

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 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): **August 27, 2009**

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation)

0-27231
(Commission
File Number)

13-3818604
(I.R.S. Employer
Identification Number)

4810 Eastgate Mall
San Diego, CA 92121
(Address of Principal Executive Offices) (Zip Code)

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

(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 (see General Instruction A.2. below):

- 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))

Item 1.01. Entry into a Material Definitive Agreement

On August 27, 2009, Kratos Defense & Security Solutions, Inc. (the "Company") entered into a placement agent agreement with B. Riley & Co., LLC (the "Placement Agent") relating to the sale and issuance by the Company of approximately 26 million shares of the Company's common stock to certain institutional investors. The shares of common stock will be sold at a purchase price of \$0.72 per share, for an aggregate purchase price of approximately \$18.7 million. The closing of the offering is expected to take place on September 2, 2009, subject to the satisfaction of customary closing conditions.

The shares of common stock are being offered and sold pursuant to a prospectus dated August 21, 2009 and a prospectus supplement dated August 28, 2009, pursuant to the Company's registration statement on Form S-3, as amended (File No. 333-161340), which was declared effective by the Securities and Exchange Commission on August 21, 2009. A copy of the opinion of Morrison & Foerster LLP relating to the legality of the issuance and sale of the common stock in the offering is attached as Exhibit 5.1 hereto.

Pursuant to the terms of the placement agent agreement, the Company will pay the Placement Agent a cash fee equal to 5% of the gross proceeds from the offering, plus expenses. The foregoing description of the placement agent agreement does not purport to be complete and is qualified in its entirety by reference to the Exhibit 10.1 hereto, which is incorporated by reference herein.

On August 28, 2009, the Company issued a press release announcing the pricing of the offering and the execution of the placement agent agreement. A copy of the press release is attached as Exhibit 99.1 hereto.

As previously disclosed, on June 4, 2009, the Company filed a complaint in the United States District Court for the Northern District of Ohio against the lenders under its credit agreement, seeking equitable relief in the form of reformation of an error in a contract schedule. The error resulted from the erroneous preparation of a schedule to the loan documents consisting of calculations relating to a financial covenant relating to the minimum liquidity ratio.

On August 27, 2009, the Company entered into a term sheet, which was negotiated under the jurisdiction of the United States District Court for the Northern District of Ohio, under which the parties intend to settle this dispute. The term sheet provides that a definitive settlement agreement will be negotiated and executed on or before September 27, 2009 and, if executed, would effect the reformation of the minimum liquidity ratio in accordance with the

Company's request. The term sheet also requires that the Company use the net proceeds from the sale of the securities in the offering to pay down the first term loan at par with no prepayment penalty or make whole payments. The term sheet also provides that the Company will agree to pay a fee of \$500,000 to its lenders in connection with the execution of a definitive settlement agreement and that the lenders will extend the term of the revolving line of credit by one year to December 31, 2012. In addition, the term sheet provides, among other things, that the parties will execute and deliver mutual releases. The amendments described in this paragraph will not be effective unless and until the parties have executed a definitive settlement agreement, and the Company can provide no assurance that a definitive settlement agreement will be entered into on the anticipated terms, or at all.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information set forth in the last two paragraphs of Item 1.01 is hereby incorporated by reference into this Item 2.03.

Item 8.01. Other Information.

Attached as Exhibit 99.2 hereto is the Company's investor presentation used in the offering.

Attached as Exhibit 21.1 is a list of the Company's current subsidiaries updating such exhibit incorporated by reference into the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2008 filed with the Securities and Exchange Commission on March 10, 2009.

Item 9.01 Financial Statements and Exhibits.

(d) *Exhibits.*

- 5.1 Opinion of Morrison & Foerster LLP
- 10.1 Placement Agent Agreement, dated as of August 27, 2009, by and between Kratos Defense & Security Solutions, Inc. and B. Riley & Co., LLC
- 21.1 Subsidiaries of the Company
- 23.1 Consent of Morrison & Foerster LLP (included in Exhibit 5.1)
- 99.1 Press Release dated August 28, 2009
- 99.2 Investor Presentation

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SIGNATURES

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

Date: August 28, 2009

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

By: /s/ Laura Siegal
Laura Siegal
Vice President, Corporate Controller and Principal Accounting Officer

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EXHIBIT INDEX

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MORRISON & FOERSTER LLP

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DENVER, NORTHERN VIRGINIA,
ORANGE COUNTY, SACRAMENTO,
WALNUT CREEK, CENTURY CITY

TOKYO, LONDON, BEIJING,
SHANGHAI, HONG KONG,
SINGAPORE, BRUSSELS

August 28, 2009

Kratos Defense & Security Solutions, Inc.
4810 Eastgate Mall
San Diego, California 92121

Ladies and Gentlemen:

We are acting as counsel to Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "**Company**") in connection with the issuance and sale of up to 26,000,000 shares (the "**Shares**") of the Company's Common Stock, \$0.001 par value (the "**Common Stock**"), pursuant to a Registration Statement on Form S-3, as amended (File No. 333-161340) (the "**Registration Statement**") filed with the Securities and Exchange Commission (the "**Commission**") under the Securities Act of 1933, as amended (the "**Act**"), the related prospectus included therein (the "**Prospectus**") and the prospectus supplement to be filed with the Commission pursuant to Rule 424(b) promulgated under the Act (the "**Prospectus Supplement**").

As counsel to the Company, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments as we have deemed necessary for the purposes of rendering this opinion and we are familiar with the proceedings taken and proposed to be taken by the Company in connection with the authorization, issuance and sale of the Shares.

In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with the originals of all documents submitted to us as copies.

Based upon, subject to and limited by the foregoing, we are of the opinion that the Shares have been duly and validly authorized and upon issuance, delivery and payment therefor in the manner contemplated by the Registration Statement, the Prospectus and the Prospectus Supplement, will be validly issued, fully paid and nonassessable.

We express no opinion as to matters governed by any laws other than the General Corporation Law of the State of Delaware and the federal laws of the United States of America, as in effect on the date hereof.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm under the caption "Legal Matters" in the Prospectus Supplement. In giving such permission, we do not admit hereby that we come within the category of persons whose consent is required under Section 7 of the Act, or the rules and regulations of the Commission thereunder. This opinion is expressed as of the date hereof, and we disclaim any undertaking to advise you of any subsequent changes in the facts stated or assumed herein or of any subsequent changes in applicable law.

Very truly yours,

/s/ Morrison & Foerster LLP

PLACEMENT AGENT AGREEMENT

August 27, 2009

B. Riley & Co., LLC
 11100 Santa Monica Blvd.
 Suite 800
 Los Angeles, CA 90025

Ladies and Gentlemen:

1. **Introduction.** Kratos Defense & Security Solutions, Inc., a Delaware corporation (the “**Company**”), proposes, pursuant to the terms of this Placement Agent Agreement (this “**Agreement**”) to sell to certain institutional investors (the “**Purchasers**”) up to an aggregate of 26,000,000 shares (the “**Shares**”) of common stock, \$0.001 par value per share (the “**Common Stock**”), of the Company. The Company hereby confirms that B. Riley & Co., LLC is acting as the exclusive placement agent (the “**Placement Agent**”) in accordance with the terms and conditions hereof.

2. **Agreement to Act as Placement Agent; Placement of Shares.** On the basis of the representations, warranties and agreements of the Company herein contained, and subject to all the terms and conditions of this Agreement:

(a) The Company hereby authorizes the Placement Agent to act as its exclusive agent to solicit offers for the purchase of all or part of the Shares from the Company in connection with the proposed offering of the Shares (the “**Offering**”). Until the Closing Date (as defined in Section 4 hereof), the Company shall not, without the prior written consent of the Placement Agent, solicit or accept offers to purchase Shares otherwise than through the Placement Agent.

(b) The Company hereby acknowledges that the Placement Agent, as an agent of the Company, shall use its reasonable best efforts to solicit offers from potential purchasers to purchase the Shares from the Company on the terms and subject to the conditions set forth in the Prospectus (as defined below). The Placement Agent has no authority to bind the Company with respect to any prospective offer to purchase the Shares. The Placement Agent shall use commercially reasonable efforts to assist the Company in obtaining performance by each Purchaser whose offer to purchase Shares was solicited by the Placement Agent and accepted by the Company, but the Placement Agent shall not, except as otherwise provided in this Agreement, be obligated to disclose the identity of any potential purchaser or have any liability to the Company in the event any such purchase is not consummated for any reason. Under no circumstances will the Placement Agent be obligated to underwrite or purchase any Shares for its own accounts and, in soliciting offers to purchase the Shares, the Placement Agent shall act solely as the Company’s agent and not as a principal. Notwithstanding the foregoing, it is understood and agreed that the Placement Agent (or its affiliates) may, solely at their discretion and without any obligation to do so, purchase Shares as a principal.

(c) Subject to the provisions of this Section 2, offers for the purchase of Shares shall be solicited by the Placement Agent as agent for the Company at such times and in such amounts as the Placement Agent deems advisable. The Placement Agent shall communicate to the Company, orally or in writing, each reasonable offer to purchase Shares received by it as agent of the Company. The Company shall have the sole right to accept offers to purchase the Shares and may reject any such offer, in whole or in part. The Placement Agent shall have the right, in its discretion reasonably exercised, without notice to the Company, to reject any offer to purchase Shares received by it, in whole or in part, and any such rejection shall not be deemed a breach of this Agreement.

(d) The Shares are being sold to the Purchasers at a price of \$0.72 per share.

(e) As compensation for services rendered, on the Closing Date, the Company shall pay to the Placement Agent by wire transfer of immediately available funds to an account or accounts designated by the Placement Agent, an aggregate amount equal to 5% of the aggregate gross proceeds received by the Company from the sale of the Shares on such Closing Date.

(f) No Shares which the Company has agreed to sell pursuant to this Agreement shall be deemed to have been purchased and paid for, or sold by the Company, until such Shares shall have been delivered to the Purchaser thereof against payment by such Purchaser. If the Company shall default in its obligations to deliver Shares to a Purchaser whose offer it has accepted, the Company shall indemnify and hold the Placement Agent harmless against any loss, claim, damage or expense arising from or as a result of such default by the Company in accordance with Section 8 herein.

3. **Representations and Warranties of the Company.** The Company represents and warrants to, and agrees with, the Placement Agent that:

(a) The Company has prepared and filed in conformity with the requirements of the Securities Act of 1933, as amended (the “**Securities Act**”), and published rules and regulations thereunder (the “**Rules and Regulations**”) adopted by the Securities and Exchange Commission (the “**Commission**”) a “shelf” Registration Statement (as hereinafter defined) on Form S-3 (File No. 333-161340), which was declared effective by the Commission as of August 21, 2009 (the “**Effective Date**”), including a base prospectus relating to the securities registered pursuant to such Registration Statement (the “**Base Prospectus**”), and such amendments and supplements thereto as may have been required to the date of this Agreement. The term “**Registration Statement**” as used in this Agreement means the registration statement (including all exhibits, financial schedules and all documents and information deemed to be a part of the Registration Statement pursuant to Rule 430A of the Rules and Regulations), as amended and/or supplemented to the date of this Agreement, including the Base Prospectus. The Registration Statement is effective under the Securities Act and no stop order preventing or suspending the effectiveness of the Registration Statement or suspending or preventing the use of the Prospectus (as defined below) has been issued by the Commission and no proceedings for that purpose have been instituted or are threatened by the Commission.

The Company, if required by the Rules and Regulations of the Commission, will file the Prospectus, with the Commission pursuant to Rule 424(b) of the Rules and Regulations. The term “**Prospectus**” as used in this Agreement means the prospectus, in the form in which it is to be filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations, or, if the prospectus is not to be filed with the Commission pursuant to Rule 424(b), the prospectus in the form included as part of the Registration Statement as of the Effective Date, except that if any revised prospectus or prospectus supplement shall be provided to the Placement Agent by the Company for use in connection with the Offering and sale of the Shares which differs from the Prospectus (whether or not such revised prospectus or prospectus supplement is required to be filed by the Company pursuant to Rule 424(b) of the Rules and Regulations), the term “**Prospectus**” shall refer to such revised prospectus or prospectus supplement, as the case may be, from and after the time it is first provided to the Placement Agent for such use. Any reference herein to the Registration Statement or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), on or before the last to occur of the Effective Date, or the date of the Prospectus, and any reference herein to the terms “amend,” “amendment,” or “supplement” with respect to the Registration Statement or the Prospectus shall be deemed to refer to and include (i) the filing of any document under the Exchange Act after the Effective Date or the date of the Prospectus, as the case may be, which is incorporated by reference and (ii) any such document so filed. If the Company has filed an abbreviated registration statement to register additional securities pursuant to Rule 462(b) under the Rules and Regulations (the “**462(b) Registration Statement**”), then any reference herein to the Registration Statement shall also be deemed to include such 462(b) Registration Statement.

(b) As of the Applicable Time (as defined below) and as of the Closing Date, neither (i) any General Use Free Writing Prospectus (as defined below) issued at or prior to the Applicable Time, and the Pricing Prospectus (as defined below), all considered together (collectively, the “**General Disclosure Package**”), (ii) any individual Limited Use Free Writing Prospectus (as defined below) issued at or prior to the Applicable Time, nor (iii) the bona fide electronic road show, if any, (as defined in Rule 433(h)(5) of the Rules and Regulations), that has been made available without restriction to any person, when considered together with the General Disclosure Package, included or will include, any untrue statement of a material fact or omitted or as of the Closing Date will omit, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however*, that the Company makes no representations or warranties as to information contained in or omitted from any Issuer Free Writing Prospectus, in reliance upon, and in conformity with, written information furnished to the Company by or on behalf of the Placement Agent specifically for inclusion therein, which information the parties hereto agree is limited to the “**Placement Agent’s Information**” which is defined as the information set forth in Section 16. As used in this paragraph (b) and elsewhere in this Agreement:

“**Applicable Time**” means 8:30 P.M., New York time, on the date of this Agreement.

“**General Use Free Writing Prospectus**” means any Issuer Free Writing Prospectus.

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“**Issuer Free Writing Prospectus**” means any “**issuer free writing prospectus**,” as defined in Rule 433 of the Rules and Regulations relating to the Shares in the form filed or required to be filed with the Commission or, if not required to be filed, in the form retained in the Company’s records pursuant to Rule 433(g) of the Rules and Regulations.

“**Limited Use Free Writing Prospectuses**” means any Issuer Free Writing Prospectus that is not a General Use Free Writing Prospectus.

“**Pricing Prospectus**” means the Base Prospectus as amended and supplemented immediately prior to the Applicable Time, including any document incorporated by reference therein and any prospectus supplement deemed to be a part thereof.

