understanding of the circumstances and effect thereof and after having consulted legal counsel with respect thereto.

15. References to Credit Agreement and Ratification. Each reference that is made in the Credit Agreement or any other Related Writing to the Credit Agreement shall hereafter be construed as a reference to the Credit Agreement as amended hereby. Except as herein otherwise specifically provided, all terms and provisions of the Credit Agreement are confirmed and ratified and shall remain in full force and effect and be unaffected hereby. This Amendment is a Loan Document.

16. Counterparts. This Amendment may be executed in any number of counterparts, by different parties hereto in separate counterparts and by facsimile signature, each of which, when so executed and delivered, shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

17. Headings. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

18. Severability. Any term or provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the term or provision so held to be invalid or unenforceable.

19. Governing Law. The rights and obligations of all parties hereto shall be governed by the laws of the State of New York, without regard to principles of conflicts of laws.

[Remainder of page intentionally left blank.]

JURY TRIAL WAIVER. BORROWER, AGENT AND THE LENDERS, TO THE EXTENT PERMITTED BY LAW, EACH HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG BORROWER, AGENT AND THE LENDERS, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AMENDMENT OR ANY NOTE OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED THERETO.

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment as of the date first set forth above.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

By: /s/ Deanna H. Lund

Name: Deanna H. Lund

Title: Executive Vice President & Chief Financial Officer

KEYBANK NATIONAL ASSOCIATION,  
as Agent and as a Lender

By: /s/ John P. Dunn

Name: John P. Dunn

Title: Vice President

Signature Page to  
Second Amendment Agreement

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**GUARANTOR ACKNOWLEDGMENT AND AGREEMENT**

The undersigned consent and agree to and acknowledge the terms of the foregoing Second Amendment Agreement dated as of February 7, 2011. The undersigned further agree that the obligations of the undersigned pursuant to the Guaranty of Payment executed by the undersigned are hereby ratified and shall remain in full force and effect and be unaffected hereby.

The undersigned hereby waive and release Agent and the Lenders and their respective directors, officers, employees, attorneys, affiliates and subsidiaries from any and all claims, offsets, defenses and counterclaims of any kind or nature, absolute and contingent, of which the undersigned are aware or should be aware on the date of the foregoing Second Amendment Agreement, such waiver and release being with full knowledge and understanding of the circumstances and effect thereof and after having consulted legal counsel with respect thereto.

JURY TRIAL WAIVER. THE UNDERSIGNED, TO THE EXTENT PERMITTED BY LAW, HEREBY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG BORROWER, AGENT, THE LENDERS AND THE UNDERSIGNED, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AMENDMENT OR ANY NOTE OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED THERETO.

KRATOS PUBLIC SAFETY & SECURITY SOLUTIONS, INC. (F/K/A KRATOS COMMERCIAL SOLUTIONS, INC.)  
KRATOS MID-ATLANTIC, INC.  
KRATOS SOUTHEAST, INC.  
KRATOS TEXAS, INC.  
WFI NMC CORP.  
SYS  
AI METRIX, INC.  
POLEXIS, INC.  
REALITY BASED IT SERVICES, LTD.  
SHADOW I, INC.  
SHADOW II, INC.  
SHADOW III, INC.  
DIGITAL FUSION, INC.  
DIGITAL FUSION SOLUTIONS, INC.  
SUMMIT RESEARCH CORPORATION  
KRATOS GOVERNMENT SOLUTIONS, INC.

DEFENSE SYSTEMS, INCORPORATED  
HAVERSTICK CONSULTING, INC.  
HGS HOLDINGS, INC.  
DTI ASSOCIATES, INC.  
HAVERSTICK GOVERNMENT SOLUTIONS, INC.  
ROCKET SUPPORT SERVICES, LLC  
JMA ASSOCIATES, INC.  
MADISON RESEARCH CORPORATION  
GICHNER SYSTEMS GROUP, INC.  
GICHNER HOLDINGS, INC.  
GICHNER SYSTEMS INTERNATIONAL, INC.  
CHARLESTON MARINE CONTAINERS INC.  
DALLASTOWN REALTY I, LLC  
DALLASTOWN REALTY II, LLC  
DEI SERVICES CORPORATION  
SCT ACQUISITION, LLC  
SCT REAL ESTATE, LLC

By: /s/ Deanna H. Lund

By: /s/ Deanna H. Lund

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Deanna H. Lund  
Executive Vice President & Chief Financial Officer

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Deanna H. Lund  
Executive Vice President & Chief Financial Officer

KRATOS SOUTHWEST L.P.,  
by Kratos Texas, Inc., its general partner

By: /s/ Deanna H. Lund

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Deanna H. Lund  
Executive Vice President & Chief Financial Officer

HENRY BROS. ELECTRONICS, INC.,  
a Delaware corporation  
HENRY BROS. ELECTRONICS, INC.,  
a Colorado corporation  
HENRY BROS. ELECTRONICS, INC.,  
a Virginia corporation  
HENRY BROS. ELECTRONICS, INC.,  
a New Jersey corporation  
HENRY BROS. ELECTRONICS, INC.,  
a California corporation  
DIVERSIFIED SECURITY SOLUTIONS, INC.  
HENRY BROS. ELECTRONICS, LLC  
NATIONAL SAFE OF CALIFORNIA, INC.  
AIRORLITE COMMUNICATIONS, INC.

By: /s/ Deanna H. Lund

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Deanna H. Lund  
Executive Vice President & Chief Financial Officer

Signature Page 2 of 2 to  
Guarantor Acknowledgement and Agreement

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**SCHEDULE 5.8A**

**ADDITIONAL SCHEDULE TO SECTION 5.8**

1. Indebtedness of Herley GMI Eyal Ltd owing to The First International Bank of Israel Ltd. pursuant to documentation entered into on or about August, 2008 (the "Herley GMI Eyal Credit Facility"), in an aggregate principal amount not to exceed Ten Million Dollars (\$10,000,000).
2. The guaranty by General Microwave Israel (1987) Ltd of the Indebtedness under the Herley Eyal Credit Facility.
3. Indebtedness of Herley to (i) East Hempfield Township Industrial Development Authority in respect of the loan of the proceeds of, and (ii) Allfirst Bank in respect of its letter of credit supporting the payment of, those certain East Hempfield Township Industrial Development Authority \$3,000,000 Variable Rate Demand/Fixed Rate Revenue Bonds (Herley Industries. Inc. Project) Series of 2001, in an aggregate principal amount not to exceed Two Million Dollars (\$2,000,000).

**SCHEDULE 5.9A**

**ADDITIONAL SCHEDULE TO SECTION 5.9**

1. Liens on the assets of Herley GMI Eyal Ltd and General Microwave Israel (1987) Ltd securing the Indebtedness described in item 1 of Schedule 5.8A.
2. Open-End Mortgage and Security Agreement dated October 17, 2001, executed by Herley, as mortgagor, to Allfirst Bank, as mortgagee, encumbering property located in Lancaster, Pennsylvania, securing the Indebtedness described in item 3 of Schedule 5.8A, and related UCC-1 financing statements.

