

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

FORM S-8
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3818604
(I.R.S. Employer
Identification No.)

4820 Eastgate Mall
San Diego, California 92121
(Address of Principal Executive Offices)(Zip Code)

Amended and Restated Herley Industries, Inc. 2010 Stock Plan
Amended and Restated Integral Systems, Inc. 2008 Stock Incentive Plan
(Full titles of the plans)

Deanna H. Lund
Executive Vice President and Chief Financial Officer
Kratos Defense & Security Solutions, Inc.
4820 Eastgate Mall
San Diego, California 92121
(Name and address of agent for service)
(858) 812-7300
(Telephone number, including area code, of agent for service)

Copy to:

Deyan Spiridonov, Esq.
Teri O'Brien, Esq.
Paul Hastings LLP
4747 Executive Drive, 12th Floor
San Diego, California 92121

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of securities to be registered(1)	Amount to be registered (2)	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Amended and Restated Herley Industries, Inc. 2010 Stock Plan (3)				
Common Stock, par value \$0.001 per share	503,704	\$ 6.10(4)	\$ 3,072,594.40	\$ 352.12
Amended and Restated Integral Systems, Inc. 2008 Stock Incentive Plan(5)				
Common Stock, par value \$0.001 per share	1,031,538(6)	\$ 6.10(4)	\$ 6,292,381.80	\$ 721.11(7)

- (1) Each share of common stock, par value \$0.001 per share ("**Common Stock**"), of Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "**Registrant**"), includes a right to purchase one one-hundredth of a share of Series C Preferred Stock of the Registrant, par value \$0.001 per share (each a "**Purchase Right**"), under certain circumstances.
- (2) Pursuant to Rule 416(a) of the Securities Act of 1933, as amended (the "**Securities Act**"), this Registration Statement shall also cover any additional shares of Common Stock that may be offered or issued in connection with any stock dividend, stock split, recapitalization or other similar transaction effected without receipt of consideration that increases the number of outstanding shares of Common Stock.
- (3) Pursuant to an Agreement and Plan of Merger, dated February 7, 2011, by and among the Registrant, Lanza Acquisition Co., a Delaware corporation and wholly owned subsidiary of the Registrant, and Herley Industries, Inc., a Delaware corporation ("**Herley**"), the Registrant acquired Herley on March 30, 2011. The number of shares of Common Stock to be registered pursuant hereto consists of 503,704 shares of Common Stock that may be issued and sold pursuant to awards granted under the Amended and Restated Herley 2010 Stock Plan (the "**2010 Herley Plan**"), as confirmed by the Registrant's board of directors on February 20, 2012.
- (4) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(h) and Rule 457(c) under the Securities Act. The price per share and aggregate offering price are based upon the average of the high and low sales prices of the Common Stock on March 5 2012, as reported on the NASDAQ Global Select Market.
- (5) Pursuant to an Agreement and Plan of Merger, made and entered into as of May 15, 2011 (the "**Integral Agreement**"), by and among the Registrant, IRIS Merger Sub Inc., a Maryland corporation and wholly owned subsidiary of the Registrant, IRIS Acquisition Sub LLC, a Maryland limited liability company and wholly owned subsidiary of the Registrant, and Integral Systems, Inc., a Delaware corporation ("**Integral**"), the Registrant assumed, pursuant to the Amended and Restated Integral 2008 Stock Incentive Plan (the "**2008 Integral Plan**") and the Integral Amended and Restated 2002 Stock Option Plan (the "**2002 Integral Plan**"), each option to purchase Integral common stock that was outstanding and unexercised immediately prior to the completion of the merger contemplated by the Integral Agreement and not cancelled in exchange for cash at the effective time of such merger per the written instructions of the holder thereof (the "**Assumed Options**"). Pursuant to the terms of the Integral Agreement, the Assumed Options were converted into options to purchase shares of Common Stock.
- (6) Represents (i) 983,741 shares of Common Stock that may be issued and sold pursuant to awards granted under the 2008 Integral Plan, as confirmed by the Registrant's board of directors on February 20, 2012, and (ii) up to an additional 47,797 shares of Common Stock which are currently subject to Assumed Options but which may, under certain circumstances, become issuable under the 2008 Integral Plan pursuant to the terms thereof.
- (7) The registration fee is offset by an aggregate of \$85.24 previously paid by the registrant with respect to 42,061 shares of Common Stock subject to Assumed Options under the 2008 Integral Plan and 5,736 Assumed Options under the 2002 Integral Plan (each of which may, under certain circumstances, become issuable under the 2008 Integral Plan pursuant to the terms thereof), pursuant to the Registrant's Registration Statement on Form S-8 (File No. 333-177494) filed with the Securities and Exchange Commission (the "**Commission**") on October 24, 2011.

INTRODUCTORY NOTES

On March 30, 2011, the Registrant completed the previously announced merger (the "**Herley Merger**") of Lanza Acquisition Co., an indirect wholly owned subsidiary of the Registrant, with and into Herley, whereby Herley became a wholly owned subsidiary of the Registrant.

On July 27, 2011, the Registrant completed the previously announced merger (the "**Integral Merger**") of IRIS Merger Sub Inc., a wholly owned subsidiary of the Registrant, with and into Integral, whereby Integral became a wholly owned subsidiary of the Registrant. Upon the completion of the Integral Merger,

each option to purchase Integral common stock that was outstanding and unexercised immediately prior to such time, and was not cancelled in exchange for cash at the effective time of the Integral Merger per the written instructions of the holder thereof, was assumed by the Registrant and converted into and became an option to purchase Common Stock, adjusted based on the exchange ratio set forth in the Integral Agreement. The Assumed Options are subject to the terms (as in effect as of the date of the Integral Agreement) of the applicable Integral Plan and the option agreement pursuant to which such Assumed Options were granted.