(c) No order preventing or suspending the use of any Issuer Free Writing Prospectus or the Prospectus relating to the Offering has been issued by the Commission, and no proceeding for that purpose or pursuant to Section 8A of the Securities Act has been instituted or threatened by the Commission.

(d) At the time the Registration Statement became effective, at the date of this Agreement and at the Closing Date, the Registration Statement conformed and will conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and did not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; the Prospectus, at the time the Prospectus became effective and at the Closing Date, conformed and will conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that the foregoing representations and warranties in this paragraph (d) shall not apply to information contained in or omitted from the Registration Statement or the Prospectus in reliance upon, and in conformity with, written information furnished to the Company by or on behalf of the Placement Agent specifically for inclusion therein, which information the parties hereto agree is limited to the Placement Agent’s Information.

(e) Each Issuer Free Writing Prospectus, if any, as of its issue date and at all subsequent times through the completion of the public offer and sale of the Shares or until any earlier date that the Company notified or notifies the Placement Agent as described in Section 5(c), did not, does not and will not include any information that conflicted, conflicts or will conflict with the information contained in the Registration Statement, Pricing Prospectus or the Prospectus, including any document incorporated by reference therein and any prospectus supplement deemed to be a part thereof that has not been superseded or modified, or includes an untrue statement of a material fact or omitted or would omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing sentence does not apply to statements in or omissions from any Issuer Free Writing Prospectus in reliance upon, and in conformity with, written information furnished to the Company by or on behalf of the Placement

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Agent specifically for inclusion therein, which information the parties hereto agree is limited to the Placement Agent’s Information.

(f) The documents incorporated by reference in the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Securities Act or the Exchange Act, as applicable, the Rules and Regulations and the rules and regulations of the Commission under the Exchange Act and none of such documents contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Prospectus, when such documents become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Securities Act or the Exchange Act, as applicable, the Rules and Regulations and the rules and regulations of the Commission under the Exchange Act and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(g) The Company is not an “ineligible issuer” in connection with the Offering pursuant to Rules 164, 405 and 433 under the Securities Act. The Company has not, directly or indirectly, distributed and will not distribute any offering material in connection with the Offering other than the Prospectus and other materials, if any, permitted under the Securities Act and consistent with Section 5(b). The Company will file with the Commission all Issuer Free Writing Prospectuses (other than a “road show,” as defined in Rule 433(d)(8) of the Rules and Regulations), if any, in the time and manner required under Rules 163(b)(2) and 433(d) of the Rules and Regulations.

(h) Each of the Company and its Subsidiaries has been duly organized and is validly existing as a corporation or other legal entity in good standing (or the foreign equivalent thereof) under the laws of its jurisdiction of incorporation or organization. Each of the Company and its Subsidiaries is duly qualified to do business and is in good standing as a foreign corporation or other legal entity in each jurisdiction in which its ownership or lease of its properties or the conduct of its business requires such qualification and has all power and authority (corporate or other) necessary to own or hold its properties and to conduct the businesses in which each is engaged, except where the failure to so qualify or have such power or authority would not (i) have, singularly or in the aggregate, a material adverse effect on the condition (financial or otherwise), results of operations, assets or business of the Company and its Subsidiaries, taken as a whole, or (ii) impair in any material respect the ability of the Company to perform its obligations under this Agreement or to consummate any transactions contemplated by this Agreement, the General Disclosure Package or the Prospectus (any such effect as described in clauses (i) or (ii), a “**Material Adverse Effect**”). The Company owns or controls, directly or indirectly, only the corporations, partnerships, or other entities listed on Schedule A attached hereto (each a “**Subsidiary**” and, collectively, the “**Subsidiaries**”)

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(i) The Company has the full right, power and authority to enter into this Agreement and to perform and to discharge its obligations hereunder; and this Agreement has been duly authorized, executed and delivered by the Company, and constitutes a valid and binding obligation of the Company enforceable in accordance with its terms.

(j) The shares of Common Stock to be issued and sold by the Company to the Purchasers have been duly and validly authorized and the shares of Common Stock, when issued and delivered against payment therefor as provided herein will be duly and validly issued, fully paid and non-assessable and free of any preemptive or similar rights and will conform to the description thereof contained in the General Disclosure Package and the Prospectus.

(k) The authorized capital stock of the Company conforms as to legal matters to the description thereof contained in each of the General Disclosure Package and the Prospectus. The shares of Common Stock outstanding prior to the issuance of the Shares have been duly authorized and are validly issued, fully paid and non-assessable. Since the date provided in the General Disclosure Package, the Company has not issued any equity securities, other than Common Stock issued pursuant to the exercise of stock options or settlement of restricted stock units previously outstanding under the Company’s equity compensation plans or the issuance of Common Stock pursuant to employee stock purchase plans. All of the Company’s options, warrants and other rights to purchase or exchange any securities for shares of the Company’s capital stock have been duly authorized and validly issued and were issued in compliance in all material respects with United States federal and applicable state securities laws. None of the outstanding shares of Common Stock was issued in violation of any preemptive rights, rights of first refusal or other similar rights to subscribe for or purchase securities of the Company.

(l) The membership interests, capital stock, partnership interests or other similar equity interests, as applicable, of each Subsidiary have been duly authorized and validly issued, are fully paid and nonassessable and, except to the extent set forth in the General Disclosure Package, are owned by the Company directly, free and clear of any claim, lien, encumbrance, security interest, restriction upon voting or transfer or any other claim of any third party.

(m) The execution, delivery and performance of this Agreement by the Company, the issue and sale of the Shares by the Company and the consummation of the transactions contemplated hereby and thereby will not (with or without notice or lapse of time or both) conflict with or result in a breach or violation of any of the terms or provisions of, constitute a default under, give rise to any right of termination or other right or the cancellation or acceleration of any right or obligation or loss of a benefit under or pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound or to which any of the property or assets of the Company or any of its Subsidiaries is subject, nor will such actions result in any violation of the provisions of the charter or by-laws (or analogous governing instruments, as applicable) of the Company or any of its Subsidiaries or any law, statute,

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rule, regulation, judgment, order or decree of any court or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its Subsidiaries or any of their properties or assets.

(n) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene any provision of (i) applicable law; (ii) the certificate of incorporation or by-laws (or analogous organizational documents) of the Company or any of its Subsidiaries; (iii) any agreement or other instrument binding upon the Company or any of its Subsidiaries that is material to the Company and its Subsidiaries, taken as a whole; or (iv) any judgment, order or decree of any governmental body, agency or court having

jurisdiction over the Company or any of its Subsidiaries except, in the cases of clauses (i) and (iii) above for any such contravention that would not have a Material Adverse Effect, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except such as may be required by the securities or Blue Sky laws of the various states or the by-laws, rules and regulations of the Financial Industry Regulatory Authority (“FINRA”) and the NASDAQ Global Market in connection with the offer and sale of the Shares.

(o) Grant Thornton LLP, who have audited certain financial statements and related schedules included or incorporated by reference in the Registration Statement, the General Disclosure Package and the Prospectus, is an independent registered public accounting firm as required by the Securities Act and the Rules and Regulations and the Public Company Accounting Oversight Board (United States) (the “PCAOB”). Except as pre-approved in accordance with the requirements set forth in Section 10A of the Exchange Act, Grant Thornton LLP has not been engaged by the Company to perform any “prohibited activities” (as defined in Section 10A of the Exchange Act).

(p) The financial statements, together with the related notes and schedules, included or incorporated by reference in the General Disclosure Package, the Prospectus and in the Registration Statement fairly present the financial position and the results of operations and changes in financial position of the Company and its consolidated Subsidiaries and other consolidated entities at the respective dates or for the respective periods therein specified. Such statements and related notes and schedules have been prepared in accordance with the generally accepted accounting principles in the United States (“GAAP”) applied on a consistent basis throughout the periods involved except as may be set forth in the related notes included or incorporated by reference in the General Disclosure Package. The financial statements, together with the related notes and schedules, included or incorporated by reference in the General Disclosure Package and the Prospectus comply in all material respects with the Securities Act, the Exchange Act, and the Rules and Regulations and the rules and regulations under the Exchange Act. No other financial statements or supporting schedules or exhibits are required by the Securities Act or the Rules and Regulations to be described, or included or incorporated by reference in the Registration Statement, the General Disclosure Package or the Prospectus. There is no pro forma or as adjusted financial information which is required to be included in the Registration Statement, the General Disclosure Package, or the

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Prospectus or a document incorporated by reference therein in accordance with the Securities Act and the Rules and Regulations which has not been included or incorporated as so required.

(q) There has not occurred any material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its Subsidiaries, taken as a whole, otherwise than as set forth or contemplated in the General Disclosure Package.

(r) There is no legal or governmental proceeding, action, suit or claim pending or, to the Company’s knowledge, threatened to which the Company or any of its Subsidiaries is a party or to which any of the properties or assets of the Company or any of its Subsidiaries is subject (i) other than proceedings accurately described in all material respects in the General Disclosure Package or proceedings that would not have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, or (ii) that are required to be described in the Registration Statement, the General Disclosure Package or the Prospectus and are not so described; and there are no statutes, regulations, contracts or other documents to which the Company or any of its Subsidiaries is subject or by which the Company or any of its Subsidiaries is bound that are required to be described in the Registration Statement, the General Disclosure Package or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required.

(s) Neither the Company nor any of its Subsidiaries is or, after giving effect to the Offering of the Shares and the application of the proceeds thereof as described in the General Disclosure Package and the Prospectus, will become an “investment company” within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder.

(t) Neither the Company, its Subsidiaries nor any of the Company’s or its Subsidiaries’ officers, directors or affiliates has bid for or purchased, for any account in which it or any of its affiliated purchasers has a beneficial interest, any Shares, or attempted to induce any person to purchase any Shares; and has not, and has not caused its affiliated purchasers to, make bids or purchased for the purpose of creating actual, or apparent, active trading in or of raising the price of the Shares.

(u) Neither the Company nor its Subsidiaries own any real property. The Company and its Subsidiaries have good and marketable title to all personal property owned by them which is material to the business of the Company and its Subsidiaries, taken as a whole, in each case free and clear of all liens, encumbrances and defects of title except such as are described in the General Disclosure Package would not individually or in the aggregate have a Material Adverse Effect; and any real property and buildings held under lease by the Company and its Subsidiaries are held by them under valid, subsisting and enforceable leases except such as are described in the General Disclosure Package or would not have a Material Adverse Effect.

(v) Except as disclosed in the General Disclosure Package, neither the Company nor any of its Subsidiaries is in violation of any statute, rule, regulation,

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decision or order of any governmental agency or body or any court, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, “**Environmental Laws**”), operates any real property contaminated with any substance that is subject to any Environmental Laws, is liable for any off-site disposal or contamination pursuant to any Environmental Laws, or is subject to any claim relating to any Environmental Laws, which violation, contamination, liability or claim would individually or in the aggregate have a Material Adverse Effect; and the Company is not aware of any pending investigation which might lead to such a claim.

(w) The Company and its Subsidiaries own or possess, or have the right to use, adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property (collectively, “**Intellectual Property Rights**”)

necessary to conduct the business now operated by them, or presently employed by them, and have not received any notice of infringement of or conflict with asserted rights of others with respect to any Intellectual Property Rights, except such as will not individually or in the aggregate have a Material Adverse Effect.

(x) Neither the Company nor any of its Subsidiaries, nor to its knowledge, any director, officer, employee or other person associated with or acting on behalf of the Company or any of its Subsidiaries has: (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (iii) caused the Company or any of its Subsidiaries to be in violation of any provision of the United States Foreign Corrupt Practices Act of 1977; or (iv) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment other than with respect to the activities set forth in that certain press release issued by the Company on July 7, 2009, as to which the Company makes no representation.

(y) The Company and its Subsidiaries maintain a system of internal accounting and other controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Except as described in the General Disclosure Package, since the end of the Company's most recent audited fiscal year, there has been (A) no material weakness in the Company's internal control over financial reporting (whether or not remediated) and (B) no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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(z) No relationship, direct or indirect, exists between or among the Company and any of its Subsidiaries, on the one hand, and the directors, officers, stockholders (or analogous interest holders), customers or suppliers of the Company or any of its Subsidiaries or any of their affiliates, on the other hand, which is required to be described in the General Disclosure Package or the Prospectus or a document incorporated by reference therein and which is not so described.

(aa) No person or entity has the right to require registration of shares of Common Stock or other securities of the Company or any of its Subsidiaries under the Securities Act because of the filing or effectiveness of the Registration Statement or otherwise.

(bb) Neither the Company nor any of its Subsidiaries is a party to any contract, agreement or understanding with any person (other than this Agreement and any letter of understanding between the Company and the Placement Agent) that would give rise to a valid claim against the Company or the Placement Agent for a brokerage commission, finder's fee or like payment in connection with the offering and sale of the Shares or any transaction contemplated by this Agreement, the Registration Statement, the General Disclosure Package or the Prospectus.

(cc) No forward-looking statement (within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act) contained in either the General Disclosure Package or the Prospectus has been made or reaffirmed without a reasonable basis or has been disclosed other than in good faith.

(dd) The Company is subject to and in compliance in all material respects with the reporting requirements of Section 13 or Section 15(d) of the Exchange Act. As of the filing date of the Registration Statement, the Company was eligible to file a "shelf" Registration Statement on Form S-3 with the Commission. The Common Stock is registered pursuant to Section 12(b) of the Exchange Act and is listed on the NASDAQ Global Select Market, and the Company has taken no action designed to, or reasonably likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or delisting the Common Stock from the NASDAQ Global Select Market, nor has the Company received any notification that the Commission or FINRA is contemplating terminating such registration or listing. No consent, approval, authorization or order of, or filing, notification or registration with, the NASDAQ Global Select Market is required for the listing and trading of the shares of Common Stock on the NASDAQ Global Select Market, except such as will have been obtained on or prior to the Closing Date.

(ee) The Company is in compliance in all material respects with all applicable provisions of the Sarbanes-Oxley Act of 2002 and all applicable rules and regulations promulgated thereunder or implementing the provisions thereof that are then in effect.

(ff) The statistical and market related data included in the General Disclosure Package are based on or derived from sources that the Company believes to be reliable and accurate, and such data agree with the sources from which they are derived.

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(gg) Neither the Company nor any Subsidiary directly or indirectly controls, is controlled by, or is under common control with, or is an associated person (within the meaning of Article I, Section 1(ee) of the By-laws of FINRA) of, any member firm of FINRA.