## QuickLinks

[Exhibit 10.3](#)

[SECOND AMENDMENT AGREEMENT](#)  
[GUARANTOR ACKNOWLEDGMENT AND AGREEMENT](#)  
[SCHEDULE 5.8A ADDITIONAL SCHEDULE TO SECTION 5.8](#)  
[SCHEDULE 5.9A ADDITIONAL SCHEDULE TO SECTION 5.9](#)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement (No. 333-161340) on Form S-3 of Kratos Defense & Security Solutions, Inc. (including any post-effective amendments or prospectus supplements related thereto) of our report dated March 24, 2010 on the consolidated financial statements of Gichner Holdings, Inc. and Subsidiaries as of and for the periods ending December 31, 2009 and 2008, our report dated April 4, 2008 on the consolidated financial statements of Gichner Holdings, Inc. and Subsidiaries as of and for the period ending December 31, 2007, and our report dated April 26, 2010 on the combined balance sheet of Gichner Systems Group, LLC and Related Entities as of August 22, 2007 and the related combined statements of operations, equity, and cash flows for the period from January 1, 2007 through August 22, 2007 (collectively, the "Incorporated Financials") and to the reference to our firm under the heading "Experts" in the prospectus supplement which is part of the Registration Statement. We also consent to the incorporation by reference of said reports and the Incorporated Financials in the Registration Statements of Kratos Defense & Security Solutions, Inc. on Forms S-8 (File No. 333-90455, File No. 333-54818, File No. 333-71702, File No. 333-91852, File No. 333-116903, File No. 333-124957, File No. 333-127060, File No. 333-155317, File No. 333-157826, File No. 333-171257 and File No. 333-167839) (including any post-effective amendments thereto).

/s/ Plante & Moran, PLLC

February 7, 2011

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## QuickLinks

[Exhibit 23.1](#)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statement (No. 333-161340) on Form S-3 of Kratos Defense & Security Solutions, Inc. of our report dated March 12, 2010 on the financial statements of Henry Bros. Electronics, Inc. and Subsidiaries as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009. We also consent to the incorporation by reference of said report in the Registration Statements of Kratos Defense & Security Solutions, Inc. on Forms S-8 (File No. 333-90455, File No. 333-54818, File No. 333-71702, File No. 333-91852, File No. 333-116903, File No. 333-124957, File No. 333-127060, File No. 333-155317, File No. 333-157826, File No. 333-171257 and File No. 333-167839).

We also consent to the reference to us under the heading "Experts" in such Registration Statement on Form S-3.

/s/ Amper, Politziner & Mattia LLP

February 7, 2011  
Edison, New Jersey

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## QuickLinks

[Exhibit 23.2](#)

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT**

We consent to the incorporation by reference in the Registration Statement of Kratos Defense & Security Solutions, Inc. on Form S-3 (File No. 333-161340) of our report dated October 16, 2009 with respect to our audit of the consolidated financial statements and related consolidated financial statement schedule of Herley Industries, Inc. as of August 2, 2009 and for the fifty-two (52) weeks ended August 2, 2009 and the fifty-three (53) weeks ended August 3, 2008, which report appears in this Current Report on Form 8-K of Kratos Defense & Security Solutions, Inc. dated February 7, 2011. We also consent to the incorporation by reference of said report in the Registration Statements of Kratos Defense & Security Solutions, Inc. on the following Forms S-8: File No. 333-90455, File No. 333-54818, File No. 333-71702, File No. 333-91852, File No. 333-116903, File No. 333-124957, File No. 333-127060, File No. 333-155317, File No. 333-157826, File No. 333-171257 and File No. 333-167839. We also consent to the reference to our Firm under the heading "Experts" in the prospectus supplement which is a part of the Registration Statement on Form S-3 (File No. 333-161340).

We were dismissed as auditors on February 17, 2010, effective immediately after the filing of Herley Industries, Inc.'s quarterly report on Form 10-Q for the quarter ended January 31, 2010, which was filed with the SEC on March 11, 2010 and, accordingly, we have not performed any audit or review procedures with respect to any financial statements appearing in such prospectus supplement for the periods after the filing of the Form 10-Q for the quarter ended January 31, 2010, which was filed with the SEC on March 11, 2010.

/s/ MARCUM LLP

Melville, New York  
February 7, 2011

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## QuickLinks

[Exhibit 23.3](#)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors  
Kratos Defense & Security Solutions, Inc.:

We have issued our reports dated October 14, 2010 with respect to the consolidated financial statements, schedule and internal controls over financial reporting included in the Annual Report of Herley Industries, Inc. on Form 10-K for the fifty two week period ended August 1, 2010 included in this Current Report on Form 8-K dated February 7, 2011. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Kratos Defense & Security Solutions, Inc. ("Kratos") on Form S-3 (File No. 333-161340) and to the reference to our firm under the heading "Experts" in the prospectus supplement which is a part of such Registration Statement. We further consent to the incorporation by reference of said reports in the Registration Statements of Kratos on Forms S-8 (File No. 333-90455, File No. 333-54818, File No. 333-71702, File No. 333-91852, File No. 333-116903, File No. 333-124957, File No. 333-127060, File No. 333-155317, File No. 333-157826, File No. 333-171257 and File No. 333-167839).

/s/ GRANT THORNTON LLP

Philadelphia, Pennsylvania  
February 7, 2011

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## QuickLinks

[Exhibit 23.4](#)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the registration statement of Kratos Defense & Security Solutions, Inc. on Form S-3 (File No. 333-161340) and on Forms S-8 (File No. 333-90455, File No. 333-54818, File No. 333-71702, File No. 333-91852, File No. 333-116903, File No. 333-124957, File No. 333-127060, File No. 333-155317, File No. 333-157826, File No. 333-171257 and File No. 333-167839) of our report dated October 4, 2010, relating to the financial statements of General Microwave Israel Corp not presented separately herein, appearing in this current report on Form 8-K of Kratos Defense & Security Solutions, Inc. dated February 7, 2011. We further consent to the reference to our firm under the caption "Experts" in the prospectus supplement which is part of the registration statement on Form S-3.

/s/ BRIGHTMAN ALMAGOR ZOHAR & CO.  
Certified Public Accountants  
A member firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel  
February 7, 2011

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## QuickLinks

[Exhibit 23.5](#)



**Press Contact:**  
Yolanda White  
858-812-7302

**Investor Information:**  
877-934-4687  
[investor@kratosdefense.com](mailto:investor@kratosdefense.com)

FOR IMMEDIATE RELEASE

**KRATOS DEFENSE & SECURITY SOLUTIONS ANNOUNCES PRELIMINARY FOURTH  
QUARTER AND FISCAL 2010 FINANCIAL RESULTS**

**SCHEDULES FOURTH QUARTER 2010 EARNINGS CONFERENCE CALL FOR  
TUESDAY, MARCH 1, 2011**

**Fourth Quarter Revenues of \$120 to \$122 Million**

**Adjusted Fourth Quarter EBITDA of \$12.5 to \$13.0 Million or 10.2% to 10.8%**

**Full Year 2010 Revenues of \$408 to \$410 Million**

**Cash Flow Generated From Operations for FY10 of \$28 Million**

**SAN DIEGO, CA, February 7, 2011**—Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading National Security Solutions provider, today reported preliminary fourth quarter 2010 revenues of \$120 to \$122 million and adjusted EBITDA of \$12.5 to \$13.0 million, or 10.2% to 10.8% of revenues, up sequentially from \$11.7 million or 9.8% of revenues from the third quarter. Kratos also reported cash flow generated from operations of \$3.3 million for the fourth quarter, and \$28.0 million for 2010. The improvement in operating margins and adjusted EBITDA reflects a favorable contract mix of revenues including certain C5ISR and certain weapons systems related programs, continued leverage of the Company's SG&A infrastructure as the business grows, and the continued successful integration of the businesses Kratos has acquired. Adjusted EBITDA reflects earnings before interest, taxes, depreciation, and amortization, and excludes acquisition related and stock compensation expenses.

Eric DeMarco, President and Chief Executive Officer, said, "We believe that Kratos' performance in the fourth quarter, including our adjusted EBITDA of \$12.5 to \$13.0 million, is representative of a favorable program mix, as well as the mission critical national security nature of a significant portion of Kratos' work." Mr. DeMarco continued, "Additionally and importantly, the Kratos team has done an outstanding job integrating the acquisitions we made during 2010, with most of the integration activities now being complete. We have realized significant synergies across the business from the successful integration efforts, and we are seeing margin expansion as a result of leverage on our fixed public company costs as our business grows."