On February 20, 2012, the Registrant's board of directors confirmed (i) the assumption of the 2010 Herley Plan and 2008 Integral Plan, in each case in accordance with NASDAQ Rule 5635, which provides that shares available under certain plans acquired in mergers and other acquisitions may be used for certain post-transaction grants without further stockholder approval and (ii) amendments to the 2008 Integral Plan and the 2010 Herley Plan, in order to permit the future grant of awards, including restricted stock unit awards, by the Registrant pursuant to such plans. Accordingly, this Registration Statement registers (a) an aggregate of 503,704 shares of Common Stock that may be issued and sold pursuant to awards granted under the 2010 Herley Plan, which number represents the number of shares available for issuance under the 2010 Herley Plan as of the completion of the Herley Merger, adjusted based on the exchange ratio used in connection with the Herley Merger, (b) up to an additional 1,031,538 shares of Common Stock, comprised of (1) 47,797 shares of Common Stock which are currently subject to outstanding Assumed Options, but which may, under certain circumstances, become issuable under the 2008 Integral Plan pursuant to the terms thereof and (2) 983,741 shares of Common Stock that may be issued and sold pursuant to awards granted under the 2008 Integral Plan, which number represents the number of shares available for issuance under the 2008 Integral Plan as of the completion of the Integral Merger, adjusted based on the exchange ratio used in connection with the Integral Merger, and (c) the Purchase Rights related to the shares referenced in clauses (a) and (b).

PART I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

The document(s) containing the information specified in Part I will be sent or given to employees as specified by Rule 428(b)(1) of the Securities Act. Such documents are not being filed with the Commission either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424 of the Securities Act. Such documents and the documents incorporated by reference in this Registration Statement pursuant to Item 3 of Part II hereof, taken together, constitute a prospectus that meets the requirements of Section 10(a) of the Securities Act.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

The following documents filed with the Commission by the Registrant are incorporated by reference in this Registration Statement:

- (a) The Registrant's latest annual report on Form 10-K filed pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), containing audited financial statements for the Registrant's fiscal year ended December 25, 2011 as filed with the Commission on March 7, 2012;
- (b) The Registrant's Current Reports on Form 8-K filed with the Commission on March 7, 2012;
- (c) The (i) audited historical financial information for Herley Industries, Inc. for the fifty-two weeks ended August 1, 2010 and August 2, 2009, and the fifty-three weeks ended August 3, 2008, including the auditor's reports related thereto, attached as Annex B of the Prospectus Supplement to the Registrant's Registration Statement on Form S-3 (File No. 333-161340), filed with the Commission on February 8, 2011, and (ii) unaudited historical financial information for Herley Industries, Inc. as of and for the

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twenty-six weeks ended January 30, 2011 and January 31, 2010, attached as Exhibit 99.1 to the Registrant's Registration Statement on Form S-3 (File No. 333-173099), filed with the Commission on March 25, 2011;

- (d) The (i) audited consolidated financial statements for Integral Systems, Inc. as of September 24, 2010 and September 25, 2009 and for each of the fiscal years ended September 24, 2010, September 25, 2009, and September 30, 2008 and related notes to the consolidated financial statements, attached as Exhibit 99.1 to the Registrant's Current Report on Form 8-K/A, filed with the Commission on October 11, 2011, and (ii) unaudited consolidated financial statements for Integral Systems, Inc. as of April 1, 2011 and for the six month periods ended April 1, 2011 and March 26, 2010 and related notes to the consolidated financial statements, giving effect to the merger, attached as Exhibit 99.2 to the Registrant's Current Report on Form 8-K/A, filed with the Commission on October 11, 2011;
- (e) The description of the Common Stock contained in the Registrant's Registration Statement on Form 8-A filed under Section 12(g) of the Exchange Act on September 3, 1999, including any subsequent amendment or report filed for the purpose of amending such description; and
- (f) The description of the Registrant's purchase rights for Series C Preferred Stock, par value \$0.001 per share, contained in the Registrant's Registration Statement on Form 8-A filed under Section 12(g) of the Exchange Act on December 17, 2004, including any subsequent amendment or report filed for the purpose of amending such description.

All reports and other documents filed by the Registrant pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Registration Statement and prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold, are incorporated by reference in this Registration Statement and are a part hereof from the date of filing of such reports and other documents, except as to any portion of any such report or other document furnished under current Items 2.02 or 7.01 of Form 8-K that is not deemed filed under such provisions. Any statement contained in a report or other document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein or in any other subsequently filed report or other document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

Not applicable.

Item 6. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law authorizes a court to award or a corporation's board of directors to grant indemnification to directors and officers on terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. The Registrant's second amended and restated bylaws provide for indemnification of its directors, officers, employees and agents to the maximum extent permitted by the Delaware General Corporation Law. The Registrant's amended and restated certificate of incorporation provides that the liability of its directors for monetary damages shall be eliminated to the fullest extent permitted under applicable law. The Registrant has entered into indemnification agreements with its officers and directors and it maintains directors and officers liability insurance.

Item 7. Exemption From Registration Claimed.

Not applicable.

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Item 8. Exhibits.

The following is a list of exhibits filed as part of this Registration Statement, which are incorporated herein:

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date/Period End Date	Exhibit	
4.1	Amended and Restated Certificate of Incorporation.	10-Q	09/30/01	4.1	
4.2	Certificate of Ownership and Merger of Kratos Defense & Security Solutions, Inc. into Wireless Facilities, Inc.	8-K	09/12/07	3.1	
4.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Kratos Defense & Security Solutions.	10-Q	09/27/09	3.1	
4.4	Certificate of Designations, Preferences and Rights of Series A Preferred Stock.	10-Q	09/30/01	4.2	
4.5	Certificate of Designations, Preferences and Rights of Series B Preferred Stock (included as Exhibit A to the Preferred Stock Purchase Agreement dated as of May 16, 2002 among the Company, Meritech Capital Partners II L.P., Meritech Capital Affiliates II L.P., MCB Entrepreneur Partners II L.P., Oak Investment Partners X, Limited Partnership, Oak X Affiliates Fund, Limited Partnership, Oak Investment Partners IX, L.P, Oak Affiliates Fund, L.P, Oak IX Affiliates Fund-A, L.P, and the KLS Trust dated July 14, 1999).	8-K/A	06/05/02	4.1	
4.6	Certificate of Designation of Series C Preferred Stock	8-K	12/17/04	3.1	
4.7	Second Amended and Restated Bylaws.	8-K	03/15/11	3.1	
4.8	Specimen Common Stock Certificate.	10-K	03/02/11	4.1	
4.9	Rights Agreement, dated as of December 16, 2004, between Kratos Defense & Security Solutions, Inc. and Wells Fargo, N.A.	8-K	12/17/04	4.1	
4.10	Amended and Restated Herley Industries, Inc. 2010 Stock Plan, and the forms of agreement related thereto.				X
4.11	Amended and Restated Integral Systems, Inc. 2008 Stock Incentive Plan, and the forms of agreement related thereto.				X
5.1	Opinion of Paul Hastings LLP.				X
23.1	Consent of Paul Hastings LLP (contained in Exhibit 5.1 to this Registration Statement).				X
23.2	Consent of Independent Registered Public Accounting Firm, Grant Thornton LLP.				X