(hh) No approval of the stockholders of the Company under the rules and regulations of NASDAQ (including Rule 5635 of the NASDAQ Global Marketplace Rules) is required for the Company to issue and deliver the Shares to the Purchasers.

(ii) Except as described in the General Disclosure Package, the Company has not sold, issued or distributed any shares of Common Stock during the six-month period preceding the date hereof, including any sales pursuant to Rule 144A under, or Regulation D or S of, the Securities Act, other than shares issued pursuant to employee benefit plans, qualified equity compensation plans or other employee compensation plans or pursuant to outstanding options, rights or warrants.

Any certificate signed by or on behalf of the Company and delivered to the Placement Agent or to counsel for the Placement Agent shall be deemed to be a representation and warranty by the Company to the Placement Agent and the Purchasers as to the matters covered thereby.

4. **The Closing.** The time and date of closing and delivery of the documents required to be delivered to the Placement Agent pursuant to Sections 5 and 7 hereof shall be at 7:00 A.M., Pacific time, on September 2, 2009 (the “**Closing Date**”) at the offices of Paul, Hastings, Janofsky & Walker LLP, 4747 Executive Drive, 12th Floor, San Diego, CA 92121.

5. **Further Covenants and Agreements of the Company.** The Company covenants and agrees with the Placement Agent and, as applicable, with the Purchasers as follows:

(a) To prepare the Rule 462(b) Registration Statement, if necessary, in a form approved by the Placement Agent and file such Rule 462(b) Registration Statement with the Commission on the date hereof; to prepare the Prospectus in a form approved by the Placement Agent containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on rules 430A, 430B and 430C and to file such Prospectus pursuant to Rule 424(b) of the Rules and Regulations not later than the second business day following the execution and delivery of this Agreement or, if applicable, such earlier time as may be required by Rule 430A of the Rules and Regulations; to notify the Placement Agent promptly of the Company’s intention to file or prepare any supplement or amendment to any Registration Statement or to the Prospectus in connection with this Offering and to provide a draft of any such amendment or supplement to the Registration Statement, the General Disclosure Package or to the Prospectus to the Placement Agent for review within an amount of time that is reasonably practical under the circumstances and prior to filing; to advise the Placement Agent, promptly after it receives notice thereof, of the time when any amendment to any Registration Statement has been filed in connection with the Offering or becomes effective or any supplement to the General Disclosure Package or the Prospectus or any amended Prospectus has been filed and to furnish the Placement Agent with copies

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thereof; to file within the time periods prescribed by the Exchange Act, including any extension thereof, all material required to be filed by the Company with the Commission pursuant to Rule 433(d) or 163(b)(2), as the case may be; to advise the Placement Agent, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Issuer Free Writing Prospectus or the Prospectus, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement, the General Disclosure Package or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Issuer Free Writing Prospectus or the Prospectus or suspending any such qualification, and promptly to use its best efforts to obtain the withdrawal of such order.

(b) That, unless it obtains the prior consent of the Placement Agent, it has not made and will not make any offer relating to the Shares that would constitute a “free writing prospectus” as defined in Rule 405 of the Rules and Regulations unless the prior written consent of the Placement Agent has been received (each, a “**Permitted Free Writing Prospectus**”). The Company represents that it has treated and agrees that it will treat each Permitted Free Writing Prospectus as an Issuer Free Writing Prospectus, and that it has and will comply with the requirements of Rules 164 and 433 of the Rules and Regulations applicable to any Issuer Free Writing Prospectus, including the requirements relating to timely filing with the Commission, legending and record keeping.

(c) If at any time prior to the expiration of nine (9) months after the date when a Prospectus relating to the Shares is required to be delivered under the Securities Act, any event occurs or condition exists as a result of which the Prospectus, as then amended or supplemented, would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, or the Registration Statement, as then amended or supplemented, would include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading, or if for any other reason it is necessary at any time to amend or supplement any Registration Statement or the Prospectus to comply with the Securities Act or the Exchange Act, the Company will promptly notify the Placement Agent, and upon the Placement Agent’s request, the Company will promptly prepare and file with the Commission, at the Company’s expense, an amendment to the Registration Statement or an amendment or supplement to the Prospectus that corrects such statement or omission or effects such compliance. The Company consents to the use of the Prospectus or any amendment or supplement thereto by the Placement Agent.

(d) To the extent not available on the Commission’s EDGAR system, to make generally available to its stockholders as soon as practicable, but in any event not later than eighteen (18) months after the effective date of each Registration Statement (as defined in Rule 158(c) of the Rules and Regulations), an earnings statement of the Company and its consolidated Subsidiaries (which need not be audited) complying with

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Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158).

(e) To take promptly from time to time such actions as the Placement Agent may reasonably request to qualify the Shares for offering and sale under the securities or Blue Sky laws of such jurisdictions (domestic or foreign) as the Placement Agent may designate and to continue such qualifications in effect, and to comply with such laws, for so long as required to permit the offer and sale of Shares in such jurisdictions; *provided* that the Company and its Subsidiaries shall not be obligated to qualify as foreign corporations in any jurisdiction in which they are not so qualified or to file a general consent to service of process in any jurisdiction.

(f) That the Company will not, for a period of one hundred eighty (180) days from the date of the Prospectus, (the “**Lock-Up Period**”) without the prior written consent of the Placement Agent, directly or indirectly offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, other than (i) the Company’s sale of the Shares hereunder, (ii) the issuance of Common Stock or any equity awards (including the issuance of Common Stock upon exercise or settlement of such equity awards) pursuant to the Company’s employee benefit plans, stock option and employee stock purchase plans or other employee compensation plans as such plans are in existence on the date hereof and described in the Prospectus, (iii) the issuance of Common Stock pursuant to the vesting or exercises of options, restricted stock units, warrants or rights outstanding on the date hereof, and (iv) the issuance of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock (and the issuance of Common Stock pursuant to the terms of such securities convertible into or exercisable or exchangeable for Common Stock) in connection with strategic transactions involving the Company and other entities, including without limitation, merger, acquisition, joint venture, licensing, collaboration, manufacturing,

development, marketing, co-promotion or distribution arrangements. The Company will cause each executive officer listed in Schedule B to furnish to the Placement Agent, prior to the Closing Date, a letter, substantially in the form of Exhibit A hereto, pursuant to which each such person shall agree, among other things, not to directly or indirectly offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, not to engage in any swap or other agreement or arrangement that transfers, in whole or in part, directly or indirectly, the economic risk of ownership of Common Stock or any such securities, during the period of ninety (90) days from the date of the Prospectus, without the prior written consent of the Placement Agent. The Company also agrees that during such period, the Company will not file any registration statement, preliminary prospectus or prospectus, or any amendment or supplement thereto, under the Securities Act for any such transaction or which registers, or offers for sale, Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, except for registration statements on Form S-8 relating to employee benefit plans and registration statements registering securities issued by the Company pursuant to (iv) above. The Company hereby agrees that (A) if it issues an earnings release or material news, or if a material event relating to the Company occurs, during the last seventeen

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days of the Lock-Up Period, or (B) if prior to the expiration of the Lock-Up Period, the Company announces that it will release earnings results during the sixteen-day period beginning on the last day of the Lock-Up Period, the restrictions imposed by this paragraph (f) shall continue to apply until the expiration of the eighteen-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

(g) To supply the Placement Agent with copies of all correspondence to and from, and all documents issued to and by, the Commission in connection with the registration of the Shares under the Securities Act or the Registration Statement or the Prospectus, or any amendment or supplement thereto or document incorporated by reference therein.

(h) Prior to the Closing Date, not to issue any press release or other communication directly or indirectly or hold any press conference without the prior consent of the Placement Agent.

(i) Until the Placement Agent shall have notified the Company of the completion of the Offering of the Shares, that the Company will not, and will cause its affiliated purchasers (as defined in Regulation M under the Exchange Act) not to, either alone or with one or more other persons, bid for or purchase, for any account in which it or any of its affiliated purchasers has a beneficial interest, any Shares, or attempt to induce any person to purchase any Shares; and not to, and to cause its affiliated purchasers not to, make bids or purchase for the purpose of creating actual, or apparent, active trading in or of raising the price of the Shares.

(j) Not to take any action prior to the Closing Date which would require the Prospectus to be amended or supplemented pursuant to Section 5.

(k) To apply the net proceeds from the sale of the Shares as set forth in the Registration Statement, the General Disclosure Package and the Prospectus under the heading "Use of Proceeds."

(l) To use its best efforts to list, effect and maintain, subject to notice of issuance, the Common Stock on the NASDAQ Global Select Market.

(m) To use its best efforts to assist the Placement Agent with any filings with FINRA and obtaining any required clearance from FINRA as to the amount of compensation allowable or payable to the Placement Agent.

(n) To use its best efforts to do and perform all things required to be done or performed under this Agreement by the Company prior to the Closing Date and to satisfy all conditions precedent to the delivery of the Shares.

6. Payment of Expenses. The Company agrees to pay, or reimburse if paid by the Placement Agent, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated: (a) the costs incident to the authorization, issuance, sale and delivery of the Shares to the Purchasers and any taxes payable in that connection; (b) the costs incident to

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the registration of the Shares under the Securities Act; (c) the costs incident to the preparation, printing and distribution of the Registration Statement, the Base Prospectus, any Issuer Free Writing Prospectus, the General Disclosure Package, the Prospectus, any amendments, supplements and exhibits thereto or any document incorporated by reference therein; (d) the reasonable and documented fees and expenses incurred in connection with securing any required review by FINRA and any filings made with FINRA; (e) any applicable listing, quotation or other fees; (f) the fees and expenses (including related fees and expenses of counsel for the Placement Agent) of qualifying the Shares under the securities laws of the several jurisdictions as provided in Section 5(e) and of preparing, printing and distributing wrappers and blue sky memoranda; (g) all fees and expenses of the registrar and transfer agent of the Shares; and (h) all other costs and expenses of the Company and the Placement Agent incident to the Offering of the Shares by, or the performance of the obligations of, the Company and the Placement Agent under this Agreement (including, without limitation, the fees and expenses of the Company's counsel, Placement Agent's counsel and the Company's independent accountants and the travel and other reasonable expenses incurred by Company and the Placement Agent's personnel in connection with any "road show" including, without limitation, any expenses advanced by the Placement Agent on the Company's behalf (which will be promptly reimbursed)). For the avoidance of doubt, the Company agrees to reimburse the Placement Agent's reasonable out-of-pocket expenses, including the reasonable legal fees of Paul, Hastings, Janofsky & Walker, LLP, counsel to the Placement Agent, whether or not the Offering is consummated; *provided that*, with the exception of reasonable legal fees, the Company shall not be liable to the Placement Agent for amounts in excess of \$50,000 without prior written consent of the Company.

7. Conditions to the Obligations of the Placement Agent and the Purchasers, and the Sale of the Shares. The respective obligations of the Placement Agent hereunder, and the closing of the sale of the Shares, are subject to the accuracy, when made and as of the Applicable Time and on the Closing Date, of the representations and warranties of the Company contained herein, to the accuracy of the statements of the Company made in any

certificates pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) No stop order suspending the effectiveness of the Registration Statement or any part thereof, preventing or suspending the use of any Base Prospectus, the Prospectus or any Permitted Free Writing Prospectus or any part thereof shall have been issued and no proceedings for that purpose or pursuant to Section 8A under the Securities Act shall have been initiated or threatened by the Commission, and all requests for additional information on the part of the Commission (to be included or incorporated by reference in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the reasonable satisfaction of the Placement Agent; the Rule 462(b) Registration Statement, if any, each Issuer Free Writing Prospectus, if any, and the Prospectus shall have been filed with the Commission within the applicable time period prescribed for such filing by, and in compliance with, the Rules and Regulations and in accordance with Section 5(a), and the Rule 462(b) Registration Statement, if any, shall have become effective immediately upon its filing with the Commission; and FINRA shall have raised no objection to the fairness and reasonableness of the terms of this Agreement or the transactions contemplated hereby.

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(b) The Placement Agent shall not have discovered and disclosed to the Company on or prior to the Closing Date that the Registration Statement or any amendment or supplement thereto contains an untrue statement of a fact which, in the opinion of counsel for the Placement Agent, is material or omits to state any fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading, or that the General Disclosure Package, any Issuer Free Writing Prospectus or the Prospectus or any amendment or supplement thereto contains an untrue statement of fact which, in the opinion of such counsel, is material or omits to state any fact which, in the opinion of such counsel, is material and is necessary in order to make the statements, in the light of the circumstances in which they were made, not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of each of this Agreement, the Shares, the Registration Statement, the General Disclosure Package, each Issuer Free Writing Prospectus, if any, and the Prospectus and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be reasonably satisfactory in all material respects to counsel for the Placement Agent, and the Company shall have furnished to such counsel all documents and information that they may reasonably request.

(d) Morrison & Foerster LLP shall have furnished to the Placement Agent, such counsel's written opinion, as counsel to the Company, addressed to the Placement Agent and dated the Closing Date, in the form agreed as of the date hereof.

(e) The Company shall have furnished to the Placement Agent and the Purchasers a certificate, dated the Closing Date, of its Chief Executive Officer and its Chief Financial Officer stating that (i) since the effective date of the Registration Statement, no event has occurred which should have been set forth in a supplement or amendment to the Registration Statement, the General Disclosure Package or the Prospectus, (ii) to the best of their knowledge after reasonable investigation, as of the Closing Date, the representations and warranties of the Company in this Agreement are true and correct in all material respects, except that any such representation or warranty shall be true and correct in all respects where such representation or warranty is qualified with respect to materiality, and the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date, and (iii) there has not been, subsequent to the date of the most recent unaudited financial statements included or incorporated by reference in the General Disclosure Package, any material adverse change in the financial position or results of operations of the Company and its Subsidiaries, taken as a whole, or any change or development that, singly or in the aggregate, would involve a material adverse change or a prospective material adverse change, in or affecting the condition (financial or otherwise), results of operations, business, assets or prospects of the Company and its Subsidiaries taken as a whole, except as set forth in the Prospectus.

(f) Since the date of the latest audited financial statements included in the General Disclosure Package or incorporated by reference in the General Disclosure Package as of the date hereof, (i) neither the Company nor any of its Subsidiaries shall

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have sustained any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth in the General Disclosure Package, and (ii) there shall not have been any change in the capital stock or long-term debt of the Company nor any of its Subsidiaries, or any change, or any development involving a prospective change, in or affecting the business, general affairs, management, financial position, stockholders' equity, results of operations or prospects of the Company and its Subsidiaries, taken as a whole, otherwise than as set forth in the General Disclosure Package, the effect of which, in any such case described in clause (i) or (ii) of this paragraph (f), is, in the judgment of the Placement Agent, so material and adverse as to make it impracticable or inadvisable to proceed with the sale or delivery of the Shares on the terms and in the manner contemplated in the General Disclosure Package.