The financial results included in this release are preliminary and unaudited.

Management will discuss the preliminary financial results in a conference call beginning at 1:30 p.m. Pacific (4:30 p.m. Eastern) today.

Management will discuss the preliminary financial results in a conference call beginning at 1:30 p.m. Pacific (4:30 p.m. Eastern) today. Analysts and institutional investors may participate on the conference call by dialing (877) 331-4217 and referencing the call by ID number 41556648. Please visit [www.kratosdefense.com](http://www.kratosdefense.com) for a simultaneous webcast. A replay of the webcast will be available on the Kratos' web site approximately two hours after the conclusion of the conference call.

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Kratos will publish its complete financial results for the fourth quarter and fiscal 2010 after the close of market on Tuesday, March 1, 2011.

## **About Kratos Defense & Security Solutions**

Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS) is a specialized National Security business providing mission critical products, services and solutions for United States National Security priorities. Kratos' core capabilities are sophisticated engineering, manufacturing and system integration offerings for National Security platforms and programs. Kratos' areas of expertise include C5ISR, unmanned systems, cyber warfare, cyber security, information assurance, critical infrastructure security and weapons systems sustainment. Kratos has primarily an engineering and technical oriented work force of approximately 2,800, the majority of which hold an active National Security clearance. The vast majority of Kratos' work is performed on a military base, in a secure facility or at a critical infrastructure location. Kratos' primary end customers are United States Federal Government agencies, including the Department of Defense, classified agencies, intelligence agencies and Homeland Security related agencies.

## **Notice Regarding Forward-Looking Statements**

Certain statements in this press release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to a variety of matters, including, without limitation, the Company's expectations regarding financial performance and other statements that are not purely statements of historical fact. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the management of Kratos and are subject to significant risks and uncertainty. Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update or revise these statements, whether as a result of new information, future events or otherwise. For a further discussion of risks and uncertainties that could cause actual results to differ from those expressed in these forward-looking statements, as well as risks relating to the business of Kratos in general, see the risk disclosures in the Annual Report on Form 10-K of Kratos for the year ended December 27, 2009, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.

## **Note Regarding Use of Non-GAAP Financial Measures**

*Certain of the information set forth herein, including adjusted EBITDA, excluding transaction and other acquisition costs and stock compensation expense, and the associated margin rates, are considered non-GAAP financial measures. Kratos believes this information is useful to investors because it provides a basis for measuring the Company's available capital resources, the operating performance of the Company's business and the Company's cash flow, excluding non-operational items and non-cash items that would normally be included in the most directly comparable measures calculated and presented in accordance with GAAP. The Company's management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating the Company's operating performance and capital resources and cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-financial measures as reported by the Company may not be comparable to similarly titled amounts reported by other companies.*

The issuer has filed a registration statement (including a prospectus) and a preliminary prospectus supplement with the SEC for an underwritten public offering. Before you invest in such offering, you should read the preliminary prospectus supplement, including the base registration statement (and accompanying prospectus), and other documents the issuer has filed with the SEC for more complete information about the issuer and the offering. You may get these documents for free by visiting EDGAR on the SEC Web site at [www.sec.gov](http://www.sec.gov). Alternatively, the issuer or any underwriter participating in the offering will arrange to send you the preliminary prospectus supplement and accompanying prospectus if you request them by calling toll-free (877) 547-6340.

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## QuickLinks

[Exhibit 99.1](#)



**Press Contact:**  
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FOR IMMEDIATE RELEASE

**KRATOS DEFENSE & SECURITY SOLUTIONS, INC. TO ACQUIRE  
HERLEY INDUSTRIES, INC.**

**Herley is a Leading Supplier of RF and Microwave Integrated Systems and Electronic Components Used in Command and Control Systems, Electronic Warfare Systems, Weapons Sensors and Other Defense Industry Systems**

**TRANSACTION EXPECTED TO BE ACCRETIVE TO EPS, MARGINS AND CASH FLOW**

**SAN DIEGO, CA, February 7, 2011**—Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading National Security Solutions provider, today announced that it has entered into a definitive agreement to acquire all of the outstanding stock of Herley Industries, Inc. (NASDAQ: HRLY). Herley is a leading provider of microwave based products and technologies for use in Command and Control Systems, Weapons Systems, Electronic Warfare Systems, and Radar and Communications Systems. Herley's products have established positions in numerous defense platforms, including manned and unmanned aircraft, tactical and ballistic missiles, sensor based and radar platforms, electronic warfare systems, electronic attack systems and representative threat systems. The transaction is expected to be accretive to Kratos' Earnings Per Share, Margins and Cash Flow, excluding transaction and financing related costs.

Pursuant to the terms of the definitive agreement, Kratos will commence a cash tender offer for all issued and outstanding shares of Herley common stock at \$19.00 per share, without interest. The purchase price will be approximately \$270 million in cash. The closing of the transaction is subject to customary closing conditions, including early termination under the Hart-Scott-Rodino antitrust Improvement Act of 1976. In connection with the acquisition, Kratos has been provided with firm commitments for a debt financing in an aggregate principal amount of up to \$307.5 million by Jefferies Group Inc., Key Capital Corporation and OPY Credit Co., an affiliate of Oppenheimer & Co. Inc., on a several and not joint basis.

Eric DeMarco, President & CEO of Kratos, said, "The signing of the merger agreement between Kratos and Herley is a defining day for both organizations, as two of the premier Defense and National Security businesses in the industry today, with expertise in C5ISR, weapons systems sustainment and specialized National Security programs, join forces." DeMarco continued, "The leadership teams of both Kratos and Herley are excited about this transaction and the new business opportunities we hope to pursue together, with key Herley operational management expected to continue their employment with Kratos."

Oppenheimer & Co. Inc. is acting as the exclusive financial advisor to Kratos in the acquisition of Herley.

Management will discuss the transaction and Herley's product offerings in a conference call beginning at 1:30 p.m. Pacific (4:30 p.m. Eastern) today.

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Analysts and institutional investors may participate on the conference call by dialing (877) 331-4217 and referencing the call by ID number 41556648. Please visit [www.kratosdefense.com](http://www.kratosdefense.com) for a simultaneous webcast. A replay of the webcast will be available on the Kratos' web site approximately two hours after the conclusion of the conference call.

## **About Kratos Defense & Security Solutions**

Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS) is a specialized National Security business providing mission critical products, services and solutions for United States National Security priorities. Kratos' core capabilities are sophisticated engineering, manufacturing and system integration offerings for National Security platforms and programs. Kratos' areas of expertise include C5ISR, unmanned systems, cyber warfare, cyber security, information assurance, critical infrastructure security and weapons systems sustainment. Kratos has primarily an engineering and technical oriented work force of approximately 2,800, the majority of which hold an active National Security clearance. The vast majority of Kratos' work is performed on a military base, in a secure facility or at a critical infrastructure location. Kratos' primary end customers are United States Federal Government agencies, including the Department of Defense, classified agencies, intelligence agencies and Homeland Security related agencies.

## **Notice Regarding Forward-Looking Statements**

Certain statements in this press release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to a variety of matters, including, without limitation, the benefits and synergies expected to result from the acquisition and other statements that are not purely statements of historical fact. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the management of Kratos and are subject to significant risks and uncertainty. Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update or revise these statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from the forward-looking statements contained herein include, but are not limited to: any operational or cultural difficulties associated with the integration of the businesses of Kratos and Herley; potential adverse reactions or changes to business relationships resulting from the acquisition; unexpected costs, charges or expenses resulting from the acquisition; litigation or adverse judgments relating to the acquisition; the failure to realize synergies and cost savings from the transaction or delay in realization thereof; and any changes in general economic and/or industry-specific conditions. In addition the pending acquisition of Herley may not be completed at all or may not be completed on time. For a further discussion of risks and uncertainties that could cause actual results to differ from those expressed in these forward-looking statements, as well as risks relating to the business of Kratos in general, see the risk disclosures in the Annual Report on Form 10-K of Kratos for the year ended December 27, 2009, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.