23.3	Consent of Registered Public Accounting Firm, Marcum LLP.	X
23.4	Consent of Registered Public Accounting Firm, Brightman Almagor Zohar & Co.	X

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23.5	Consent of Registered Public Accounting Firm, Grant Thornton LLP.	X
23.6	Consent of Independent Registered Public Accounting Firm, KPMG LLP.	X
23.7	Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP.	X
24.1	Power of Attorney (contained on the signature pages of this Registration Statement).	X

Item 9. Undertakings.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if this Registration Statement is on Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in this Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(h) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of the expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on this 7th day of March, 2012.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, Eric M. DeMarco and Deborah Butera his or her attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Registration Statement on Form S-8 (including post-effective amendments), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Eric M. DeMarco</u> Eric M. DeMarco	President, Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	March 7, 2012
<u>/s/ Deanna H. Lund</u> Deanna H. Lund	Executive Vice President and Chief Financial Officer <i>(Principal Financial Officer)</i>	March 7, 2012
<u>/s/ Laura L. Siegal</u> Laura L. Siegal	Vice President and Corporate Controller <i>(Principal Accounting Officer)</i>	March 7, 2012
<u>/s/ Scott I. Anderson</u> Scott I. Anderson	Director	March 7, 2012
<u>/s/ Bandel L. Carano</u> Bandel L. Carano	Director	March 7, 2012
<u>/s/ William A. Hoglund</u> William A. Hoglund	Director	March 7, 2012
<u>/s/ Scot B. Jarvis</u> Scot B. Jarvis	Director	March 7, 2012
<u>/s/ Jane E. Judd</u> Jane E. Judd	Director	March 7, 2012
<u>/s/ Samuel N. Liberatore</u> Samuel N. Liberatore	Director	March 7, 2012

EXHIBIT INDEX

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23.4	Consent of Registered Public Accounting Firm, Brightman Almagor Zohar & Co.				X
23.5	Consent of Registered Public Accounting Firm, Grant				X

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Thornton LLP.

23.6	Consent of Independent Registered Public Accounting Firm, KPMG LLP.				X
23.7	Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP.				X
24.1	Power of Attorney (contained on the signature pages of this Registration Statement).				X

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HERLEY INDUSTRIES, INC.
AMENDED AND RESTATED 2010 STOCK PLAN
Amended and Restated as of February 20, 2012

I. GENERAL PROVISIONS**A. PURPOSE OF THE PLAN**

This 2010 Stock Plan (the "Plan") is intended to promote the interests of KRATOS DEFENSE & SECURITY SOLUTIONS, INC., a Delaware corporation ("Corporation"), by providing Eligible Persons (as defined in Section I(D) below) with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to continue in such employ or service.

Unless otherwise defined herein, all capitalized terms shall have the meaning assigned to them in the attached Appendix.

B. STRUCTURE OF THE PLAN

The Plan shall be divided into two (2) separate equity programs:

(i) the Option Grant Program under which Eligible Persons may, at the discretion of the Board, be granted options to purchase Shares of Common Stock, thereby becoming Optionees.

(ii) the Stock Issuance and Restricted Stock Unit Program under which Eligible Persons may, at the discretion of the Board, be issued shares of common stock directly, through the immediate purchase of such shares, as a bonus for services rendered to the Corporation (or any Parent or Subsidiary), or the grant and vesting of Restricted Stock Units (RSUs), thereby becoming Participants.

The provisions of Articles One and Four shall apply to both equity programs under the Plan and shall accordingly govern the interests of all persons under the Plan.

C. ADMINISTRATION OF THE PLAN

The Plan shall be administered by the Corporation's Board of Directors ("Board"), or in the discretion of the Board, a committee consisting of no less than two Non-Employee Directors or persons meeting such other requirements as may be imposed by Rule 16(b) under the 1934 Act ("Committee").

The Board or Committee shall have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for proper administration of the Plan and to make such determinations under, and issue such interpretations of, the Plan and any outstanding options or stock issuances thereunder as it may deem necessary or advisable. Decisions of the Board shall be final and binding on all parties who have an interest in the Plan or any option or stock issuance thereunder.

D. ELIGIBILITY

The persons eligible to participate in the Plan ("Eligible Persons") are:

1. Officers, directors, employees and consultants; and
2. Consultants and other independent advisors who provide services to the Corporation, or any parent or subsidiary of the Corporation.

Awards or Grants may be granted after March 30, 2011 to individuals who were not employed by the Corporation, or its subsidiaries, on March 30, 2011. Notwithstanding the foregoing, individuals who were employed by Herley Industries, Inc. on March 30, 2011 may also be granted Awards or Grants under the Plan.

Notwithstanding the foregoing, the following limitations shall apply:

1. Incentive Options may only be granted to Employees other than the Chairman, Chief Executive Officer and directors.
2. Nothing in this Plan, as amended extends the time during which Shares of Common Stock are available for Awards or Grants beyond the period when they would have been available under the Plan as it existed on the date prior to March 30, 2011.
3. To the extent required by NASDAQ Listing Rule 5635 and IM-5635-1, Awards or Grants after March 30, 2011 may not be granted to individuals who were employed by or providing services to the Corporation, or its subsidiaries, on March 30, 2011.

The Board or Committee shall have full authority to determine, (i) with respect to the grants made under the Option Grant Program, described in Article Two below, which Eligible Persons are to receive the option grants, the time or times when those grants are to be made, the number of shares to be covered by each such grant, the status of the granted option as either an Incentive Option or a Non-Qualified Option, the time or times when each option is to become exercisable, the vesting schedule (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding, and (ii) with respect to stock issuances or RSU Awards made under the Stock Issuance and Restricted Stock Unit Program, described in Article Three, which Eligible Persons are to receive such stock issuances or RSU Awards, the time or times when those issuances or RSU Awards are to be made, the number of shares or RSU Awards to be issued to each Participant, the vesting schedule (if any) applicable to the issued shares or awarded RSUs and the consideration to be paid by the Participant for such shares or RSUs.