(g) No action shall have been taken and no law, statute, rule, regulation or order shall have been enacted, adopted or issued by any governmental agency or body which would prevent the issuance or sale of the Shares or materially and adversely affect the business or operations of the Company and its Subsidiaries, taken as a whole; and no injunction, restraining order or order of any other nature by any United States federal or state court of competent jurisdiction shall have been issued which would prevent the issuance or sale of the Shares or materially and adversely affect the business or operations of the Company or its Subsidiaries, taken as a whole.

(h) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange or the NASDAQ Stock Market or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or materially limited, or minimum or maximum prices or maximum range for prices shall have been established on any such exchange or such market by the Commission, by such exchange or market or by any other regulatory body or governmental authority having jurisdiction; (ii) a banking moratorium shall have been declared by United States federal or state authorities or a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States; (iii) the United States shall have become engaged in hostilities, or the subject of an act of terrorism, or there shall have been an outbreak of or escalation in hostilities involving the United States, or there shall have been a declaration of a national emergency or war by the United States; or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of

international conditions on the financial markets in the United States shall be such) as to make it, in the judgment of the Placement Agent, impracticable or inadvisable to proceed with the sale or delivery of the Shares on the terms and in the manner contemplated in the General Disclosure Package and the Prospectus.

(i) The Company shall have filed a listing of additional shares notification with the NASDAQ Global Select Market in connection with the Offering, and shall have received no objections thereto from the NASDAQ Global Select Market.

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(j) The Placement Agent shall have received the written agreements, substantially in the form of Exhibit A hereto, of the executive officers of the Company listed in Schedule B to this Agreement.

(k) Prior to the Closing Date, the Company shall have furnished to the Placement Agent such further information, opinions, certificates, letters or documents as the Placement Agent shall have reasonably requested, including a Secretary's Certificate.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Placement Agent.

8. Indemnification and Contribution.

(a) The Company shall indemnify and hold harmless the Placement Agent, each of its affiliates and each of its and their respective directors, officers, members, employees, representatives and agents and their respective affiliates, and each person, if any, who controls such Placement Agent within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (collectively the "**Placement Agent Indemnified Parties**," and each a "**Placement Agent Indemnified Party**") against any loss, claim, damage, expense or liability whatsoever (or any action, investigation or proceeding in respect thereof), joint or several, to which such Placement Agent Indemnified Party may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, expense, liability, action, investigation or proceeding arises out of or is based upon (A) any untrue statement or alleged untrue statement of a material fact contained in any Issuer Free Writing Prospectus, any "issuer information" filed or required to be filed pursuant to Rule 433(d) of the Rules and Regulations, any Registration Statement or the Prospectus, or in any amendment or supplement thereto or document incorporated by reference therein, (B) the omission or alleged omission to state in any Issuer Free Writing Prospectus, any "issuer information" filed or required to be filed pursuant to Rule 433(d) of the Rules and Regulations, any Registration Statement or the Prospectus, or in any amendment or supplement thereto or document incorporated by reference therein, a material fact required to be stated therein or necessary to make the statements therein not misleading, or (C) any breach of the representations and warranties of the Company contained herein or failure of the Company to perform its obligations hereunder or pursuant to any law, and shall reimburse the Placement Agent Indemnified Party promptly upon demand for any legal fees or other expenses reasonably incurred by such Placement Agent Indemnified Party in connection with investigating, or preparing to defend, or defending against, or appearing as a third party witness in respect of, or otherwise incurred in connection with, any such loss, claim, damage, expense, liability, action, investigation or proceeding, as such fees and expenses are incurred; *provided, however*, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, expense or liability arises out of or is based upon an untrue statement or alleged untrue statement in, or omission or alleged omission from, any Registration Statement or the Prospectus, or any such amendment or supplement thereto, or any Issuer Free Writing Prospectus made in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Placement Agent

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specifically for use therein, which information the parties hereto agree is limited to the Placement Agent's Information. This indemnity agreement is not exclusive and will be in addition to any liability, which the Company may otherwise have and shall not limit any rights or remedies which may otherwise be available at law or in equity to each Placement Agent Indemnified Party.

(b) The Placement Agent shall indemnify and hold harmless the Company and its directors, its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (collectively the "**Company Indemnified Parties**" and each a "**Company Indemnified Party**") against any loss, claim, damage, expense or liability whatsoever (or any action, investigation or proceeding in respect thereof), joint or several, to which such Company Indemnified Party may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, expense, liability, action, investigation or proceeding arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in any Issuer Free Writing Prospectus, any "issuer information" filed or required to be filed pursuant to Rule 433(d) of the Rules and Regulations, any Registration Statement or the Prospectus, or in any amendment or supplement thereto, or (ii) the omission or alleged omission to state in any Issuer Free Writing Prospectus, any "issuer information" filed or required to be filed pursuant to Rule 433(d) of the Rules and Regulations, any Registration Statement or the Prospectus, or in any amendment or supplement thereto, a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Placement Agent specifically for use therein, which information the parties hereto agree is limited to the Placement Agent's Information, and shall reimburse the Company Indemnified Parties for any legal or other expenses reasonably incurred by such party in connection with investigating or preparing to defend or defending against or appearing as third party witness in connection with any such loss, claim, damage, liability, action, investigation or proceeding, as such fees and expenses are incurred. This indemnity agreement is not exclusive and will be in addition to any liability which the Placement Agent might otherwise have and shall not limit any rights or remedies which may otherwise be available under this Agreement, at law or in equity to the Company Indemnified Parties. Notwithstanding the provisions of this Section 8(b), in no event shall any indemnity by the Placement Agent under this Section 8(b) exceed the total compensation received by such Placement Agent in accordance with Section 2(e).

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party under this Section 8, notify such indemnifying party in writing of the commencement of that action; *provided, however*, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure; and, *provided, further*, that the failure to notify an indemnifying party shall not relieve it from any liability which it may have to an

indemnified party otherwise than under this Section 8. If any such action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense of such action with counsel reasonably satisfactory to the indemnified party (which counsel shall not, except with the written consent of the indemnified party, be counsel to the indemnifying party). After notice from the indemnifying party to the indemnified party of its election to assume the defense of such action, except as provided herein, the indemnifying party shall not be liable to the indemnified party under Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense of such action other than reasonable costs of investigation; *provided, however*, that any indemnified party shall have the right to employ separate counsel in any such action and to participate in the defense of such action but the fees and expenses of such counsel (other than reasonable costs of investigation which shall remain the expense of the Company) shall be at the expense of such indemnified party unless (i) in the case of a Placement Agent Indemnified Party, the employment thereof has been specifically authorized in writing by the Company in the case of a claim for indemnification under Section 8(a) or Section 2(f), or (ii) such indemnified party shall have been advised by its counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the indemnifying party, or (iii) the indemnifying party has failed to assume the defense of such action and employ counsel reasonably satisfactory to the indemnified party within a reasonable period of time after notice of the commencement of the action or the indemnifying party does not diligently defend the action after assumption of the defense, in which case, if such indemnified party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of (or, in the case of a failure to diligently defend the action after assumption of the defense, to continue to defend) such action on behalf of such indemnified party and the indemnifying party shall be responsible for legal or other expenses subsequently incurred by such indemnified party in connection with the defense of such action; *provided, however*, that the indemnifying party shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time for all such indemnified parties (in addition to any local counsel), which firm shall be designated in writing by the Placement Agent if the indemnified parties under this Section 8 consist of any Placement Agent Indemnified Party or by the Company if the indemnified parties under this Section 8 consist of any Company Indemnified Parties. Subject to this Section 8(c), the amount payable by an indemnifying party under Section 8 shall include, but not be limited to, (x) reasonable legal fees and expenses of counsel to the indemnified party and any other expenses in investigating, or preparing to defend or defending against, or appearing as a third party witness in respect of, or otherwise incurred in connection with, any action, investigation, proceeding or claim, and (y) all amounts paid in settlement of any of the foregoing. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of judgment with respect to any pending or threatened action or any claim

whatsoever, in respect of which indemnification or contribution could be sought under this Section 8 (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party in form and substance reasonably satisfactory to such indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party. Subject to the provisions of the following sentence, no indemnifying party shall be liable for settlement of any pending or threatened action or any claim whatsoever that is effected without its written consent (which consent shall not be unreasonably withheld or delayed), but if settled with its written consent, or if its consent has been unreasonably withheld or delayed, or if there be a judgment for the plaintiff in any such matter, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment. In addition, if at any time an indemnified party shall have requested that an indemnifying party reimburse the indemnified party for reasonable fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated herein effected without its written consent if (i) such settlement is entered into more than forty-five (45) days after receipt by such indemnifying party of the request for reimbursement, (ii) such indemnifying party shall have received notice of the terms of such settlement at least thirty (30) days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(d) If the indemnification provided for in this Section 8 is unavailable or insufficient to hold harmless an indemnified party under Section 8(a) or Section 8(b), then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid, payable or otherwise incurred by such indemnified party as a result of such loss, claim, damage, expense or liability (or any action, investigation or proceeding in respect thereof), as incurred, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and the Placement Agent on the other hand from the Offering of the Shares, or (ii) if the allocation provided by clause (i) of this Section 8(d) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) of this Section 8(d) but also the relative fault of the Company on the one hand and the Placement Agent on the other with respect to the statements, omissions, acts or failures to act which resulted in such loss, claim, damage, expense or liability (or any action, investigation or proceeding in respect thereof) as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Placement Agent on the other with respect to such Offering shall be deemed to be in the same proportion as the total net proceeds from the Offering of the Shares purchased under this Agreement (before deducting expenses) received by the Company bear to the total compensation received by the Placement Agent in connection with the Offering, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company on the one hand and the Placement Agent on the other shall be determined by reference to, among other things, whether the 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 the Company on the one hand or the Placement Agent on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement, omission, act or failure to act; provided that the parties hereto agree that the written information furnished to the Company by or on behalf of the Placement Agent for use in any Registration Statement or the Prospectus, or in any amendment or supplement thereto, consists solely of the Placement Agent's Information. The Company and the Placement

Agent agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage, expense, liability, action, investigation or proceeding referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating, preparing to defend or defending against or appearing as a third party witness in respect of, or otherwise incurred in connection with, any such loss, claim, damage, expense, liability, action, investigation or proceeding. Notwithstanding the provisions of this Section 8(d), the Placement Agent shall not be required to contribute any amount in excess of the total compensation received by the Placement Agent in accordance with Section 2(e) less the amount of any damages which the Placement Agent has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement, omission or alleged omission, act or alleged act or failure to act or alleged failure to act. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

9. **Termination.** The obligations of the Placement Agent and the Purchasers hereunder may be terminated by the Placement Agent, in its absolute discretion by notice given to the Company prior to delivery of and payment for the Shares if, prior to that time, any of the events described in Section 7(f), Section 7(g) or Section 7(h) have occurred or if the Purchasers shall decline to purchase the Shares for any reason permitted under this Agreement.

10. **Absence of Fiduciary Relationship.** The Company acknowledges and agrees that:

(a) the Placement Agent's responsibility to the Company is solely contractual in nature, the Placement Agent has been retained solely to act as placement agent in connection with the Offering and no fiduciary, advisory or agency relationship between the Company and the Placement Agent has been created in respect of any of the transactions contemplated by this Agreement, irrespective of whether the Placement Agent has advised or is advising the Company on other matters;

(b) the price of the Shares set forth in this Agreement was established by the Company following discussions and arms-length negotiations with the Placement Agent, and the Company is capable of evaluating and understanding, and understands and accepts, the terms, risks and conditions of the transactions contemplated by this Agreement;

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(c) it has been advised that the Placement Agent and its affiliates are engaged in a broad range of transactions which may involve interests that differ from those of the Company and that the Placement Agent has no obligation to disclose such interests and transactions to the Company by virtue of any fiduciary, advisory or agency relationship; and

(d) it waives, to the fullest extent permitted by law, any claims it may have against the Placement Agent for breach of fiduciary duty or alleged breach of fiduciary duty and agrees that the Placement Agent shall have no liability (whether direct or indirect) to the Company in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including stockholders, employees or creditors of the Company.

11. **Successors; Persons Entitled to Benefit of Agreement.** This Agreement shall inure to the benefit of and be binding upon the Placement Agent, the Company, and their respective successors and assigns. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, other than the persons mentioned in the preceding sentence, any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person; except that the representations, warranties, covenants, agreements and indemnities of the Company contained in this Agreement shall also be for the benefit of the Placement Agent Indemnified Parties and the indemnities of the Placement Agent shall be for the benefit of the Company Indemnified Parties.

12. **Survival of Indemnities, Representations, Warranties, Etc.** The respective indemnities, covenants, agreements, representations, warranties and other statements of the Company and the Placement Agent, as set forth in this Agreement or made by them respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation made by or on behalf of the Placement Agent, the Company, the Purchasers or any person controlling any of them and shall survive delivery of and payment for the Shares. Notwithstanding any termination of this Agreement, including without limitation any termination pursuant to Section 9, the indemnity and contribution agreements contained in Section 8 and the covenants, representations, warranties set forth in this Agreement shall not terminate and shall remain in full force and effect at all times.

13. **Notices.** All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Placement Agent, shall be delivered or sent by mail, facsimile transmission, overnight courier or email to B. Riley & Co., LLC, Attention: Tom Kelleher, 11100 Santa Monica Blvd., Suite 800, Los Angeles, CA, 90025; and

(b) if to the Company, shall be delivered or sent by mail, facsimile transmission, overnight courier or email to Kratos Defense & Security Solutions, Inc., Attention: Chief Financial Officer, 4810 Eastgate Mall, San Diego, CA 92121.

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14. **Definition of Certain Terms.** For purposes of this Agreement "business day" means any day on which the NASDAQ Stock Market is open for trading.

15. **Governing Law, Agent for Service and Jurisdiction.** This Agreement shall be governed by and construed in accordance with the laws of the State of New York, including without limitation Section 5-1401 of the New York General Obligations Law. No legal proceeding may be commenced, prosecuted or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and the Company and the Placement Agent each hereby consent to the jurisdiction of such courts and personal service with respect thereto. The Company and the Placement Agent each hereby consent to personal jurisdiction, service and venue in any court in which any legal proceeding arising out of or in any way relating to this

Agreement is brought by any third party against the Company or the Placement Agent. The Company and the Placement Agent each hereby waive all right to trial by jury in any legal proceeding (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement. The Company agrees that a final judgment in any such legal proceeding brought in any such court shall be conclusive and binding upon the Company and the Placement Agent and may be enforced in any other courts in the jurisdiction of which the Company is or may be subject, by suit upon such judgment.