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## **Additional Information and Where to Find It**

This press release is neither an offer to purchase nor a solicitation of an offer to sell securities. The tender offer for the shares of Herley Common Stock has not commenced. The Company intends to file a tender offer statement on Schedule TO with the SEC, and Herley also intends to file a solicitation/recommendation statement on Schedule 14D-9, with respect to the tender offer described in this press release. Any offers to purchase or solicitations of offers to sell will be made only pursuant to such tender offer statement. The tender offer statement (including an offer to purchase, a related letter of transmittal and other offer documents) and the related solicitation/recommendation statement will contain important information, including the various terms of, and conditions to, the tender offer, that should be read carefully by Herley's stockholders before they make any decision with respect to the tender offer. Such materials, when prepared and ready for release, will be made available to Herley's stockholders at no expense to them. In addition, at such time such materials (and all other offer documents filed with the SEC) will be available at no charge on the SEC's Web site: [www.sec.gov](http://www.sec.gov) and may also be obtained by directing a request to the Corporate Secretary of Kratos Defense & Security Solutions, Inc., at (858) 812-7300.

The issuer has filed a registration statement (including a prospectus) and a preliminary prospectus supplement with the SEC for an underwritten public offering in connection with its proposed acquisition of Herley. Before you invest in such offering, you should read the preliminary prospectus supplement, including the base registration statement (and accompanying prospectus), and other documents the issuer has filed with the SEC for more complete information about the issuer and the offering. You may get these documents for free by visiting EDGAR on the SEC Web site at [www.sec.gov](http://www.sec.gov). Alternatively, the issuer or any underwriter participating in the offering will arrange to send you the preliminary prospectus supplement and accompanying prospectus if you request them by calling toll-free (877) 547-6340.

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## QuickLinks

[Exhibit 99.2](#)



**Press Contact:**  
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FOR IMMEDIATE RELEASE

**KRATOS DEFENSE & SECURITY SOLUTIONS, INC. ANNOUNCES PROPOSED PUBLIC OFFERING OF COMMON STOCK**

**SAN DIEGO, CA, February 7, 2011**—Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading national security solutions provider, announced today that it intends to offer and sell, subject to market and other conditions, shares of its common stock in an underwritten public offering pursuant to an effective shelf registration statement. All of the shares in the offering are to be sold by Kratos. In connection with the offering, Jefferies & Co., Inc. is acting as sole book-running manager, B. Riley & Co., LLC is acting as lead manager and Oppenheimer & Co. Inc., Imperial Capital and Noble Financial Capital are acting as co-managers.

A shelf registration statement relating to the shares of common stock to be issued in the proposed offering was filed with the Securities and Exchange Commission (SEC) and is effective. Information about the offering is available in the preliminary prospectus supplement to be filed with the SEC. This press release does not constitute an offer to sell, or the solicitation of an offer to buy, these securities, nor will there be any sale of these securities in any state or other jurisdiction in which such offer, solicitation or sale is not permitted.

Copies of the preliminary prospectus supplement and accompanying prospectus have been filed with the Securities and Exchange Commission and may be obtained by contacting the Equity Syndicate Prospectus Department, Jefferies & Company, Inc., 520 Madison Avenue, 12th Floor, New York, NY, 10022 at (877) 547-6340 and at [Prospectus\\_Department@Jefferies.com](mailto:Prospectus_Department@Jefferies.com).

**About Kratos Defense & Security Solutions**

Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS) is a specialized national security business providing mission critical products, services and solutions for United States National Security priorities. Kratos' core capabilities are sophisticated engineering, manufacturing and system integration offerings for national security platforms and programs. Kratos' areas of expertise include C5ISR, unmanned systems, cyber warfare, cyber security, information assurance, critical infrastructure security and weapons systems sustainment. Kratos has primarily an engineering and technical oriented work force of approximately 2,800, the majority of which hold an active national security clearance. Kratos' primary end customers are United States Federal Government agencies, including the Department of Defense, classified agencies, intelligence agencies and Homeland Security related agencies.

**Notice Regarding Forward-Looking Statements**

Certain statements in this press release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to a variety of matters, including, without limitation, the Company's expectations regarding the sale of shares of its common stock in the proposed public offering and other statements that are not purely statements of historical fact. These forward-looking statements are made on the basis of the current beliefs,

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expectations and assumptions of the management of Kratos and are subject to significant risks and uncertainty. Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update or revise these statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from the forward-looking statements contained herein include, but are not limited to: risks and uncertainties related to market conditions and the satisfaction of customary closing conditions related to the proposed public offering. There can be no assurance that Kratos will be able to complete the proposed public offering on the anticipated terms, or at all. For a further discussion of risks and uncertainties that could cause actual results to differ from those expressed in these forward-looking statements, as well as risks relating to the business of Kratos in general, see the risk disclosures in the Annual Report on Form 10-K of Kratos for the year ended December 27, 2009, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.

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## QuickLinks

[Exhibit 99.3](#)

**Herley Announcement and Q410 Pre-Announcement Conference Call Script****MONDAY, February 7, 2011****LAURA**

Good afternoon, everyone, and thank you for joining us for the Kratos Defense & Security Solutions Call to discuss our announcements that we entered into a definitive agreement to acquire Herley Industries, Inc., and to provide preliminary fourth quarter revenue and EBITDA results.

With me today is Eric DeMarco, Kratos' President and Chief Executive Officer, Deanna Lund, Kratos' Executive Vice President and Chief Financial Officer, Richard Selvaggio, Kratos' Weapons Systems President, and Stacey Rock, Kratos' Weapons Systems Senior Vice President and Chief Technology Officer.

Before we begin the substance of today's call, I'd like to make some brief introductory comments:

Earlier this afternoon, we issued a press release which outlines the topics we plan to discuss today. If anyone has not yet seen a copy of this press release, it is available on EDGAR as an exhibit to the 8-K we recently filed. Additionally, I'd like to remind our listeners that this conference call is open to the media and we are providing a simultaneous webcast of this call for the public. A replay of our discussion will be available on the Company's web site later today.

During this call, we will discuss some factors that are likely to influence our business going forward. These forward-looking statements may include comments about our plans and expectations of future performance for Kratos as well as for the pending acquisition of Herley. These plans and expectations are subject to risks and uncertainties which could cause actual results to differ materially from those suggested by our forward looking statements. Specifically, we signed a definitive agreement to acquire Herley today and there are no assurances that the acquisition of Herley will be completed or completed on time. All of our statements with respect to the expected impact of the acquisition of Herley on our business are subject to the risk that the acquisition may not be completed at all or may not be completed on the expected timeline.

We encourage all of our listeners to review our SEC filings, including our most recent 10-Q and 10-K, and any of our other SEC filings for a more complete description of these risks. A partial list of these important risk factors is included at the end of the press release we issued today. Our statements on this call are made as of February 7, 2011, and the Company undertakes no obligation to revise or update publicly any of the forward-looking statements contained herein, whether as a result of new information, future events, changes and expectations, or otherwise, for any reason.

This conference call will include a discussion of "non-GAAP financial measures" as that term is defined in Regulation G. Certain of the information discussed, including, EBITDA, Adjusted EBITDA and the associated margin rates are considered non-GAAP financial measures. Kratos believes this information is useful to investors because it provides a basis for measuring the Company's available capital resources, the operating performance of the Company's business and the Company's cash flow, excluding extraordinary items and non-cash and non-operational items that would normally be included in the most directly comparable measures calculated and presented in accordance with generally accepted accounting principles. The Company's management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating the Company's operating performance, capital resources and cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-financial measures as reported by the Company may not be comparable to similarly titled amounts reported by other companies.