The Board or Committee shall have the absolute discretion either to grant options in accordance with the Option Grant Program, to issue stock in accordance with the Stock Issuance Program, or to award RSUs in accordance with the Restricted Stock Unit Program.

E. STOCK SUBJECT TO THE PLAN

The stock issuable under the Plan shall be shares of the Corporation's authorized but unissued or reacquired common stock. Notwithstanding the foregoing, no more than 503,704 shares of Common Stock may be issued under the Plan after March 30, 2011, adjusted as described below.

Shares of common stock subject to outstanding options shall be available for subsequent issuance under the Plan to the extent (i) the options expire or terminate for any reason prior to exercise in full, or (ii) the options are cancelled in accordance with the cancellation-regrant provisions of Article Two.

Unvested shares issued under the Plan and subsequently repurchased by the Corporation, at the option exercise or direct issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of common stock reserved for issuance under the Plan.

Shares of common stock subject to outstanding RSU Awards shall be available for subsequent issuance under the Plan to the extent that the shares are subject to Awards that (i) have been terminated, expired unexercised, forfeited or settled in cash; (ii) have been retained by the Corporation in payment or satisfaction of the exercise price, purchase price or tax withholding obligation of an Award; or (iii) otherwise do not result in the issuance of Shares of Common Stock in connection with payment or settlement of an award.

If there is any change to the common stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding common stock as a class without the Corporation's receipt of consideration, then appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, and (ii) the number and/or class of securities and the exercise price per share in effect under each outstanding option or Award in order to prevent the dilution or enlargement of benefits thereunder.

II. OPTION GRANT PROGRAM

A. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Board, and which shall be subject to the provisions of the Plan.

1. Exercise Price.

a. The exercise price per share shall be fixed by the Board in accordance with the following provisions:

(i) The exercise price per share shall not be less than the Fair Market Value per share of common stock on the option grant date.

(ii) If the Optionee is a 10% Stockholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of common stock on the option grant date for Incentive Options.

b. The exercise price is payable in cash or check made payable to the Corporation upon exercise of the option, subject to the provisions of Section I of Article Four and the documents evidencing the option. If the common stock is registered under Section 12 of the Securities Exchange Act of 1934, as amended ("34 Act") at the time the option is exercised, then the exercise price may also be paid as follows:

(i) in shares of common stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(ii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions (x) to a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (y) to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent the foregoing sale and remittance procedure is used, payment of the exercise price for the purchased shares must be made on the Exercise Date.

2. Exercise and Term of Options. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Board or Committee and set forth in the documents evidencing the option grant. However, no option shall have a term in excess of five (5) years measured from the option grant date.

3. Effect of Termination of Service.

a. The following provisions shall govern the exercise of any vested option held by the Optionee at the time of cessation of Optionee's employment or rendering of services to the Corporation (collectively "Service") or death:

(i) Should the Optionee cease to remain in Service for any reason other than death, Disability or Misconduct, then the Optionee shall have a period of three (3) months following the date of such cessation of Service during which to exercise

each option held by such Optionee to the extent exercisable on the date of such termination.

(ii) Should Optionee's Service terminate by reason of Disability, then the Optionee shall have a period of twelve (12) months following the date of such cessation of Service during which to exercise each outstanding option held by such Optionee to the extent exercisable on the date of such termination.

(iii) If the Optionee dies while holding an outstanding option, then the personal representative of his or her estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of inheritance shall have a twelve (12)-month period following the date of the Optionee's death to exercise such option to the extent exercisable on the date of such termination.

(iv) Under no circumstances, however, shall any such option be exercisable after the specified expiration of the option term.

(v) All vested options shall terminate upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term.

b. The Board or Committee shall have the discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following Optionee's cessation of Service or death from the limited period otherwise in effect for that option to such greater period of time as it shall deem appropriate, but in no event beyond the expiration of the option term, and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested shares of common stock for which such option is exercisable at the time of the Optionee's cessation of Service

but also with respect to one or more additional installments in which the Optionee would have vested under the option had the Optionee continued in Service.

4. Stockholder Rights. The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person exercises the option, pays the exercise price and becomes the recordholder of the purchased shares.

5. Limited Transferability of Options. During the lifetime of the Optionee, the option shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or, following the Optionee's death, by the laws of descent and distribution.

B. CORPORATE TRANSACTION

1. All unvested options shall automatically vest in full if and when either of the following stockholder approved transactions to which the Corporation is a party are consummated: (i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or (ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation. However, the shares subject to an outstanding option shall not vest on such an accelerated basis if and to the extent: (i) such option is assumed by the successor corporation (or parent thereof) in the Corporate Transaction or (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested option shares at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to those unvested option shares or (iii) the acceleration of such option is subject to other limitations imposed by the Board or Committee at the time of the option grant.

2. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction, had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to (i) the number and class of securities available for issuance under the Plan following the consummation of such Corporate Transaction and (ii) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same.

3. The Board or Committee shall have the discretion, exercisable either at the time the option is granted or at any time while the option remains outstanding, to structure one or more options so that those options shall automatically accelerate and vest in full (and any repurchase rights of the Corporation with respect to the unvested shares subject to those options shall immediately terminate) upon the occurrence of a Corporate Transaction, whether or not those options are to be assumed in the Corporate Transaction.

4. The Board or Committee shall also have full power and authority, exercisable either at the time the option is granted or at any time while the option remains outstanding, to structure such option so that the shares subject to that option will automatically vest on basis should the Optionee's Service terminate by reason of the Optionee's involuntary dismissal or discharge by the Corporation for reasons other than misconduct ("Involuntary Termination") within a designated period (not to exceed one year) following the effective date of any Corporate Transaction in which the option is assumed and the repurchase rights applicable to those shares do not otherwise terminate. Any option so accelerated shall remain exercisable for the fully-vested option shares until the expiration or sooner termination of the option term.

5. The portion of any Incentive Option accelerated in connection with a Corporate Transaction shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar (\$100,000.00) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

6. The grant of options under the Plan shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

III. STOCK ISSUANCE PROGRAM

A. STOCK ISSUANCE TERMS

Shares of common stock may be issued at the discretion of the Board or Committee under the Stock Issuance Program through direct and immediate issuances without any intervening option grants. Each such stock issuance shall comply with the terms specified below.