16. Placement Agent's Information. The parties hereto acknowledge and agree that, for all purposes of this Agreement, the Placement Agent's Information consists solely of the following information in the Prospectus: the second sentence of the third paragraph on the front cover of the Prospectus Supplement and the second and fourth sentences in the section entitled "Plan of Distribution."

17. Partial Unenforceability. The invalidity or unenforceability of any section, paragraph, clause or provision of this Agreement shall not affect the validity or enforceability of any other section, paragraph, clause or provision hereof. If any section, paragraph, clause or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.

18. General. This Agreement constitutes the entire agreement of the parties to this Agreement and supersedes all prior written or oral and all contemporaneous oral agreements, understandings and negotiations with respect to the subject matter hereof. In this Agreement, the masculine, feminine and neuter genders and the singular and the plural include one another. The section headings in this Agreement are for the convenience of the parties only and will not affect the construction or interpretation of this Agreement. This Agreement may be amended or modified, and the observance of any term of this Agreement may be waived, only by a writing signed by the Company and the Placement Agent.

19. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument and such signatures may be delivered by facsimile.

If the foregoing is in accordance with your understanding of the agreement between the Company and the Placement Agent, kindly indicate your acceptance in the space provided for that purpose below.

Very truly yours,

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

By: /s/ Laura L. Siegal
Name: Laura L. Siegal
Its: Vice President, Corporate Controller and Secretary

Accepted as of the date first above written:

B. RILEY & CO., LLC

By: /s/ Tom Kelleher
Name: Tom Kelleher
Its: Chief Executive Officer

SCHEDULE A

List of Subsidiaries

<u>Subsidiary Name</u>	<u>Jurisdiction of Organization</u>	<u>Type of Entity</u>
Digital Fusion, Inc.	Delaware	Corporation
Kratos Commercial Solutions, Inc.	Delaware	Corporation
Kratos Government Solutions, Inc.	Delaware	Corporation
SYS	California	Corporation

SCHEDULE B

List of Officers Subject to Section 5(f)

Eric DeMarco

Deanna Lund

EXHIBIT A

Form of Lock-Up Agreement

September 2, 2009

B. Riley & Co., LLC
11100 Santa Monica Blvd.
Suite 800
Los Angeles, CA 90025

Re: Kratos Defense & Security Solutions, Inc. - Public Offering of Shares

Ladies and Gentlemen:

In order to induce B. Riley & Co., LLC ("**B. Riley**") to enter into a placement agent agreement with Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "**Company**"), with respect to the public offering (the "**Offering**") of shares of the Company's common stock, par value \$0.001 per share ("**Common Stock**"), the undersigned hereby agrees that for a period (the "**lock-up period**") of ninety (90) days following the date of the final prospectus supplement filed by the Company with the Securities and Exchange Commission in connection with such Offering (the "**Prospectus Supplement**"), the undersigned will not, without the prior written consent of B. Riley, directly or indirectly, (i) offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of, any shares of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock (including, without limitation, shares of Common Stock or any such securities which may be deemed to be beneficially owned by the undersigned in accordance with the rules and regulations promulgated under the Securities Exchange Act of 1934, as the same may be amended or supplemented from time to time (such shares or securities, the "**Beneficially Owned Shares**")), (ii) enter into any swap, hedge or other agreement or arrangement that transfers in whole or in part, the economic risk of ownership of any Beneficially Owned Shares, Common Stock or securities convertible into or exercisable or exchangeable for Common Stock, or (iii) engage in any short selling of any Beneficially Owned Shares, Common Stock or securities convertible into or exercisable or exchangeable for Common Stock. The foregoing sentence shall not apply to (a) transactions relating to any Beneficially Owned Shares, Common Stock or securities convertible into or exercisable or exchangeable for Common Stock acquired from the Company in the Offering or in open market transactions after the completion of the Offering, (b) transfers of any Beneficially Owned Shares, Common Stock or securities convertible into or exercisable or exchangeable for Common Stock as a *bona fide* gift, (c) in the case of a natural person, transfers of any Beneficially Owned Shares, Common Stock or securities convertible into or exercisable or exchangeable for Common Stock by will or intestate succession or to any trust or partnership for the direct or indirect benefit of the undersigned or any member of the immediate family of the undersigned, (d) in the case of a non-natural person, distributions of any Beneficially Owned Shares, Common Stock or securities convertible into or exercisable or exchangeable for Common Stock to general or limited partners or stockholders or members of the undersigned, (e) in the case of a non-natural person, transfers of any Beneficially Owned Shares, Common Stock or securities convertible into or exercisable or exchangeable for Common Stock (A) in

connection with the sale or other *bona fide* transfer in a single transaction of all or substantially all of the undersigned's capital stock, partnership interests, membership interests or other similar equity interests, as the case may be, or all or substantially all of the undersigned's assets, in any such case not undertaken for the purpose of avoiding the restrictions imposed by this Agreement or (B) to another corporation, partnership, limited liability company or other business entity so long as the transferee is an affiliate of the undersigned and such transfer is not for value, (f) the "net" exercise of outstanding options or warrants to purchase Common Stock in accordance with their terms, or (g) transfers pursuant to a sale or an offer to purchase 100% of the outstanding Common Stock, whether pursuant to a merger, tender offer or otherwise, to a third party or group of third parties; *provided that* in the case of any transfer or distribution pursuant to clause (b), (c), (d) or (e), each donee, pledgee, distributee or transferee shall sign and deliver a lock-up agreement substantially in the form of this Agreement; and *provided, further*, that any Common Stock acquired upon the net exercise of options or warrants described in clause (f) above shall be subject to the restrictions imposed by this Agreement. For the purposes of this paragraph, "**immediate family**" shall mean spouse, domestic partner, lineal descendant (including adopted children), father, mother, brother or sister of the transferor.

If (i) the Company issues an earnings release or material news or a material event relating to the Company occurs during the last seventeen days of the lock-up period, or (ii) prior to the expiration of the lock-up period, the Company announces that it will release earnings results during the sixteen-day period beginning on the last day of the lock-up period, the restrictions imposed by this Agreement shall continue to apply until the expiration of the eighteen-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

In addition, the undersigned hereby waives, from the date hereof until the expiration of the ninety (90) day period following the date of the Prospectus Supplement, any and all rights, if any, to request or demand registration pursuant to the Securities Act of 1933, as amended, of any shares of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock that are registered in the name of the undersigned or that are Beneficially Owned Shares. In order to enable the aforesaid covenants to be enforced, the undersigned hereby consents to the placing of legends and/or stop transfer orders with the transfer agent of the Common Stock with respect to any shares of Common Stock, securities convertible into or exercisable or exchangeable for Common Stock or Beneficially Owned Shares.

If (i) the Company notifies B. Riley in writing that it does not intend to proceed with the Offering, (ii) for any reason the Offering is terminated prior to the payment for and delivery of the Common Stock or (iii) the Offering shall not have been completed by October 31, 2009, then upon the occurrence of any such event, this Agreement shall immediately be terminated and the undersigned shall be released from its obligations hereunder.

[Signatory]

By: _____
Name: _____
Its: _____

Subsidiaries of the Registrant

Subsidiary Name	Jurisdiction of Organization	Type of Entity
Digital Fusion, Inc.	Delaware	Corporation
Kratos Commercial Solutions, Inc.	Delaware	Corporation
Kratos Government Solutions, Inc.	Delaware	Corporation
SYS	California	Corporation

**Press Contact:**

Yolanda White
858-812-7302

Investor Information:

877-934-4687
investor@kratosdefense.com

FOR IMMEDIATE RELEASE**KRATOS DEFENSE & SECURITY SOLUTIONS ANNOUNCES \$19 MILLION REGISTERED DIRECT COMMON STOCK OFFERING**

SAN DIEGO, CA, August 28, 2009 – Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading national defense, IT and security solutions provider, announced today the pricing of the sale of approximately 26 million shares of its common stock to institutional investors at a purchase price of \$.72 in a registered direct offering. Kratos expects to receive net proceeds of approximately \$17.6 million after deducting placement agent fees and other offering expenses. The Company intends to use the net proceeds from this transaction to repay existing indebtedness. To the extent that the net proceeds are not applied to repay existing indebtedness, the Company intends to use them for general corporate purposes, including the funding of potential strategic acquisitions and other general corporate expenses. The transaction is expected to close on September 2, 2009, subject to satisfaction of customary closing conditions. The shares of common stock sold in this transaction will participate in the 1-for-10 reverse split of the Company's common stock which is scheduled to occur on September 10, 2009.

B. Riley & Co., LLC, acted as the exclusive placement agent for the transaction.

A shelf registration statement relating to the shares of common stock in the offering has been filed with the Securities and Exchange Commission (the "SEC") and has been declared effective. A prospectus supplement relating to the offering will be filed with the SEC. Copies of the prospectus supplement and accompanying prospectus may be obtained at the SEC's website at <http://www.sec.gov> or directly from the Company by written request to Kratos Defense & Security Solutions, Inc., Attention: Investor Relations, 4810 Eastgate Mall, San Diego, CA 92121. This announcement is neither an offer to sell nor a solicitation of an offer to buy any of our shares of common stock. No offer, solicitation or sale will be made in any jurisdiction in which such offer, solicitation or sale is unlawful.

About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (Nasdaq: KTOS) provides mission critical engineering, IT services and war fighter solutions for the U.S. federal government and for state and local agencies. Principal services include C4ISR, weapon systems sustainment, military weapon range operations and technical services, network engineering services, information assurance and cyber security solutions, security and surveillance systems, and critical infrastructure design and integration. The Company is headquartered in San Diego, California, with resources located throughout the U.S. and at key strategic military locations. News and information are available at www.KratosDefense.com.

Notice Regarding Forward-Looking Statements

This news release and filing contains certain forward-looking statements that involve risks and uncertainties, including, without limitation, expressed or implied statements concerning the Company's expectations regarding future financial performance, bid and proposal pipeline, performance of key contracts, market developments, timing of integration activities and anticipated benefits to be realized from recent acquisitions. Such statements are only predictions, and the Company's actual results may differ materially. Factors that may cause the Company's results to differ include, but are not limited to: risks that the integration of recently acquired businesses will prove more costly, take more time, or be more distracting than currently anticipated; risks of adverse regulatory action or litigation; risks associated with debt leverage; risks that our cost cutting initiatives will not provide the anticipated benefits; risks that changes, cutbacks or delays in spending by the U.S. Department of Defense may occur, which could cause delays or cancellations of key government contracts; risks that changes may occur in Federal government (or other applicable) procurement laws, regulations, policies and budgets; risks relating to contract performance; changes in the competitive environment (including as a result of bid protests); failure to successfully consummate acquisitions or integrate acquired operations and competition in the marketplace which could reduce revenues and profit margins; risks that potential future goodwill impairments will adversely affect our operating results; and risks that anticipated tax benefits will not be realized in accordance with our expectations. The Company undertakes no obligation to update any forward-looking statements. These and other risk factors are more fully discussed in the Company's Annual Report on Form 10-K for the period ended December 28, 2008, Quarterly Reports on Form 10-Q for the periods ended March 29, 2009 and June 28, 2009 respectively, and in other filings made with the Securities and Exchange Commission.



DEFENSE & SECURITY SOLUTIONS

KRATOS
FROM STRENGTH TO SUCCESS™



Kratos Defense & Security Solutions, Inc.
(NASDAQ: KTOS)

August 2009

Notice Regarding Forward-Looking Statements

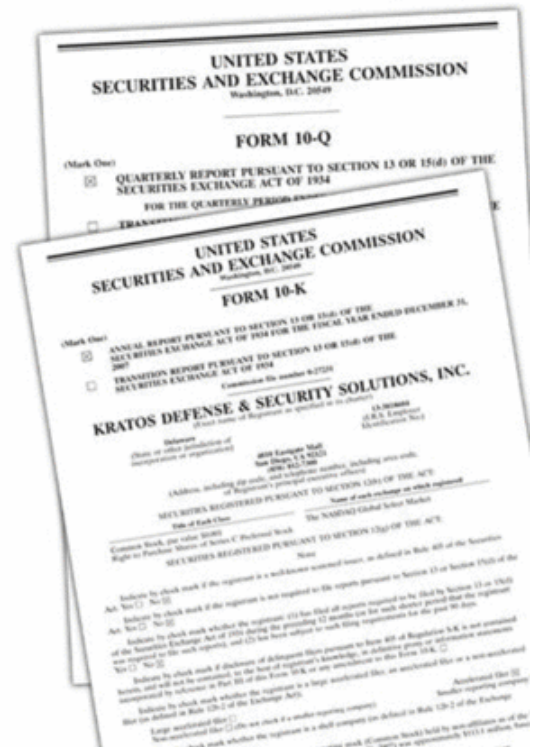


KRATOS
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This presentation contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. Factors that may cause our results to differ include, but are not limited to: changes in the scope or timing of our projects; changes or cutbacks in spending or the appropriation of funding by the federal government, including the U.S. Department of Defense, which could cause delays or cancellations of key government contracts; the timing, rescheduling or cancellation of significant customer contracts and agreements, or consolidation by or the loss of key customers; risks of adverse regulatory action or litigation; risks associated with debt leverage; failure to obtain court approval of the proposed litigation settlement or to ultimately settle the litigation; failure to successfully consummate acquisitions or integrate acquired operations; competition in the marketplace which could reduce revenues and profit margins; and statements regarding our intended uses of the proceeds of offered securities.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We assume no obligation to update any of the forward-looking statements contained herein to conform such statements to actual results or to changes in our expectations.

These risks and uncertainties include those risk factors discussed under the heading "Risk Factors" contained in the Company's prospectus supplement and in its most recent reports on Form 10-K and 10-Q and other reports filed with the Securities and Exchange Commission. Given these risks, uncertainties and other important factors, you should not place undue reliance on these forward-looking statements.