Separately, we announced today that we are in the process of conducting a public offering of our common stock. Kratos has filed a registration statement (including a prospectus) and a preliminary

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prospectus supplement with the SEC for an underwritten public offering in connection with its proposed acquisition of Herley as well as for general corporate purposes. Before you invest in such offering, you should read the preliminary prospectus supplement, including the base registration statement (and accompanying prospectus), and other documents the issuer has filed with the SEC for more complete information about the issuer and the offering. You may get these documents for free by visiting EDGAR on the SEC Web site at [www.sec.gov](http://www.sec.gov). Alternatively, the issuer or any underwriter participating in the offering will arrange to send you the preliminary prospectus supplement and accompanying prospectus if you request them by calling toll-free (877) 547-6340.

In addition you should note that the tender offer for the shares of Herley Common Stock has not commenced. The Company intends to file a tender offer statement on Schedule TO with the SEC, and Herley also intends to file a solicitation/recommendation statement on Schedule 14D-9, with respect to the tender offer described in this Current Report on Form 8-K and the exhibits attached hereto. Any offers to purchase or solicitations of offers to sell will be made only pursuant to such tender offer statement. The tender offer statement (including an offer to purchase, a related letter of transmittal and other offer documents) and the related solicitation/recommendation statement will contain important information, including the various terms of, and conditions to, the tender offer, that should be read carefully by Herley's stockholders before they make any decision with respect to the tender offer. Such materials, when prepared and ready for release, will be made available to Herley's stockholders at no expense to them. In addition, at such time such materials (and all other offer documents filed with the SEC) will be available at no charge on the SEC's Web site: [www.sec.gov](http://www.sec.gov) and may also be obtained by directing a request to the Corporate Secretary of Kratos Defense & Security Solutions, Inc., at (858) 812-7300.

Finally, certain statements in this conference call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to a variety of matters, including, without limitation, the Company's expectations regarding financial performance and other statements that are not purely statements of historical fact, the benefits and synergies expected to result from the acquisition and other statements that are not purely statements of historical fact. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the management of Kratos and are subject to significant risks and uncertainty. Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update or revise these statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from the forward-looking statements contained herein include, but are not limited to: any operational or cultural difficulties associated with the integration of the businesses of Kratos and Herley; potential adverse reactions or changes to business relationships resulting from the acquisition; unexpected costs, charges or expenses resulting from the acquisition; litigation or adverse judgments relating to the acquisition; the failure to realize synergies and cost savings from the transaction or delay in realization thereof; and any changes in general economic and/or industry-specific conditions. For a further discussion of risks and uncertainties that could cause actual results to differ from those expressed in these forward-looking statements, as well as risks relating to the business of Kratos in general, see the risk disclosures in the Annual Report on Form 10-K of Kratos for the year ended December 27, 2009, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.

In today's call, Ms. Lund will discuss our preliminary financial results for the Fourth Quarter and Full Year of 2010. Mr. DeMarco will then discuss the pending transaction of Herley Industries, Inc., provide a summary of Herley's primary product offerings and will discuss our plans to fund the transaction, and Mr. Selvaggio and Mr. Rock will provide a more detailed description of the strategic rationale of the Herley transaction, including a detailed discussion of the key programs that Herley is involved in.

With that said, it is my pleasure to turn the call over to Ms. Lund.

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## DEANNA

Thank you Laura;

Good afternoon

Today we reported preliminary operating results for the fourth quarter of \$120 to \$122 million of revenues and adjusted EBITDA of \$12.5 to \$13.0 million, which equates to an adjusted EBITDA margin of 10.2% to 10.8%. For the full year, preliminary operating results are \$407.7 to \$409.7 million in revenues and adjusted EBITDA of \$39.3 to \$39.8 million, or 9.6% to 9.8% of revenues.

The adjusted EBITDA margin rate range of 10.2% to 10.8% for the fourth quarter of 2010 compares sequentially to an adjusted EBITDA margin of 9.8% in the third quarter of 2010. On a year-over-year basis, the adjusted EBITDA margin rate of 9.6% to 9.8% for full year 2010 has improved sequentially from 6.4% for calendar 2008 and 7.4% for calendar 2009.

The improvement in operating margins and adjusted EBITDA reflects a favorable contract mix of revenues, the continued leverage of the Company's SG&A infrastructure as the business grows, and the continued successful integration of businesses we have acquired.

From a cash flow perspective, we generated approximately \$3 million for the fourth quarter of cash flow from operations, and approximately \$28 million for calendar 2010. From a liquidity standpoint at December 26, 2010, we had cash on hand of approximately \$10 million and debt outstanding on our senior notes of \$225 million, or net debt of \$215 million.

As you may recall when we issued the senior notes in May of 2010 to acquire Gichner and refinance our existing debt, our leverage ratio was approximately 5.2 times. As a result of the contributions of EBITDA growth both from an acquisition and organic standpoint, our leverage at year end is approximately 4.1 times, as defined in accordance with the Senior Notes agreement.

With regards to the Herley transaction, we believe that the proposed transaction will be accretive to our EPS, based upon the cash taxes we will pay, excluding transaction expenses which are required to be expensed, and based on current debt market conditions. As we have discussed previously, we believe that it is most meaningful to focus on our cash tax payments rather than our GAAP tax provision which can fluctuate due to the full valuation allowance or reserve on our deferred tax assets.

In closing, as our operating results are preliminary, we will provide additional details of our final operating results when we report our fourth quarter and full year earnings, which is scheduled for Tuesday, March 1st.

With that, I'll turn it over to Eric to discuss the pending transaction with Herley, and to provide a summary of Herley's product offerings and finally, to discuss our plans to fund the transaction.

## ERIC

Thank you Deanna.

Today we provided preliminary fourth quarter revenue and EBITDA estimated results.

We wanted to report this information along with the acquisition announcement, and as we execute the equity offering.

Before we discuss the acquisition of Herley, I want to reiterate an important point that Deanna made a moment ago regarding the successful integration of the previous acquisitions that we have made.

Kratos has an outstanding team of executives and managers that are experts in M&A, and in the related integration process.

One of the primary reasons Kratos had such a strong fourth quarter, and fiscal 2010, is due to the continued successful integration of these acquisitions, the elimination or reduction of redundant costs by our team, and the ability to generate significant free cash flow from operations as we reported today.

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With that said, let's talk about our pending acquisition of Herley.

Herley is a leading provider of electronic systems, sub systems and components, specifically in microwave and millimeter wave technologies serving the global defense industry.

Herley was founded in 1965 and has approximately 1000 employees, a significant number of which are engineering or technical in nature.

Herley is one of the very few pure play Electronic Warfare and Electronic Attack product and solution providers in the market space today.

Herley is in well funded, high priority, mission critical areas of National Security and for the Department of Defense.

And Herley is a direct supplier to all service Branches of the U.S. Military, and a first-tier supplier to all prime defense contractors.

Herley's products are key to United States National Security and are crucial to mission-critical applications, including:

Electronic Warfare Systems  
Electronic Attack Systems

Neutralization of potential adversaries' electronic warfare systems, weapon systems and command and control systems

Herley products are also critical to:

Aerial Electronic Warfare and Electronic Attack  
Electronic Warfare Threat and Radar simulators

Aerial EW and EA Platforms, including both manned and unmanned platforms

And to numerous entrenched and long lived weapons systems and weapons platforms, the vast majority of which Kratos is familiar with.

Examples of the platforms that Herley's products support in the Electronic Attack, Electronic warfare, Radar, Threat Neutralization and Threat Simulation areas are the F-16, EA-18, F-18, AMRAAM and the Trident Ballistic Missile.

Herley products also support the F-15, the EA-6B Electronic Warfare platform, the Light Airborne Multipurpose System or LAMPS sonar detection platform, and the P-8A Poseidon Anti-submarine warfare platform.