1. Issuances.

Shares of common stock may be issued under the Stock Issuance Program for past or future services rendered, or to be rendered, to the Corporation (or any Parent or Subsidiary) as the Board may deem appropriate in each individual instance.

2. Vesting Provisions.

a. Shares of common stock issued under the Stock Issuance Program shall vest at the discretion of the Board or Committee.

b. The Participant shall have full stockholder rights with respect to any shares of common stock issued to the Participant under the Stock Issuance

Program. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

B. RESTRICTED STOCK UNIT AWARDS (RSU Awards)

1. Grant.

The Board may grant Restricted Stock Unit Awards (RSU Awards) to Eligible Persons, in all cases pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan. The Board shall establish as to each RSU Award the number of Shares deliverable or subject to the Award (which number may be determined by a written formula), and the period or periods of time (the "Restriction Period") at the end of which all or some restrictions specified in the Award Agreement shall lapse, and the Participant shall receive Unrestricted Shares (or cash to the extent provided in the Award Agreement) in settlement of the Award. Such restrictions may include, without limitation, restrictions concerning voting rights and transferability, and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Board, including, without limitation, criteria based on the Participant's duration of employment, directorship or consultancy with the Corporation, individual, group, or divisional performance criteria, corporation performance, or other criteria selection by the Board. The Board may make RSU Awards with or without the requirement for payment of cash or other consideration. In addition, the Board may grant Awards hereunder in the form of Unrestricted Shares which shall vest in full upon the Grant Date or such other date as the Board may determine or which the Board may issue pursuant to any program under which one or more Eligible Persons (selected by the Board in its sole discretion) elect to pay for such Shares or to receive Unrestricted Shares in lieu of cash bonuses that would otherwise be paid.

2. Vesting and Forfeiture.

The Board shall set forth, in an Award Agreement granting RSUs, the terms and conditions under which the Participant's interest in the Shares subject to RSUs will become vested and non-forfeitable. Except as set forth in the applicable Award Agreement or as the Board otherwise determines, upon termination of a Participant's Continuous Service for any reason, the Participant shall forfeit his or her RSUs to the extent the Participant's interest therein has not vested on or before such termination date; *provided* that if a Participant purchases Restricted Shares and forfeits them for any reason, the Corporation shall return the purchase price to the Participant to the extent either set forth in an Award Agreement or required by Applicable Laws.

3. Certificates for Restricted Shares.

Unless otherwise provided in an Award Agreement, the Corporation shall hold certificates representing Restricted Shares and dividends (whether in Shares or cash) that accrue with respect to them until the restrictions lapse, and the Participant shall provide the Corporation with appropriate stock powers endorsed in blank. The Participant's failure to provide such stock

powers within ten days after a written request from the Corporation shall entitle the Board to unilaterally declare a forfeiture of all or some of the Participant's Restricted Shares.

4. Issuance of Shares upon Vesting.

As soon as practicable after vesting of a Participant's right to receive Shares underlying RSUs, the Corporation shall deliver to the Participant, free from vesting restrictions, one Share free of the vesting restriction for each vested RSU, unless an Award Agreement provides otherwise and subject to Section IV(D) regarding withholding of taxes. No fractional Shares shall be distributed, and cash shall be paid in lieu thereof.

IV. MISCELLANEOUS

A. ADJUSTMENTS DUE TO STOCK SPLITS, MERGERS, CONSOLIDATION, ETC.

If, at any time, the Corporation shall take any action, whether by stock dividend, stock split, combination of shares or otherwise, which results in a proportionate increase or decrease in the number of shares of common stock theretofore issued and outstanding, the number of shares which are reserved for issuance under the Plan and the number of shares which, at such time, are subject to options, issuances or RSU Awards shall, to the extent deemed appropriate by the Board or Committee, be increased or decreased in the same proportion, provided, however, that the Corporation shall not be obligated to issue fractional shares.

Likewise, in the event of any change in the outstanding shares of common stock by reason of any recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other corporate change, the Board or Committee shall make such substitution or adjustments, if any, as it deems to be appropriate, as to the number or kind of shares of common stock or other securities which are reserved for issuance under the Plan and the number of shares or other securities which, at such time are subject to Options, issuances or RSU Awards.

B. EFFECTIVE DATE AND TERM OF PLAN

1. The Plan shall become effective on March 23, 2010, provided that no Incentive Options may be granted unless the Plan is first approved by Herley's stockholders. The Board may grant options, issue shares and grant awards under the Plan at any time after the effective date of the Plan and before the date fixed herein for termination of the Plan.

2. The Plan shall terminate upon the earliest of (i) the expiration of the ten (10)-year period measured from the date the Plan is adopted by the Board, (ii) the date on which all shares available for issuance under the Plan shall have been issued as vested shares or (iii) the termination of all outstanding options, issuances or RSU Awards in connection with a Corporate Transaction. All options, unvested stock issuances and unvested RSU Awards outstanding at the time of a clause (i) termination event shall continue to have full force and effect in accordance with the provisions of the documents evidencing those options, issuances or RSU Awards.

C. AMENDMENT OF THE PLAN

The Board or Committee shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects, except for those persons ineligible to participate. However, no such amendment or modification shall adversely affect the rights and obligations with respect to options, unvested stock issuances or unvested RSU Awards at the time outstanding under the Plan unless the Optionee or the Participant consents to such amendment or modification. In addition, certain amendments may require stockholder approval pursuant to Applicable Laws.

D. WITHHOLDING

The Corporation's obligation to deliver shares of common stock upon the exercise of any options, upon the issuance of shares issued under the Plan or upon the vesting of RSUs awarded under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

E. REGULATORY APPROVALS

The implementation of the Plan, the granting of any options under the Plan, the issuance of any shares of common stock (i) upon the exercise of any option or (ii) under the Stock Issuance and Restricted Stock Unit Program shall be subject to the Corporation's obtaining all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options granted under it, the shares of common stock issued pursuant to it, and the RSUs awarded under it.

F. NO EMPLOYMENT OR SERVICE RIGHTS

Nothing in the Plan shall confer upon the Optionee or the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of the Optionee or the Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

APPENDIX

The following definitions shall be in effect under the Plan:

Applicable Laws shall mean the legal requirements relating to the administration of options and share-based plans under any applicable laws of the United States, any other country, and any provincial, state, or local subdivision, any applicable stock exchange or automated quotation system rules or regulations, as such laws, rules, regulations and requirements shall be in place from time to time.