NASDAQ: KTOS

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DEFENSE & SECURITY SOLUTIONS

Who We Are: Kratos at a Glance



KRATOS
FROM STRENGTH TO SUCCESS™

Kratos Defense & Security Solutions (NASDAQ: KTOS) is:

- A government contractor focused on National Defense and Homeland Security
- Primary customers include U.S. federal government agencies, including the Department of Defense (DoD), and other federal, state & local government agencies.
- Headquartered in San Diego, CA
 - Diverse, skilled workforce of ~2,000
 - Majority hold active security clearance, including Top Secret and higher
- Highly experienced management team which has previously built a large government based security business and delivered significant shareholder value

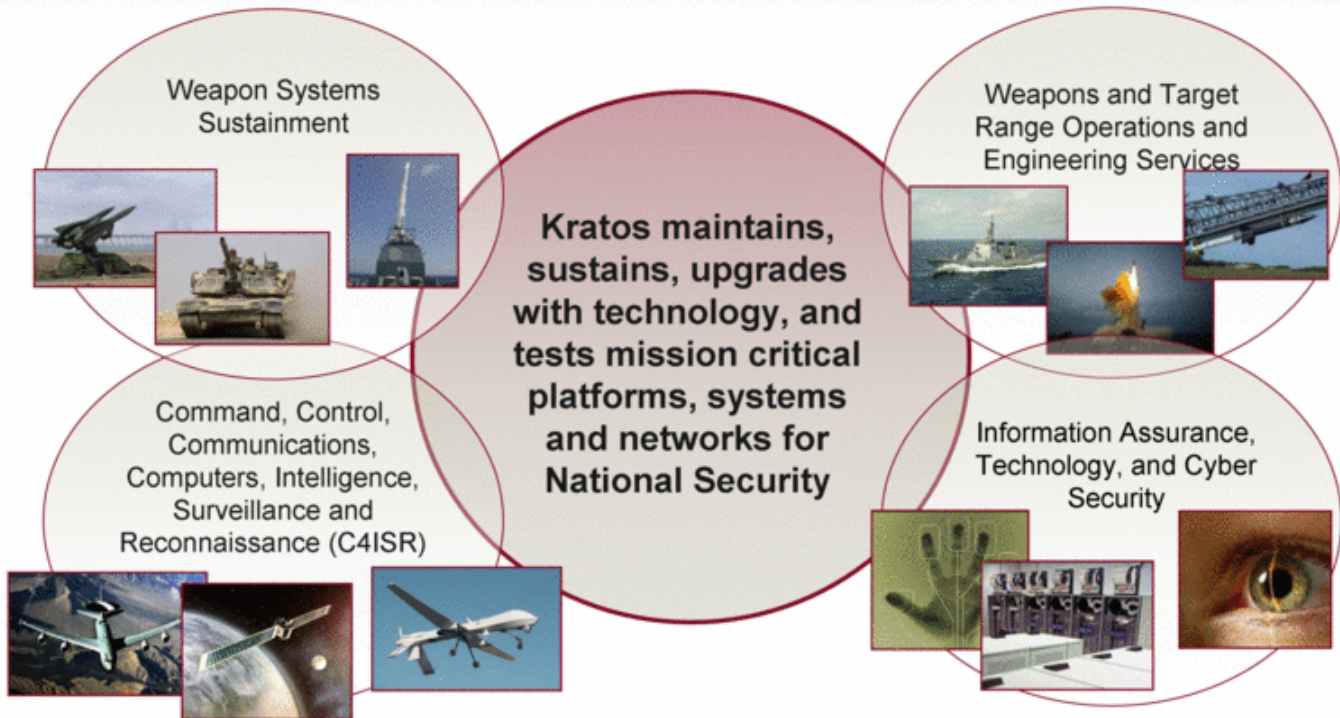


NASDAQ: KTOS

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DEFENSE & SECURITY SOLUTIONS

Core Service Offerings and Capabilities



NASDAQ: KTOS

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DEFENSE & SECURITY SOLUTIONS

Markets and Industry Growth Drivers



Spending on national defense: FY2009 DoD Budget is \$512.7 Billion

Areas stated to be mission critical, stable and growing:

- Intelligence, surveillance and reconnaissance
- Unmanned vehicle systems and technologies
- Command and control systems
- Network centric warfare
- Force operations, sustainment, and maintenance
- Equipment reset & sustainment

U.S. Arms exports are driving rapid increases in Foreign Military Sales (FMS)

- Market potential in 2009 is \$40 Billion, up 45% since 2007
- The United States is the largest arms exporter in the world

Federal information technology & information assurance markets are growing

- Demographic changes, aging of workforce, etc.
- Approx. \$90B in 2009, growing to \$102B in 2012
- Comprehensive National Cybersecurity Initiative (CNSI) could top \$15B over five years

NASDAQ: KTOS

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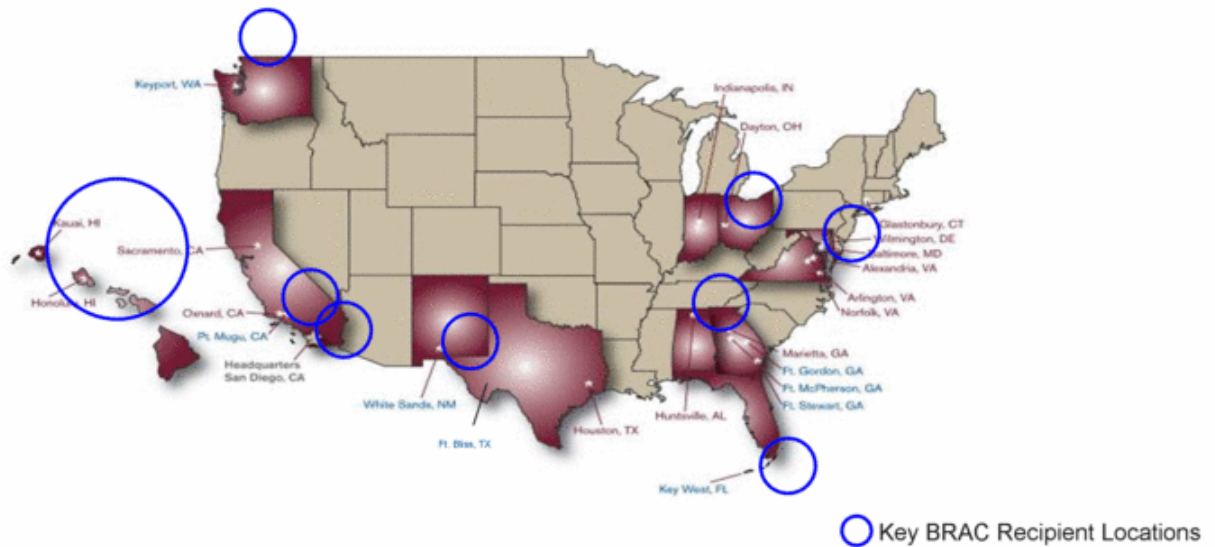
DEFENSE & SECURITY SOLUTIONS

Key Element of Kratos' Strategic Business Model: Base Realignment & Closure



Kratos' strategic plan is based on building a business concentrated at Key Base Realignment & Closure (BRAC) Recipient Locations

- San Diego, Huntsville, Hawaiian Islands, Northern Virginia, Maryland, Washington DC Beltway, Keyport, Wright-Patterson, White Sands, Key West



Kratos BRAC Strategy



KRATOS
FROM STRENGTH TO SUCCESS™

Huntsville, Alabama

Kratos is one of the largest contractors in the area with approximately 600 employees

- In 2005, the Pentagon made the decision to move thousands of Defense jobs from Washington D.C. to Huntsville
- Army Space and Missile Defense Command recently completed moving its headquarters to Huntsville
- Army Materiel Command is currently moving its headquarters from Washington D.C. to Redstone Arsenal, Huntsville — the move is scheduled to be completed by 2011
- Missile Defense Agency is currently moving its headquarters to Huntsville — the move is scheduled to be completed by 2011



Dahlgren, Virginia

Kratos is one of the largest contractors in the area with approximately 200 employees

- Navy Air and Missile Defense Command (NAMDC) just announced last month that it will stand up a new center at Dahlgren
- NAMDC will be a source of excellence for the THAAD and Aegis surface-to-air missile systems, both programs in which Kratos is currently involved



Kratos BRAC Strategy



KRATOS
FROM STRENGTH TO SUCCESS™

San Diego, California

Kratos is headquartered in San Diego with approximately 200 employees

SPAWAR

- Space and Naval Warfare Systems Command Technical Research Center is growing approximately 10% annually
- Admiral Len Hering recently stated that, in the coming years, there will be an additional \$5 billion in military spending in San Diego to develop infrastructure for anticipated BRAC growth
- San Diego hosts the largest concentration of warships and support vessels in the world
- Recent BRAC move of 8 anti-submarine / mine hunter warships from Texas to San Diego
- Projected additional growth in San Diego, West Coast and Hawaii (Kratos has significant presence at Pacific Missile Range Facility, Hawaii) due to Chinese threat



Wright-Patterson AFB, Dayton, Ohio

- Air Force Research Lab moving to Wright-Patterson
- 77th Aerospace Systems Group moving to Wright-Patterson

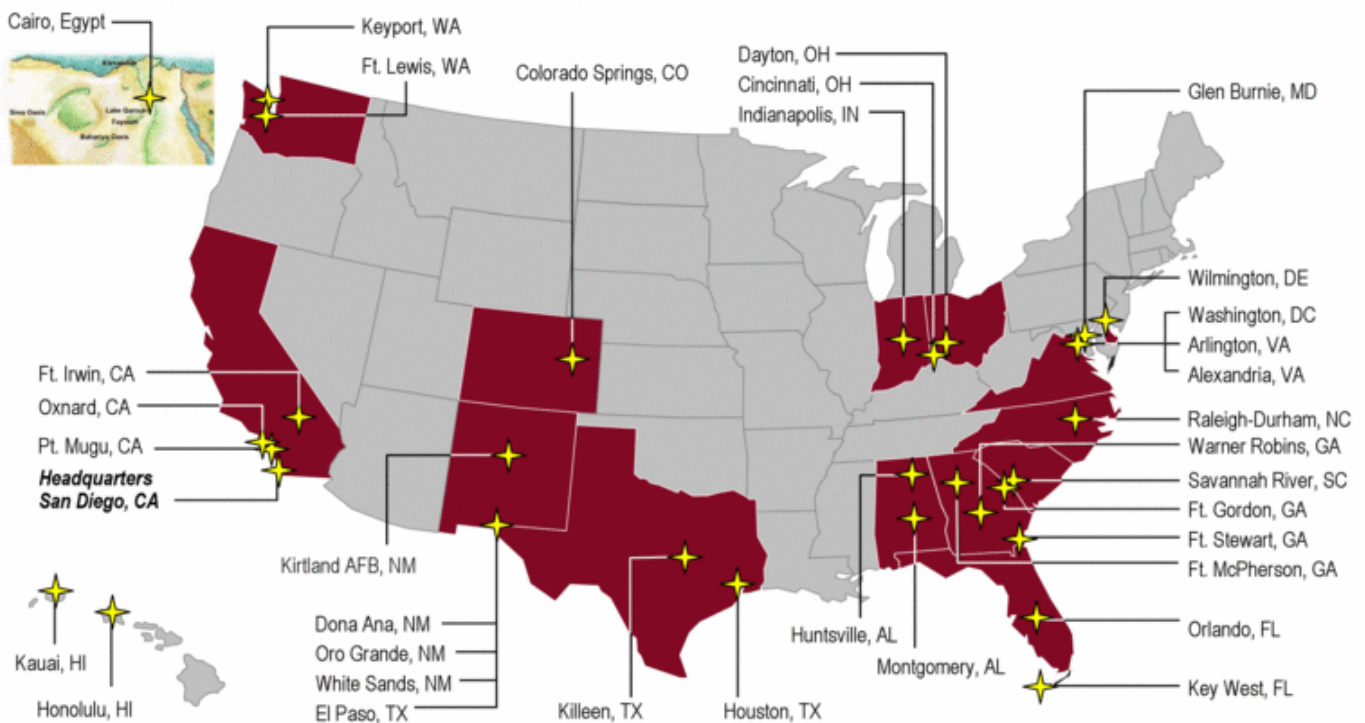




Fort Bliss, Texas – 2005 Base Realignment And Closure commission recommendations:

- 1st Armored Division Headquarters will relocate from Wiesbaden, Germany to Ft. Bliss in May 2011
- 3rd Infantry Brigade Combat Team (BCT) activates at Ft. Bliss in September 2010
- \$5 billion in funding, and a 300 percent increase in Ft. Bliss (Posts) population
- Kratos performs weapon systems related and other equipment reset work

Major Kratos Locations



Representative Kratos' Customers



US Army

- AMCOM
- AMRDEC
- USASMDC/ARSTRAT
- AMC
- Army Corps of Engineers
- Redstone Arsenal Garrison DOIM
- Aberdeen Proving Ground
- PEO Aviation
- PEO EIS
- PEO TM
- PEO STRI
- PEO M&S
- Ft. Bliss
- Ft. Hood
- LOGSA
- USASAC
- FMS



US Navy

- NAVSEA – NSWC, Crane Division
- SeaPort
 - Midwest Zone
 - Gulf Region Zone
- Office of Naval Research
- Naval Facilities Engineering Command, Southern Division
- NAVAIR, Pax River
- NAWCWD, Pt. Mugu



US Air Force

- Wright-Patterson AFB
- Robins AFB
- Aeronautical Systems Center
- Air Force Research Lab
- Kirtland AFB
- Eglin AFB



Defense Advanced Research Projects Agency (DARPA)

- Missile & Space Intelligence Center



Dept of Energy (DOE)

- Savannah River Operations



Missile Defense Agency (MDA)



Defense Intelligence Agency (DIA)

- Missile & Space Intelligence Center



US Dept of Health & Human Services

- Centers for Disease Control & Prevention (CDC)



NASA

- Marshall Space Flight Center
- Johnson Space Center
- Langley Research Center

International

Egypt



Portugal



Morocco



Taiwan



Lithuania



Israel



Spain



Norway



Tunisia



Turkey



Saudi Arabia



Auburn University



EPA

- Research Triangle Park, National Computer Center



State of Tennessee

- Child Welfare Services

Representative Weapon Systems Kratos maintains and sustains for its customers:

Patriot



SLAMRAAM



Hellfire



- Design, Install, Upgrade and Test Weapons and Related Systems

Avenger



NASAAMS



Dragon



- Maintain System Inventories On Site, At Depots

Chaparral



TOW



AMRAAM



- Routine Test and Upgrade of:
- Threat Analysis
- Targets Analysis
- Lethality

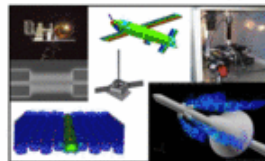
Technical and Engineering Services & Solutions

Logistics Support Services



- Worldwide weapon systems services, maintenance, & repair
- Integrated logistics support
- Rapid prototyping
- Depot support
- Corrosion prevention technologies
- Weapon platform test & evaluation
- Obsolescence/reverse engineering