Specifically related to the programmatic and organizational fit of Herley with Kratos, this morning we have with us Richard Selvaggio, President of Kratos' Weapons Systems Business, and Stacey Rock, Weapons Systems Senior Vice President, and one of the leading technical and engineering executives in our company.

In a few minutes, Richard and Stacey will discuss with you in additional detail:

The incredible complementary fit between Herley and Kratos

The potential customer leverage that we see between the two businesses

The organic growth opportunities we see between the businesses

The major Herley programs, and the long term, stable, recurring revenue streams generated by these programs

And finally, the enabling technologies between the two companies, and the future mission critical platforms and programs that we will be pursuing.

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There are many reasons why this is just an outstanding opportunity for Kratos, including the following:

The majority of Herley's business is single-source, and entrenched on mission critical National Security Platforms

Herley is also very diversified across these mission critical platforms, with no one program making up greater than 8% of Herley's sales, and, on a combined basis, no Herley platform comprising more than approximately 3% of the combined Kratos/Herley businesses total revenue.

Herley's products are sold to numerous foreign militaries, and we see significant Foreign Military Sales opportunities for Herley when combined with Kratos.

In total, Herley products are embedded on over 120 individual platforms.

Additionally, there are extremely high barriers to entry to the type of business Herley is involved in, including:

- Technology superiority

- Engineering and Specialty personnel

- Customer relationships, customer trust and the potential risks associated with customers going to new, unproven suppliers

- And the fact that, once these extremely high technology based systems are designed into major platforms or programs, they are extremely difficult to be displaced

From a strategic fit standpoint, Herley's business is focused on providing products to National Security and Defense related platforms that Kratos has experience with, has worked on or supported, or that we are familiar with.

As Stacey and Richard will discuss with you in some detail, Herley's existing products primarily support Fielded Systems that are solidly funded, like the F-18, the Trident Missile, the AMRAAM and the EA-18 Growler, as well as products that are embedded in United States and Foreign Military Sales customers' arsenals, and will be for the foreseeable future.

Herley's New Business Pipeline is very strong, as is to be expected, with Herley's products and technology being focused on well funded, mission critical National Security priority areas, including:

- Intelligence, Surveillance and Reconnaissance

- Command and Control

- Electronic Warfare

- Electronic Attack

- Advanced Radars

- And Electronic Cyber Attack

Once the transaction Closes, Herley will be integrated with Kratos' Weapons Systems Business

Kratos' Weapons Systems Business is where Kratos currently works with, or supports, many of the same types of platforms and programs that Herley currently supports, including:

- Manned and unmanned aircraft

- Tactical and Ballistic Missiles

- Sensor and Radar based platforms

- And Aerial Targets

Kratos WSS business is also where Kratos performs most of our Foreign Military Sales Business, and as I mentioned before, where we see significant future opportunity with Herley.

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Additionally, and very importantly, the general managers of Herley's largest divisions, including Herley's President and CEO, have all agreed to remain with Kratos after the transaction.

I would now like to introduce Richard Selvaggio, President of the Kratos Weapon Systems Solutions Division, which is headquartered in Huntsville Alabama.

Richard has over 25 years of experience in engineering, manufacturing and product support of military weapon systems and their associated ground support equipment, including the:

- US Army Air Defense Missile System Maintenance—4 Years
- Ford Aerospace for 12 Years working with Missiles/Missile Systems & Electro-Optical Sensors
- Madison Research/Kratos for 15 Years working with Missiles/Missile Systems
- BS in Computer Science

Richard has extensive international product support experience, specifically in the US Army Foreign Military Sales (FMS) programs including:

- Sidewinder—Asia & Middle East
- AMRAAM—Europe
- HAWK—Europe & Middle East
- Chaparral—Europe, Middle East & Asia
- Avenger—Europe & Middle East

And Mr. Stacey Rock, Senior Vice President and Chief Technology Officer of the Kratos Weapon Systems Solutions Division.

Stacey has over 20 years' experience in research, development and engineering in the aerospace and defense industry, including with:

The U.S. Air Force Arnold Engineering Development Center for 3 years

- CFD Research—6 years
- L-3 Communications/SYColeman—3 years
- Kratos/Digital Fusion—6 years

North Carolina State University—2 years BS and MS in Aerospace Engineering

Stacey has broad-based experience in research and development supporting manned and unmanned air vehicles, tactical missiles, hypersonic and reentry systems, advanced optical sensors, ground and flight test programs, airborne sensor development, chemical and biological sensors, and multi-disciplinary weapons analysis.

Organizations supported include U.S. Army SMDC, U.S. Army AMRDEC, the Missile Defense Agency (MDA), Missile & Space Intelligence Center (MSIC/DIA), Air Force Research Laboratory (AFRL), Office of Naval Research (ONR), and NASA.

I am Richard Selvaggio, President of the Kratos Weapon Systems Solutions Division which is headquartered in Huntsville Alabama.

I am extremely pleased and excited to welcome Herley to the Weapon Systems Solutions Division.

Consistent with our defined acquisition strategies, the acquisition of Herley Inc. will continue to expand our Division product offerings with a focus on platform sustainment and technology insertion.

The Weapon Systems Solutions Division is the largest division within Kratos Defense & Security Solutions, with an array of products and services to provide lifecycle support for weapon system platforms.

As a premier mid-tier platform solutions provider, Kratos WSS has extensive technical expertise on multiple aviation and ground based weapons platforms as well as an extremely talented advanced technologies engineering capability.

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Our extensive current customer base includes the US Army Aviation & Missile Command, US Army Space and Missile Defense Command and the DOD Missile Defense Agency which are located in Huntsville Alabama.

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Additionally, we have extensive presence in the International arena by virtue of multiple Foreign Military Sales programs whereby we are supporting US Allied nations fielded weapon systems.

Our Division senior leadership has years of experience in weapon systems and their respective platforms. The diversity of our senior leadership experience, from OEM providers such as Lockheed Martin and Ford Aerospace, to small research and development entities, provides the division with the leadership and technical expertise to embark in all facets of weapon system lifecycle support.

I would like to briefly discuss our Strategic Rationale in acquiring Herley, the synergies created by the acquisition, and the operational program and technology highlights. Specific platforms, synergies and enabling technologies will be presented by Mr. Stacey Rock, Senior Vice President of Weapon Systems Solutions and the Division's Chief Technology Officer.

Programs and technologies discussed today are a sampling of the total as security and confidentiality restrictions limit the disclosure of many current and future programs.

Kratos' WSS acquisition business strategy focuses on six primary objectives:

- Primarily on weapon platforms
- Does not compete/overlap with existing products business
- Kratos can leverage existing customer relationships for product expansion
- Upside/potential in the international/FMS market
- Fielded and/or legacy weapon platforms
- Substantial and proven historical performance in terms of delivery, revenue, and margin

Consistent with our approach, Herley brings a wealth of platform expertise and diversification to the division.

With Herley's integrated microwave assembly products, we add a unique aspect to our WSS weapon platform product offerings, thereby increasing our ability to gain market share in the lifecycle support & platform sustainment market.

Our simulation & modeling expertise will be leveraged to accelerate Herley's strategic growth initiatives in this area.

We will leverage our current International tactical missile operations to grow current Herley strategic initiatives specifically in tactical missile programs.

Herley supports a wealth of fielded weapon platforms that will be deployed with the US and Foreign Allied Nations for decades.

Herley is one of the major providers in their product market space, with decades of proven performance and substantial intellectual property.

The addition of Herley provides Kratos WSS with expanded capabilities to provide both product and technology support to the Warfighter weapon system platforms.