Award shall mean any award made, in writing or by an electronic medium, pursuant to the Plan.

Award Agreement shall mean any written document setting forth the terms of an Award that has been authorized by the Board. The Board shall determine the form or forms of documents to be used, and may change them from time to time for any reason.

Board shall mean the Corporation's Board of Directors.

Change of Control shall mean:

(i) any person who is not currently such becomes the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding voting securities; or

(ii) three or more directors, whose election or nomination for election is not approved by a majority of the Incumbent Board (as defined in the Plan), are elected within any single 12-month period to serve on the Board of Directors; or

(iii) members of the Incumbent Board cease to constitute a majority of the Board of Directors without the approval of the remaining members of the Incumbent Board; or

(iv) any merger (other than a merger where the Company is the survivor and there is no accompanying change in control under subparagraphs (i), (ii) or (iii) of this paragraph), consolidation, liquidation or dissolution of the Company, or the sale of all or substantially all of the assets of the Company.

Code shall mean the Internal Revenue Code of 1986, as amended.

Common Stock shall mean the Corporation's common stock, \$.10 par value.

Consultant shall mean any person (other than an Employee or Director), including an advisor, who is engaged by the Corporation to render services and is compensated for such services.

Continuous Service shall mean a Participant's period of service in the absence of any interruption or termination, as an Employee, Director, or Consultant. Continuous Service shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other

leave of absence approved by the Board, *provided* that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Corporation policy adopted from time to time; (iv) changes in status from Director to advisory director or emeritus status; or (v) transfers between locations of the Corporation. Changes in status between service as an Employee, Director, and a Consultant will not constitute an interruption of Continuous Service if the individual continues to perform bona fide services for the Corporation. The Board shall have the discretion to determine whether and to what extent the vesting of any Awards shall be tolled during any paid or unpaid leave of absence; provided, however, that in the absence of such determination, vesting for all Awards shall be tolled during any such unpaid leave (but not for a paid leave).

Corporate Transaction shall mean either of the following stockholder-approved transactions to which the Corporation is a party:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

Corporation shall mean Kratos Defense & Security Solutions, Inc., a Delaware corporation.

Director shall mean a member of the Board.

Disability shall mean the inability of Optionee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment and shall be determined by the Plan Administrator on the basis of such medical evidence as the Plan Administrator deems warranted under the circumstances. Disability shall be deemed to constitute Permanent Disability in the event that such Disability is expected to result in death or has lasted or can be expected to last for a continuous period of twelve (12) months or more.

Eligibility. Incentive Options may only be granted to Employees other than the Chairman, Chief Executive Officer and directors.

Eligible Person shall have the meaning set forth in Section I(D) of this Plan.

Employee shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

Exercise Date shall mean the date on which the option shall have been exercised.

Exercise Price shall mean the exercise price payable per Option Share as specified in the Grant Notice.

Expiration Date shall mean the date on which the option expires as specified in the Grant Notice.

Fair Market Value per share of common stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the common stock is at the time traded on the NASDAQ Global or Capital Market, then the Fair Market Value shall be the closing selling price per share of common stock on the date in question, as the price is reported by the National Association of Securities Dealers on the NASDAQ Global or Capital Market. If there is no closing selling price for the common stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the common stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of common stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the common stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the common stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) If the common stock is at the time neither listed on any Stock Exchange nor traded on the NASDAQ Capital Market, then the Fair Market Value shall be determined by the Plan Administrator after taking into account such factors as the Plan Administrator shall deem appropriate.

Grant Date shall mean the date of grant of the option as specified in the Grant Notice or the date of award of the RSU as specified in the Award Agreement, as applicable.

Grant Notice shall mean the Notice of Grant of Stock Option or Notice of RSU Award accompanying the Agreement, pursuant to which the Optionee or Participant has been informed of the basic terms of the option evidenced hereby.

Incentive Option shall mean an option which satisfies the requirements of Code Section 422.

Misconduct shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of any Optionee, Participant or other person in the Service of the Corporation (or any Parent or Subsidiary).

1934 Act shall mean the Securities Exchange Act of 1934, as amended.

Non-Employee Director shall have the meaning provided under Rule 16(b) or any successor rule under the 1934 Act.

Non-Statutory Option shall mean an option not intended to satisfy the requirements of Code Section 422.

Option Agreement shall mean the option agreement issued pursuant to the Grant Notice.

Option Shares shall mean the number of shares of common stock subject to the option.

Parent shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Permitted Transfer shall mean (i) a gratuitous transfer of the Purchased Shares, provided and only if Optionee obtains the Corporation's prior written consent to such transfer, (ii) a transfer of title to the Purchased Shares effected pursuant to Optionee's will or the laws of intestate succession following Optionee's death or (iii) a transfer to the Corporation in pledge as security for any purchase-money indebtedness incurred by Optionee in connection with the acquisition of the Purchased Shares.

Plan shall mean the Corporation's 2010 Stock Plan.

Plan Administrator shall mean either the Board or a committee of the Board acting in its capacity as administrator of the Plan.

Purchase Agreement shall mean the stock purchase agreement pursuant to the Grant Notice.

Restriction Period shall have the meaning set forth in Section III(B)(1) of this Plan.

Restricted Share Unit or RSU shall mean a right granted to a Participant to receive Shares or cash upon the lapse of restrictions imposed under Section III(B) of this Plan.

Service shall mean the Optionee's performance of services for the Corporation (or any Parent or Subsidiary) in the capacity of an Employee.

Share shall mean a share of Common Stock of the Corporation, as adjusted in accordance with Section IV(A) of this Plan.

Stock Exchange shall mean the NASDAQ Global Market System, American Stock Exchange or the New York Stock Exchange.

Subsidiary shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Unrestricted Shares shall mean Shares (without restrictions) awarded pursuant to Section III(B) of this Plan.

Vesting Commencement Date shall mean the date on which the Option Shares commence to vest as specified in the Grant Notice.

Vesting Schedule shall mean the vesting schedule specified in the Grant Notice pursuant to which the Optionee is to vest in the Option Shares in a series of installments over his or her period of Service.