Advanced Technology



- Aerosciences/applied aerodynamics
- Computational fluid dynamics (CFD)
- Structural/thermal analysis
- EO/IR/polarimetric sensors development
- Airborne sensors development
- Space/satellite sensors development
- Emerging technologies
- Test support

Engineering Support Services



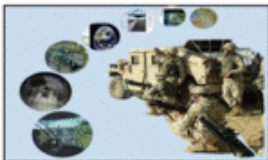
- Weapon systems engineering support services
- Engineering design
- Systems engineering
- Lifecycle software development
- COTS selection & integration
- High-performance computing
- Modeling & simulation

International Programs



- Weapon systems lifecycle support
- Manufacturing
- FMS requirements analysis
- Security assistance
- Overhaul & repair facility planning & design

Integration, Test, Training, & Analysis



- Live, virtual, & constructive event support
- Technical & operational validation
- Data fusion & analysis
- Simulation/training facility design & operations
- BMC4I system design, development, testing, & implementation

Advanced Design, Development, & Prototyping



- Weapon system design, development, & prototyping
- Modeling & simulation
- Guidance, & navigation & control systems
- Integration, test, & demonstration
- Propulsion engineering & analysis

Kratos and Missile Defense

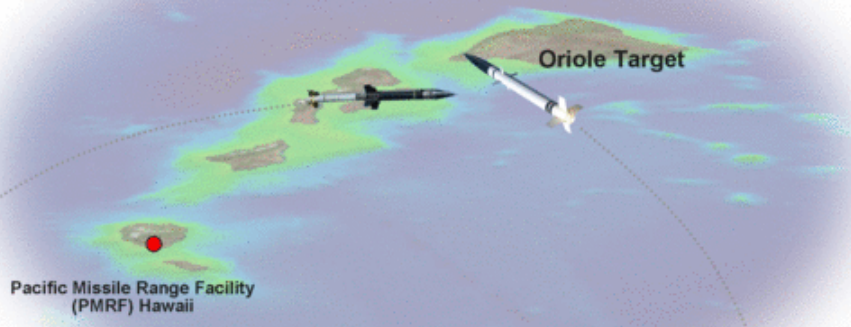


Kratos designs, manufactures, delivers and launches Oriole Rockets – Targets for various Missile Defense related missions



AEGIS

Photos courtesy of U.S. Navy



Rocket Support Services - Target Systems



AEGIS Readiness Assessment Vehicles (ARAV)



ARAV A Terrier Improved Orion



ARAV B Terrier Oriole



White Sands Missile Range (WSMR), New Mexico



Pacific Missile Range Facility (PMRF), Hawaii



Naval Surface Warfare Center (NSWC), Dahlgren



Naval Air Warfare Center (NAWC), Pt. Mugu



Kratos - Gun Range Operations and Technical Services Support



- Kratos supports Naval Surface Warfare Center Dahlgren, Crane, Louisville, Fort AP Hill, Marine Corp Systems Command
- Kratos supports the Test & Evaluation (T&E) of minor, medium and major caliber gun systems, missile warheads and rocket motors

Performance Testing	Characterization Testing
Safety Testing	Live Fire Testing
Gun Barrel Wear Testing	Gun Feed System Testing



NSWC Dahlgren – Main Gun Range

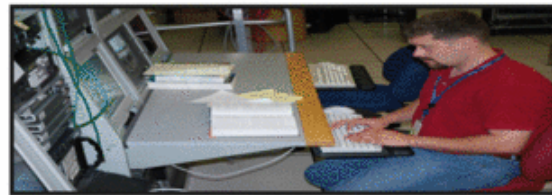
Kratos supports Range Operations a NSWC, Dahlgren's Main Gun Range



Weather Balloon Deployment



Weather and Noise Data Calculations at Range Control



Range Database Development

Kratos - C4ISR



Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR)

- Kratos designs and delivers C4ISR technologies and solutions for various deployed and in-development unmanned systems, including specialized sensor technologies





KRATOS
DEFENSE & SECURITY SOLUTIONS

FOR IMMEDIATE RELEASE

KRATOS' DIGITAL FUSION SUBSIDIARY SUCCESSFULLY COMPLETES FIRST NLOS-T UNMANNED SYSTEM TEST FLIGHT

SAN DIEGO, CA, JULY 14, 2009 – Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading national security, information technology and public safety solutions provider, today announced that its Digital Fusion subsidiary, along with the US Army Aviation and Missile Research, Development and Engineering Center (AMRDEC), NLOS-TS Project Office and the US Army Strategic Missile Defense Command, successfully completed the first guided test flight of the Non-Line of Sight Transport (NLOS-T) proof of principle prototype. The NLOS-T is a program for a canister launched missile or unmanned system capable of delivering a variety of lethal and non-lethal payloads, and of providing Intelligence, Surveillance and Reconnaissance information. NLOS-T is planned for future transition to the Army's Non-Line of Sight Launch System (NLOS-LS).

Kratos/DFI was selected as the prime contractor and commenced design and development of NLOS-T in March of 2006. The NLOS-T program was created to demonstrate a dramatically unique approach toward the development of flexible and affordable, yet highly effective weapon systems. A critical objective of the program is affordability, if thousands or even tens of thousands of these systems were to be procured with varying or different payloads or mission requirements. This affordability will be achieved through heavy utilization of low cost, readily attainable components and technologies in a modular design that can easily be manufactured.

*This highly successful first test flight is a testament to the top engineering talent and capabilities of the Digital Fusion subsidiary and AMRDEC joint development team.

NASDAQ: KTOS

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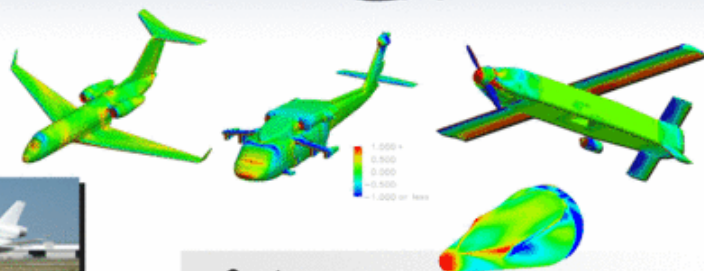
DEFENSE & SECURITY SOLUTIONS

Advanced Technology Capabilities and Customers



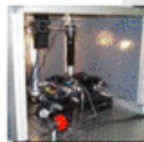
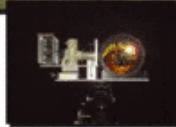
Aerosciences & Engineering Analysis

- Computational fluid dynamics
- Applied aerodynamics
- Aeroacoustics/aero-optics
- Hypersonics
- Structural/thermal analysis
- Weapons sciences
- Test support



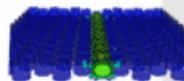
Sensors & Space

- Polarimetric sensors
- EO/IR sensors
- Optical component technology
- Airborne sensors
- Millimeter wave sensors
- Satellite optical sensors
- High-power, short-pulse lasers
- Test support



Emerging Technologies

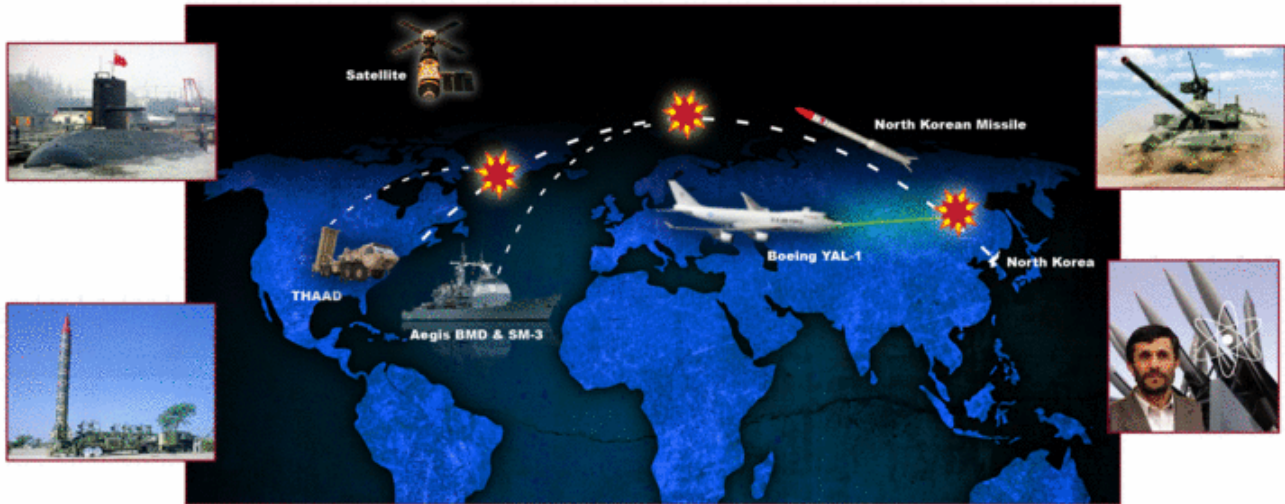
- Directed energy
- Plasmonics, photonics
- Meta-materials
- Novel semiconductor materials
- Terahertz technologies



Customers

- US Army
 - Space & Missile Defense Command
 - Aviation and Missile RDEC
 - Communications and Electronics RDEC
 - Corps of Engineers
- Air Force Research Laboratory
 - Air Vehicles Directorate
 - Munitions Directorate
 - Space Vehicles Directorate
 - Directed Energy Directorate
- US Navy
 - Naval Air Warfare Center Aircraft Division
 - Office of Naval Research (ONR)
- Missile & Space Intelligence Center/DIA
- Missile Defense Agency
- Defense Advanced Research Projects Agency
- NASA Johnson Space Center

- Kratos is one of the few private sector enterprises with significant supercomputing assets which are under contract for various modeling and simulation scenarios, including war gaming





Kratos Specializes in:

Network Solutions – Enterprise Information Management (EIM)

Information Assurance – Workforce Training and Development

- Network Solutions – Kratos assures the reliability, availability, and security of networks
- EIM – with the volume of information increasing exponentially, the government is looking for new approaches to finding, managing and distributing information to use for better decision making on the battlefield
- IA & Cybersecurity – Kratos designs systems to protect information, and delivers products and solutions that provide situational awareness, protection and readiness on the cyber warfront
- Workforce Training and Development – technology-based scenario training, simulation, elearning, including collaborative learning environments – the U.S. military is keenly aware that continuous training, learning, and human success factor measurement is an essential strategic advantage

IT, Information Assurance, Security & Cybersecurity



Proprietary Critical Network Management Software:

- Manages all networked technologies in a single dashboard across distributed/hierarchical networks. Assures compliance by managing availability of responsiveness of Intrusion Detection Systems, firewalls, antivirus and forensics tools
- Customers include: DISA, Missile Defense, Army JMOS, National Guard, and the State Department
- NeuralStar™ - Targets large complex or converged networks in organizations where systems reliability is critical to mission success, especially in the military and intelligence communities
- DopplerVue™ - Provides integrated fault and performance management for small and mid-sized tactical and field networks



Cyber Security & Information Assurance Solutions



In the United States National Security **Network Center Warfare (NCW)** strategy, the network provides the critical technological advantage delivering information superiority to the war fighter

- Kratos has proven experience designing, building and operating networks in some of the world's most rigorous and security conscious military, intelligence and government environments
- Kratos specializes in solutions that provide situational awareness through a strategic view of the entire network, protection services and learning programs that ensure operators are ready and able to defend the network at all times

Representative Customers:

Missile Defense Agency
United States Army

Intelligence Agencies
Defense Information Systems Agency



Representative Programs – IT, Network Solutions, Information Assurance & Cybersecurity



Ballistic Missile Defense Agency (BMDA)

Monitoring the performance of the Ballistic Missile Defense System's Control Battle Management (C2BMC) network since 2002.



Defense Contract Management Agency (DCMA)

Transformed the network from DISANet to a separate stand-alone network supporting 13,000 users.



Defense Information Systems Agency (DISA)

Managing the backbone of the world's largest communications provider since 1999.



Defense Logistics Agency (DLA)

Transformed five stand-alone telecommunications networks into one fully integrated and secure network.



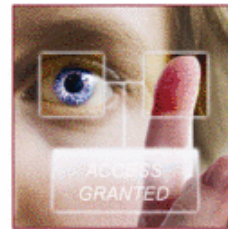
Joint Management Operations Subsystems

Provide fault and performance information in a unified and aggregated view for improved decision making.

Kratos – Military Base and Strategic Asset Security



KRATOS
FROM STRENGTH TO SUCCESS™



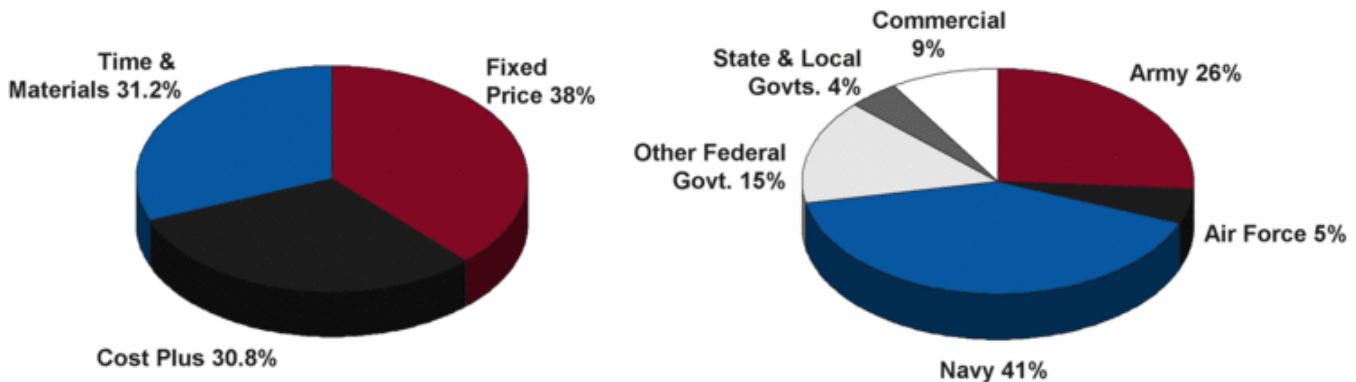
Kratos designs, integrates, installs, operates, and maintains security systems at strategic assets and locations