- Microwave signals are electromagnetic waves with high frequencies (500 MHz to 300 GHz) and short wavelengths; ~35 percent of all terrestrial communication is maintained by microwave radio relay systems
- Microwave has the capacity to broadcast great quantities of information because of its higher frequencies

Integrated microwave assemblies enhance overall system performance by combining a number of system functions within one module. This offers exceptional advantages in system performance, including reduced module and system costs, reduced overall subsystem size and improved product functionality.

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Typical integrated assemblies include:

- Switched Filter Banks
- Transceiver modules
- Transponder modules
- Radar modules
- High power source modules
- Multi function modules

Herley is a significant player in the field of electronic warfare (EW), integrated microwave assemblies (IMAs), and subsystems for various weapon platforms, radar and communications systems, aerial targets, and test programs.

Herley delivers a leading position in both active and passive microwave subsystems and components capability; the acquisition establishes Kratos as a leading global supplier in the microwave arena.

Herley products can be found on multiple major US platforms, including F-16, F/A-18, F/A-22, P-8A, Trident Test Articles, and the Advanced Medium Range Air-to-Air Missile (AMRAAM).

The company brings excellent value to Kratos by virtue of its wealth of intellectual data and a compound annual revenue growth over the last two fiscal years of 18%, with growth expected to continue into the future.

I would like to now introduce Mr. Stacey Rock who will discuss several of the ongoing Herley programs as well as enabling technologies that will ensure technology insertion into the next generation of weapon system platforms and their associated supporting equipment.

[By Mr. Rock]

A large percentage of Herley's product and revenue base is obtained from supporting well established or legacy weapons platforms. I will discuss ten programs that demonstrate Herley's position on established and mission-critical platforms.

- Trident II D-5 Fleet Ballistic Missile—The Trident II is the U.S. Navy's submarine-launched intercontinental ballistic missile deployed on the Ohio Class submarines. Herley is a sole-source provider to Lockheed Martin providing telemetry and flight termination products. The Navy is executing a program to extend the operational life of the Trident II missile system to 2050. Herley's position on this platform is a prime example of supporting legacy systems with continuing and extended service lives.
  - Standard Missile-3 is the engagement element of the Aegis deployed Ballistic Missile Defense (BMD) system. The system integrates SM-3 with the Aegis Weapon System aboard U.S. Navy cruisers and destroyers to provide defense against short- to intermediate-range ballistic missile threats. Herley is a sole-source provider to Raytheon Missile Systems supporting flight termination system components. Production of the SM-3 will continue through 2018 with continued upgrades and cooperative programs between the U.S. and Japan.
  - Advanced Medium Range Air-to-Air Missile (AMRAAM)—AMRAAM is a combat-proven air-to-air missile system developed jointly by the U.S. Navy and U.S. Air Force. Herley has a twenty-year history supporting this program and is a sole-source provider to Raytheon and Harris Corporation for telemetry and flight test support products. AMRAAM has a scheduled service life beyond 2020 and has been fielded by 33 countries.
  - SH-60 LAMPS—The U.S. Navy's Light Airborne Multipurpose System employs the Sikorsky SH-60 Seahawk for anti-submarine and surface warfare missions. Herley provides a number of integrated microwave assemblies to Lockheed Martin and Telephonics in support of this program. Continued production and upgrades to this system are expected beyond 2015.
  - Air Force Subscale Aerial Target (AFSAT)—Stable production and deliveries of the U.S. Air Force's BQM-167 aerial target are planned through 2019. Herley has a long-term, single-source
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relationship with Composite Engineering Inc., the manufacturer of the BQM-167. Herley provides the airborne avionics suite and command & control systems. Significant international markets also exist for this product, specifically with South Korea and Taiwan.

- EA-18G Airborne Electronic Attack Aircraft—The EA-18G Growler, currently being delivered, is the U.S. Navy's next generation Airborne Electronic Attack Aircraft based on the F/A-18F Super Hornet. Herley provides various integrated microwave assemblies on this platform. A total procurement of 114 aircraft is planned through 2013 with future export opportunities including Australia. Similar to other programs, Herley has a long-term, single-source relationship with Northrop Grumman on this platform.
- P-8a Poseidon is the U.S. Navy's replacement for the aging P-3 Orion fleet. This Anti Submarine Warfare & ISR platform is based on the Boeing 737 airframe. Similar to the products provided for the EA-18G, Herley provides five distinct integrated microwave assemblies to Northrop Grumman under sole-source contracts. The U.S. Navy projects 117 aircraft to be delivered over the next decade. International sales of variants of the P-8 are also planned for India and Australia.
- RC-135 Rivet Joint Reconnaissance Aircraft is another example of Herley's long-term customer relationships supporting airborne electronic intelligence platforms. Herley provides microwave switch assemblies through L-3 Communications. Herley product deliveries are expected to continue over the next 3 to 5 years with the P-8 Poseidon being proposed as a potential replacement platform for the current Rivet Joint.
- F-16 Multi-role Fighter—Herley provides integrated microwave assemblies and components for the APG-<sup>66</sup>/68 Pulse-Doppler Radar and the Self Protection Electronic Warfare Suite (SPEWS). Although production on the F-16 has ceased for the U.S. Air Force, the program life has been extended through 2020. Additionally, over 1200 aircraft are in service with foreign air forces providing a large installed base for product upgrades and modifications. Additionally, the F-16 fleet may be required to stay in service longer than currently planned due to delays in the Joint Strike Fighter program.
- F/A-18 Super Hornet—Herley provides the Automatic Carrier Landing System for all variants of the F/A-18 including the F/A-18 E/F Super Hornet. Herley provides these products through sole-source contracts to the U.S. Navy. The projected service life for the F/A-18 platform extends beyond 2030 with anticipated spares and upgrades and the addition of international sales to Australia, Canada, Finland, Spain, and others.

As you can see from the representative platforms and products discussed, Herley is well positioned on fielded and legacy weapons systems with stable and recurring revenue as discussed previously in Kratos' strategic rationale for acquisitions.

The Weapon Systems Solutions (WSS) Division of Kratos is currently pursuing Advanced Technologies supporting UAV airframes and propulsion systems, high-altitude airships, advanced EO/IR sensors, MMW and THz systems, and manned aircraft systems. The WSS Division also continues to support the U.S. Army in the development, upgrade, and testing of a broad range of tactical missile systems. Similarly, Herley is investing in enabling technologies for related platforms and products. Examples of enabling technologies include broadband RF converters, direct digital components for high-frequency applications, low-power consumption devices, broadband digital RF memories, and nano and photonic technologies. These technologies are positioning Herley for programs across the UAV, Aviation, Tactical Missile, and Surface System platforms.

- Herley is leveraging expertise in integrated microwave assemblies to target new opportunities in the UAV platform arena. Programs of interest include the MQ-4C Broad Area Maritime Surveillance (BAMS), the MQ-1 Predator, and MQ-1C Grey Eagle Unmanned Aerial Systems. Technologies for broadband RF converters, low-power and small form factor components are contributing technologies.
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- In the aviation arena, Herley is building on proven expertise in electronic warfare systems to pursue next generation aviation platforms including the F-35 Joint Strike Fighter (JSF) and the Next Generation Jammer. These platforms under development now will be a critical component for the Airborne Electronic Attack mission for the next several decades. As such, Herley is well positioned from a technology and customer base to support these programs.
- While many of the tactical missile systems are established programs, the extended service life of these systems and the planned spiral upgrades create significant opportunity for product growth both in domestic and international markets. The Barak and Spyder are surface-to-air, anti-aircraft missile systems in development by foreign militaries. In addition, modifications, upgrades, and technology insertion will continue for SM-3 and AMRAAM and will continue to create continued and expanded product opportunities.
- In the area of surface systems, Herley is targeting both the Surface Electronic Warfare Improvement Program (SEWIP) and the Air and Missile Defense Radar. SEWIP is a spiral block program to provide improved fleet electronic warfare capability, and the Air and Missile Defense Radar is a scalable solid-state radar suite intended for future Naval surface combatants. Both of these platforms represent significant, future, and long-term business opportunities for Herley.