**HERLEY INDUSTRIES, INC.
2010 STOCK PLAN**

**Notice of Grant of Restricted Stock Units
and Restricted Stock Unit Award Agreement**

Kratos Defense & Security Solutions, Inc. (the “Company”) hereby awards you Restricted Stock Units (“RSUs”), subject to the terms and conditions set forth in this Restricted Stock Unit Award Agreement (the “Award Agreement” or “Award”) and in the Herley Industries, Inc. 2010 Stock Plan (the “Plan”). A copy of the Plan is attached as Exhibit A. Terms capitalized in this Award Agreement have the meaning defined in the Plan (or in this Award Agreement, if defined herein).

This Award is conditioned on your execution of this Award Agreement within twenty days after the Grant Date specified in Section 1 below. By executing this Award Agreement, you irrevocably agree that all your rights under this Award will be determined solely and exclusively by reference to the Plan’s terms and conditions, subject to the provisions set forth below. As a result, you should not execute this Award Agreement until you have (i) carefully considered the terms and conditions of the Plan and this Award (including all of the attached Exhibits), and (ii) consulted with your personal legal and tax advisors about all of these documents.

1. **Grant Terms.** Your RSUs have the following terms:

Name of Participant	[NAME]
Number of Shares Subject to Award	[NUMBER OF SHARES]
Purchase Price per Share (if applicable)	Not applicable.
Grant Date	[GRANT DATE]
Vesting Schedule	Subject to Sections 4 and 5 of this Award Agreement, to Plan Section III and to any other relevant Plan provisions: [e.g., Your Award will vest with respect to (%) of the RSUs under this Award on each one year anniversary date (each a “ <u>Vesting Date</u> ”) of the Grant Date, provided that you continue to provide service as an Employee to the Company on each applicable Vesting Date.]

Accelerated Vesting Not allowed.

2. **Company’s Obligation.** Each RSU represents the right to receive a Share on the Vesting Date.

- (a) Unless and until the RSUs vest according to the schedule set forth in Section 1, you have no right to receive Shares under the RSUs.
- (b) Neither you nor any person claiming under or through you will have any of the rights or privileges of a stockholder of the Company with respect to any Shares deliverable hereunder unless and until certificates representing such Shares have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to you or your broker.
- (c) Prior to actual distribution of Shares pursuant to any vested RSUs, such RSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

3. **Payment After Satisfaction of Vesting Restrictions.** As soon as practicable after the Vesting Date, the Company will issue to you or your duly-authorized transferee, free from vesting restrictions (but subject to such legends as the Company determines to be appropriate), one Share for each vested RSU. Payment is subject to Section 8.

4. **Forfeiture upon Termination of Continuous Service.** If your Continuous Service terminates for any reason, any unvested RSUs awarded by this Award immediately will be forfeited without any payment to you. This Award shall be canceled and become automatically null and void immediately thereafter, but only to the extent your RSUs have not vested, pursuant to Section 1 above, on or before the date your Continuous Service ends. This Section 4 is subject to the terms of any employment agreement between you and the Company (and/or any Affiliate) in effect when your Continuous Service terminates.

5. **Change in Control.** In the event that a Change in Control occurs prior to the termination of the vesting schedule specified herein, RSUs vested as of the effective date of the Change in Control shall be settled by the Company through the issuance of Shares immediately prior to the effective date of the Change in Control.

6. **Payments after Death.** In the absence of a designation of beneficiary, any distribution or delivery to be made to you under this Award Agreement, if you are then deceased, will be made to the administrator or executor of your estate, who must furnish the Company with (a) written notice of his or her

status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer. RSUs not vested as of your death shall be forfeited at no cost to the Company.

7. **Grant is Not Transferable.** Your rights under this Award Agreement may not be sold, pledged, or otherwise transferred (whether by operation of law or otherwise) without the prior written consent of the Committee, except to the limited extent provided in Section 6. Further, your rights under this Award Agreement will not be subject to sale under execution,

attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Award, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this Award and the rights and privileges conferred hereby immediately will become null and void.

8. **Taxes.**
- (a) **Code Section 409A.** Notwithstanding anything to the contrary in this Award Agreement, if you are a “specified employee” (as determined in accordance with Code Section 409A and related Treasury guidance and related Treasury guidance and regulations) and a payment under this Award Agreement would be subject to additional taxes and interest under Section 409A of the Code, then any such payment that you would otherwise be entitled to receive during the first six months following the date of your “separation from service” (as determined in accordance with Section 409A of the Code and related Treasury guidance and regulations) from the Company shall be accumulated and paid on the date that is six (6) months and one (1) day following the date of your separation from service, or if earlier, upon your death.
 - (b) Except to the extent otherwise specifically provided in an employment or consulting agreement between you and the Company, by signing this Award Agreement, you acknowledge that you shall be solely responsible for the satisfaction of any applicable taxes that may arise pursuant to this Award (including taxes arising under Code Sections 409A (regarding deferred compensation) or 4999 (regarding golden parachute excise taxes)), and that neither the Company nor the Committee shall have any obligation whatsoever to pay such taxes or to otherwise indemnify or hold you harmless from any or all of such taxes.
 - (c) Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to you, unless and until you have made satisfactory arrangements (as determined by the Company) with respect to the payment of income, employment and other taxes which the Company determines must be withheld or otherwise remitted to the government with respect to such Shares.
 - (d) To the extent determined appropriate by the Company in its discretion, it shall have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to you.
 - (e) If you fail to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable RSUs otherwise are scheduled to vest pursuant to this Award Agreement, you will forfeit permanently such RSUs and any right to receive Shares thereunder, and the RSUs will be returned to the Company at no cost to the Company.
 - (f) The Committee shall have the sole discretion to interpret the requirements of the Code, including Section 409A, for purposes of the Plan and this Award Agreement.
9. **No Effect on Employment.** By executing this Award Agreement, you acknowledge and agree that (i) your employment with the Company is on an at-will basis only; (ii) nothing in this Award Agreement or the Plan confers on you any right to continue an employment,

service or consulting relationship with the Company, nor shall it affect in any way your right or the Company’s right to terminate or change the terms of your employment, service, or consulting relationship at any time, with or without Cause; and (iii) the Company would not have granted this Award to you but for these acknowledgements and agreements.