Kratos Contract & Customer Base

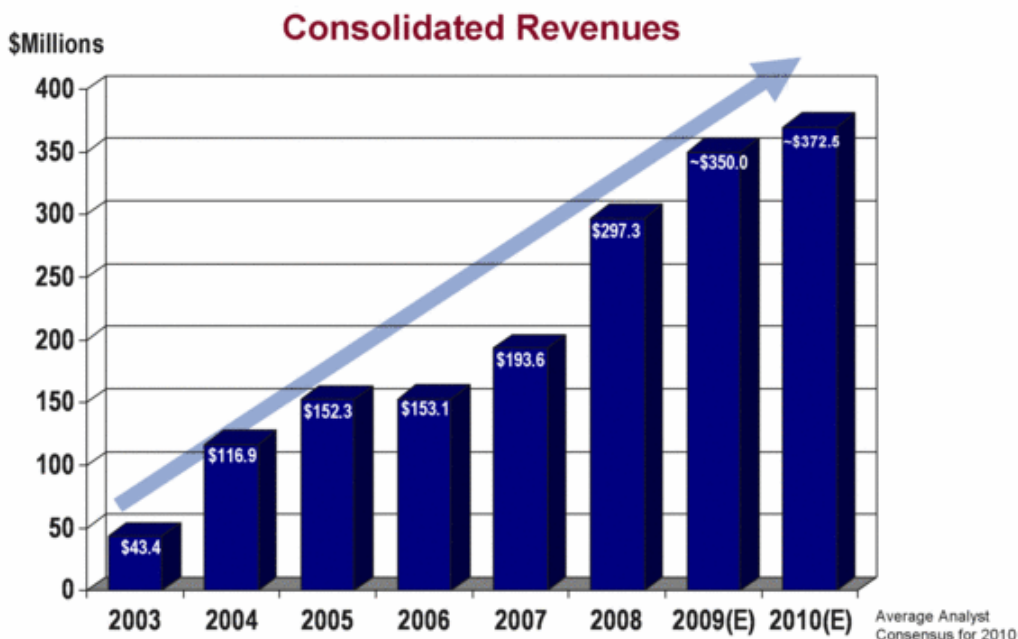


Kratos has a broad contract and customer base with no major program or contract concentration

- Majority of Kratos' Contract Vehicles are 'Full and Open Competition' Prime Contracts
- No single Kratos contract accounts for greater than ~3% of annual revenue
 - Federal government contract vehicles are typically 5 years in length and backlog is typically multi-quarter/year = relativity stable and predictable business model
 - Federal government contract procurement is approximately 2 years in length and re-competitions are typically 90%+ win rate by incumbent, industry norm



Kratos' CAGR Rate is ~20%

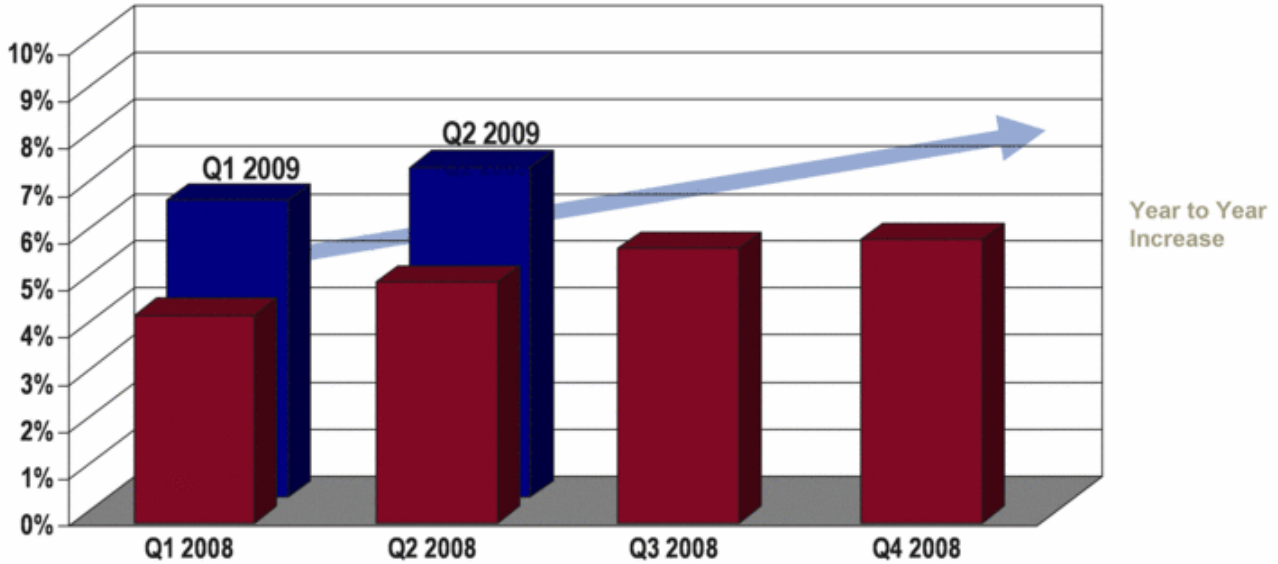


Target Organic Growth Rate of 5-10% once integration is complete and business development organization matures

Increasing Profitability



Targeting Peer EBITDA rate of ~8-10%



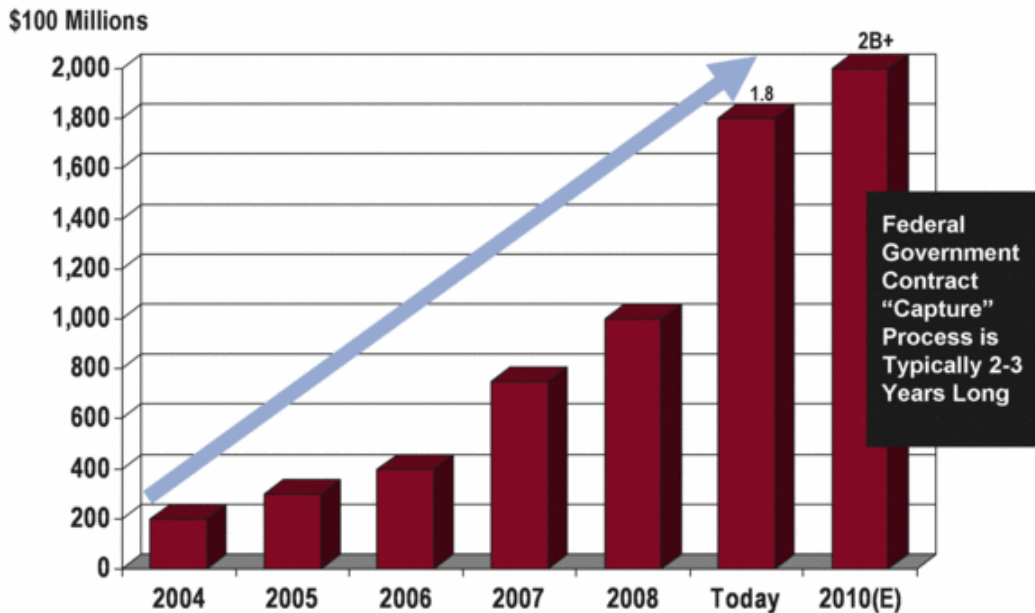
Six Quarters of Sequential EBITDA* Growth

*The most directly comparable GAAP financial measures and information reconciling EBITDA to the Company's financial results is posted on the company's web site.

Kratos has a Significant Bid and Proposal "Pipeline" that is Growing



Qualified Bid & Proposal Pipeline ~ \$1.8 Billion
Backlog today ~ \$640 million



Federal Government Contract "Capture" Process is Typically 2-3 Years Long

Does not include GSA or IDIQ amounts.

Recent Representative Kratos' Contract Wins



The business development organization that we are building today will "Bear Fruit" in 2011 and beyond...

KRATOS
DEFENSE & SECURITY SOLUTIONS
FOR IMMEDIATE RELEASE

KRATOS AWARDED \$2.7 MILLION ARMY VIDEO SURVEILLANCE AND SECURITY CONTRACT

Award extends Kratos' 3-year Video Surveillance/CCTV installation and maintenance responsibilities for an additional 5 years, including options

KRATOS
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FOR IMMEDIATE RELEASE

KRATOS AWARDED NEW CONTRACT TO CONTINUE CRITICAL NETWORK INFRASTRUCTURE UPGRADE OF MAJOR WEST COAST HEALTH ORGANIZATION

SAN DIEGO, CA, April 6, 2009 – Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading national security, information technology and public safety solutions provider, today announced that it has been awarded a new contract to continue critical network infrastructure upgrade of a major West Coast health organization. The contract is valued at approximately \$2.7 million and includes the installation and maintenance of network infrastructure at multiple facilities. The contract is a major milestone for Kratos as it demonstrates the company's ability to provide comprehensive network solutions in the health care sector. "We are proud to be selected as the network infrastructure provider for this organization and look forward to continuing our partnership with them," said [Name], President of Kratos Defense & Security Solutions, Inc. "This contract is a testament to our expertise in providing secure, reliable network solutions for our clients."

KRATOS
DEFENSE & SECURITY SOLUTIONS
FOR IMMEDIATE RELEASE

KRATOS AND INDUS TEAM AWARDED \$21 MILLION NAVAL UNDERSEA WARFARE CENTER CONTRACT

SAN DIEGO, CA, June 16, 2009 – Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading national security, information technology and public safety solutions provider, today announced that it has been awarded a substantial portion of a new contract with the Naval Undersea Warfare Center (NUWC). The contract is valued at approximately \$21 million and includes the development and testing of undersea warfare systems. "We are very pleased to be selected as a team partner for this important contract," said [Name], President of Kratos Defense & Security Solutions, Inc. "This contract is a testament to our expertise in providing advanced undersea warfare solutions for our clients."

KRATOS
DEFENSE & SECURITY SOLUTIONS
FOR IMMEDIATE RELEASE

KRATOS NAMED AS ALLIANT GSA AWARD RECIPIENT \$500 Multiple Award IDIQ Contract Greatly Enhances Pursuit of Information Technology Programs

SAN DIEGO, CA, April 1, 2009 – Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading national security, information technology and public safety solutions provider, today announced that its subsidiary SYS Technologies has been named as an award recipient on the General Services Administration (GSA) Alliant 100 year (five year base plus five year options) multiple award, indefinite delivery, indefinite quantity (IDIQ) contract with a ceiling value of \$50 billion. The Alliant contract is designed to provide support in a variety of areas which are central to Kratos' business. "We are proud to be selected as an award recipient on this important contract," said [Name], President of Kratos Defense & Security Solutions, Inc. "This contract is a testament to our expertise in providing advanced information technology solutions for our clients."

KRATOS
DEFENSE & SECURITY SOLUTIONS
FOR IMMEDIATE RELEASE

KRATOS AWARDED FOREIGN MILITARY SALES WEAPON SYSTEMS TASK VALUED AT APPROXIMATELY \$6.6 MILLION

New Engineering Assignment Brings Total Task Order Funding to Approximately \$71.5 Million

SAN DIEGO, CA, May 20, 2009 – Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading national security, information technology and public safety solutions provider, today announced that it has been awarded a new contract to provide engineering support for a foreign military sales weapon systems task. The contract is valued at approximately \$6.6 million and includes the development and testing of weapon systems. "We are proud to be selected as the engineering support provider for this important task," said [Name], President of Kratos Defense & Security Solutions, Inc. "This contract is a testament to our expertise in providing advanced weapon systems solutions for our clients."

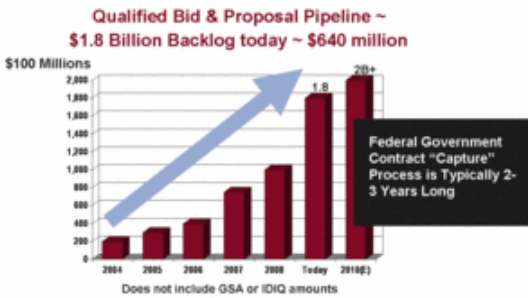
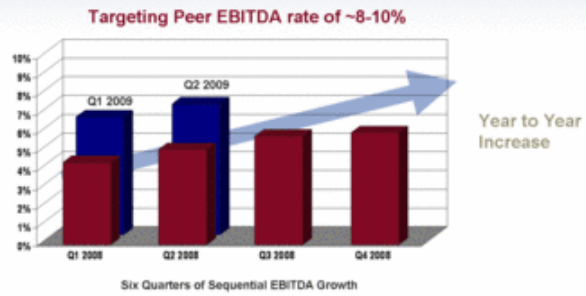
KRATOS
DEFENSE & SECURITY SOLUTIONS
FOR IMMEDIATE RELEASE

KRATOS AWARDED LEARNING SOLUTIONS C4I TASK ORDER FOR THE NAVY VALUED AT APPROXIMATELY \$2.2 MILLION

New Partnership With Program Executive Office (PEO C4I)

SAN DIEGO, CA, April 14, 2009 – Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS), a leading national security, information technology and public safety solutions provider, today announced that it has been awarded a new contract to provide learning solutions for the Navy. The contract is valued at approximately \$2.2 million and includes the development and testing of learning solutions. "We are proud to be selected as the learning solutions provider for this important task," said [Name], President of Kratos Defense & Security Solutions, Inc. "This contract is a testament to our expertise in providing advanced learning solutions for our clients."

Financial Highlights



Current Assets	6/28/09
Current Liabilities	\$101.7M
Working Capital	\$70.0M
	\$31.7M
Total Assets	\$249.8M
Total Liabilities	\$146.9M
Stockholders Equity	\$102.9M

Net Debt	6/30/09
Debt to Equity	\$72.2M
	.70x

*Kratos has approximately \$200M in unlimited net operating less carry forwards which extend through 2027, virtually eliminating cash paid for federal income taxes

Competitive Strengths of Business Model



Differentiated Expertise

- Kratos has accumulated highly-differentiated expertise primarily in the areas of Weapon Systems Sustainment, Military Equipment Reset, C4ISR, Military Weapons Range Operations, and Information Assurance & Security

Experienced Management Team

- Management Team has significant federal government industry experience including substantial execution, operational, M&A and integration experience
- Kratos Executive Team, including CEO, CFO, VP Operations and M&A, VP Financial & Business Systems, and others, played a primary role in building the Titan Corporation (NYSE: TTN) from ~\$100 Million to ~\$2 Billion, ultimately sold to L-3 Communications



- Kratos' business is aligned with today's and the futures defense and national security priorities
- Kratos has a solid strategic business plan
 - Base Realignment and Closure (BRAC) focused
 - C4ISR, Missile Defense, Weapons Systems Sustainment, Information Assurance and Cybersecurity
 - No single contract or program concentration (<3% Revenue)
 - No "high profile" program concentration (F-22, Aerial Tanker, DDG-1000)
 - Stable and predictable business model – long term government contracts
 - Significant free cash flow generation
 - Increasing profitability
 - Business Development strategy and execution just beginning with "combined" Kratos' qualifications and capabilities