In summary, Herley is currently positioning for continued success on platforms across the UAV, Aviation, Tactical Missile, and Surface System areas. As these systems mature, these programs and platforms will transition to augment and replace current fielded and legacy systems supported by Herley. As such, Herley is investing in the technologies, products, and customer relationships to ensure continued success as a market leader in RF and microwave products.

[By Mr. DeMarco]

Thank You Richard and Stacey

From a financial standpoint, the transaction is accretive across virtually all Kratos financial matrices, including:

- Earnings Per share
- EBITDA Margins
- Operating Income margins
- Cash Flow

Herley has a track record of solid revenue growth generated from its leading positions on long term, well-funded defense programs.

From fiscal 2008 through Herley's fiscal 2010, Herley's compounded annual revenue growth rate was 17.6%

Herley generated record financial performance in fiscal 2010 as the company focused on solid fundamentals and execution

Herley's revenue in its fiscal 2010 was approximately \$188 million, a 17.5% increase above fiscal 2009.

For Herley's first fiscal 2011 quarter ended October 31, Herley reported revenue of approximately \$49 million, adjusted EBITDA of \$9.3 million, and a gross margin of 32.2%, the highest in its history.

From a cost synergy standpoint, we estimate approximately \$4 to \$5 million in annualized cost synergies, or approximately \$1.2 million in quarterly redundant public company and corporate cost synergies will be realized.

Herley also has a backlog of \$172 million, and a very strong bid and proposal backlog.

Very important to the financial model, cash flows and the deleveraging we are forecasting as we generate cash and reduce net debt, as you know, Kratos has approximately \$200 million of federal net operating loss carry forwards which expire through 2027.

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Kratos can utilize approximately \$28 million per year of these loss carry forwards each of the next 5 years to shield the combined Kratos/Herley pre-tax income from federal income taxes.

Kratos' NOL carry forwards will contribute to the strong cash flow the combined company will generate, substantially reducing the cash paid for income taxes, which will of course result in accelerated delevering.

As we reported today, Kratos alone generated approximately \$28 million in cash flow from operations in 2010, and combined with Herley, cash flow from operations will be significant.

Kratos also reported today fourth quarter adjusted EBITDA margins of 10.2% to 10.8%.

Herley's recently reported adjusted EBITDA margins are approximately 20%

The acquisition of Herley will be significantly accretive to Kratos' adjusted EBITDA margins.

Once again, you can see why Kratos is excited about this transaction

From a transaction valuation standpoint:

The purchase price is \$19.00 per share

The Total Enterprise Value to be paid, excluding fees, is approximately \$270 million, or approximately \$6.5X Total Enterprise Value to adjusted EBITDA

The Net Transaction Cost, including all costs and fees, is approximately \$305 million.

The total Net Transaction Cost purchase price multiple, to adjusted EBITDA, is approximately 7.3X.

Once again, the annual cost synergies expected to be realized by combining the businesses are approximately \$4 to \$5 million per year.

Related to the acquisition purchase price, we have a fully underwritten commitment letter from Jefferies, Key Bank and Oppenheimer for the full transaction enterprise value, plus the estimated transaction expenses of approximately \$35 million.

Although we have a commitment letter to fund the entire transaction, we expect to fund a portion of the transaction with the proceeds from the stock offering that we announced today.

We believe that this is the optimal positioning of our capital structure.

We plan to fund the remainder of the transaction value with proceeds from additional senior secured notes that we expect to issue in the next several weeks, which will be "tacked on" to Kratos' currently trading 7 year Bonds currently trading at approximately 110 to PAR, or at approximately 7.8%.

From a time line stand point, on or before February 25 we will commence a tender for the Herley shares.

Approximately 30 days after the commencement of the tender, we will seek to complete the debt financing and close the transaction.

We also do not anticipate any anti-trust, or HSR related issues.

From a delevering standpoint, it is extremely important here to re-emphasize Kratos' approximate \$200 million of net operating loss carry forwards, which we are currently forecasting to utilize approximately \$140 million over the next 5 years, significantly reducing federal income taxes paid by the combined Kratos/Herley business.

Additionally, as you know, similar to the Herley transaction, in May of 2010 Kratos acquired Gichner, issued bonds to finance the transaction, and had initial leverage at that time of approximately 5.2X.

As of December 31, 2010, Kratos' leverage was down to approximately 4X, from 5.2X just 8 months earlier, primarily due to growth in Kratos EBITDA and minimal income taxes paid due to Kratos NOL's.

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As demonstrated most recently with Gichner, which has turned out to be just an outstanding acquisition, a grand slam in my opinion thanks to Tom Mills and his team, Kratos has a proven record and management team in acquiring outstanding businesses at fair valuations, integrating the acquisitions and realizing significant synergies and cost savings, generating significant cash flow, and quickly delevering from the executed transaction.

As I mentioned previously, Herley's most recently reported backlog is \$172 million, and it has a strong Bid and Proposal Pipeline.

In addition to these strong indicators, I want to close today's prepared remarks with some recent publicly reported and available information that is directly related to Kratos and certain of Herley's programs and contracts:

Two of Herley's largest publicly reported programs are related to the F-18 and the Electronic Attack, EA-18 Growler.

The F/A-18F Super Hornet and EA-18G are both aircraft with significant Electronic Warfare capabilities

These aircraft are key components of the Navy's Airborne Electronic Attack Program

The EA-18 is scheduled to replace the Navy's EA-6B Prowler

In September, 2010, the US Navy ordered an additional 66 Super Hornets and 58 additional Electronic Attack Growlers, the production of which will go through at least 2016.

Additionally, as a result of recent continued delays in the F-35, as noted in the *Los Angeles Times* on February 4, 2011, Secretary Gates announced an order of at least an additional 41 F-18's.

Also, in the December 20, 2010 *Aerospace Daily and Defense Report*, in addition to these recent DoD orders for the F-18 and EA-18, there are a potential 350 additional orders for the F-18 from Foreign Military Sales customers, and that the F-18 program is expected to continue well into the 2020's.

In the January 31, 2011 edition of *Inside Defense*, it was reported that the United States Navy intends on sustaining the Trident II D5 missile through at least 2042.

The Trident D5 is a major Herley program.

Additionally, in the February 4, 2011 edition of the same periodical, it was reported that the Defense Acquisition Board has endorsed the plan for the Trident II D5 to be the missile for the next generation Ballistic Missile Submarine.

The January 10, 2011 *Aviation Week* stated that "The US military growth industries for the next decade will be the cyber, electronic warfare and ISR technology realms . . . ."

This is what Kratos and Herley are both focused on.

The industry and market news related to Electronic Warfare and Electronic attack has been substantive and accelerating recently, including as related to Electronic attack and Cyber, and I encourage all of you to read the January 21, 2011 *Wired.Com* article entitled "New Navy Jammer Could Invade Networks, Nuke Sites.", which addresses a lot of what we have been discussing with you today.

In closing, at Kratos we are building the premier National Security Business in the industry today.

We have successfully executed on our strategic plan to date, successfully integrating our previous acquisitions, and substantially and sequentially increasing our EBITDA margin rates and cash flows

Our target top line, or revenue organic growth rate remains at 4%-6%, even in the current challenging economic environment, as we believe that we are focused on long term, mission critical, and National Security priorities.

We currently have a number of large proposals outstanding which we hope to hear on in the next few months, and we will keep you apprised of their status.

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I apologize that we are unable to take questions at this time. This is due to the concurrent transactions that we are currently executing.

Deanna and I will both be at the Cowen Conference in New York on Wednesday of this week, where our presentation will be web cast, and we will be able to address all questions at that time

We look forward to updating you on the progress of the transaction and on reporting our final fourth quarter and full year financial results.

Eric

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