10. **Additional Conditions to Issuance of Stock.** If at any time the Company determines, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to you (or your estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.
11. **Investment Purposes.** By executing this Award, you represent and warrant to the Company that any Shares issued to you pursuant to your RSUs will be for investment for your own account and not with a view to, for resale in connection with, or with an intent of participating directly or indirectly in, any distribution of such Shares within the meaning of the Securities Act of 1933, as amended (the “Securities Act”).
12. **Securities Law Restrictions.** Regardless of whether the offering and sale of Shares under the Plan have been registered under the Securities Act, or have been registered or qualified under the securities laws of any state, the Company at its discretion may impose restrictions upon the sale, pledge or other transfer of such Shares (including the placement of appropriate legends on stock certificates or the imposition of stop-transfer instructions) if, in the judgment of the Company, such restrictions are necessary or desirable in order to achieve compliance with the Securities Act or the securities laws of any state or any other law or to enforce the intent of this Award.
13. **Headings.** Section and other headings contained in this Award Agreement are for reference purposes only and are not intended to describe, interpret, define or limit the scope or intent of this Award Agreement or any provision hereof.
14. **Severability.** Every provision of this Award Agreement and of the Plan is intended to be severable. If any term hereof is illegal or invalid for any reason, such illegality or invalidity shall not affect the validity or legality of the remaining terms of this Award Agreement.

15. **Counterparts.** This Award Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.
16. **Electronic Delivery.** The Company may, in its sole discretion, deliver any documents related to RSUs awarded under the Plan or future RSUs that may be awarded under the Plan by electronic means or request your consent to participate in the Plan by electronic means. By signing this Award Agreement, you hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.
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17. **Notices.**
- (a) Any notice or communication required or permitted by any provision of this Award Agreement to be given to you shall be in writing and shall be delivered electronically, personally, or sent by mail, addressed to you at the last address that the Company had for you on its records. Any such notice shall be deemed to be given as of the date such notice is personally or electronically delivered or properly mailed.
 - (b) Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company at 4820 Eastgate Mall, San Diego, California 92121; Attn: Stock Administration.
 - (c) Each party may, from time to time, specify a new address for delivery of notices relating to this Award Agreement by providing written notice to the other party hereto, delivered electronically, personally, or by mail.
18. **Binding Agreement.** Except as otherwise provided in this Award Agreement or in the Plan, and subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the parties hereto and their respective heirs, legatees, legal representatives, successors and assigns.
19. **Entire Agreement.** This Award Agreement and Plan constitute the entire understanding of the parties on the subjects covered. You expressly warrant that you are not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein.
20. **Modifications.** This Award Agreement and Plan may be modified or amended at any time, in accordance with the Plan. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement without your additional consent as it deems necessary or advisable, in its sole discretion, to comply with Section 409A of the Code or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Award.
21. **Plan Governs.** By signing this Award Agreement, you acknowledge that you have received a copy of the Plan and that your Award Agreement is subject to all the provisions contained in the Plan, the provisions of which are made a part of this Award Agreement and your Award is subject to all interpretations, amendments, rules and regulations which from time to time may be promulgated and adopted pursuant to the Plan. In the event of a conflict between the provisions of this Award Agreement and those of the Plan, the provisions of the Plan shall control.
22. **Plan Administrator Authority.** You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Plan Administrator upon any questions relating to the Plan and this award. The Plan Administrator has the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any RSUs have vested). No member of the Plan Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.
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23. **Governing Law.** The laws of the State of Delaware shall govern the validity of this Award Agreement, the construction of its terms, and the interpretation of the rights and duties of the parties hereto.
24. **Eligibility.** By signing this Award Agreement, you represent that you were not an employee of the Company or any of its Subsidiaries on March 30, 2011. If the foregoing representation is not accurate, this Award Agreement and the RSUs granted hereunder shall retroactively lapse as of the date hereof and automatically be null and void without any payment to you therefore and you shall have no rights whatsoever with respect to this Award Agreement or the RSUs subject to this Award Agreement.

BY YOUR SIGNATURE BELOW, along with the signature of the Company's representative, you and the Company agree that this Award is made under and governed by the terms and conditions of this Award Agreement and the Plan.

GRANTEE:

Date: _____

[NAME]

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

Date: _____

Eric M. DeMarco, President
and Chief Executive Officer

**HERLEY INDUSTRIES, INC.
2010 STOCK PLAN**

Plan Document

(attached under this page)



Integral Systems, Inc.
Amended and Restated 2008 Stock Incentive Plan
 Amended and Restated as of February 20, 2012

1. Purpose

This 2008 Stock Incentive Plan (the "Plan") is intended to advance the interests of Kratos Defense & Security Solutions, Inc. (the "Company") by enabling the Company and its subsidiaries to attract, retain and motivate employees and consultants of the Company by providing for or increasing the proprietary interests of such individuals in the Company, and by enabling the Company to attract, retain and motivate its nonemployee directors and further align their interests with those of the stockholders of the Company by providing for or increasing the proprietary interests of such directors in the Company. The Plan supersedes the Integral Systems, Inc. 2002 Stock Option Plan (the "2002 Plan" or "Prior Plan") with respect to future awards, and provides for the grant of Incentive and Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock and Restricted Stock Units, any of which may be performance-based, as determined by the Committee. On and after the Effective Date, no further grants shall be made under the Prior Plan, which plan shall remain in effect solely as to outstanding awards thereunder.

2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

- (a) "Award" means an Incentive Stock Option, Nonqualified Stock Option, Stock Appreciation Right, Restricted Stock, or Restricted Stock Unit granted to a Participant pursuant to the provisions of the Plan, any of which the Committee may structure to qualify in whole or in part as a Performance Award.
- (b) "Award Agreement" means a written agreement or other instrument as may be approved from time to time by the Committee implementing the grant of each Award. An Award Agreement may be in the form of an agreement to be executed by both the Participant and the Company (or an authorized representative of the Company) or certificates, notices or similar instruments as approved by the Committee.
- (c) "Board" means the board of directors of the Company.
- (d) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rulings and regulations issued thereunder.
- (e) "Committee" means the Committee delegated the authority to administer the Plan in accordance with Section 16.
- (f) "Common Share" means a share of the Company's common stock, subject to adjustment as provided in Section 11.
- (g) "Company" means Kratos Defense & Security Solutions, Inc., a Delaware corporation.
- (h) "Fair Market Value" means, as of any given date, the closing sales price on such date during normal trading hours (or, if there are no reported sales on such date, on the last date prior to such date on which there were sales) of the Common Shares on the New York Stock Exchange Composite Tape or, if not listed on such exchange, on any other national securities exchange on which the Common Shares are listed or

on NASDAQ, in any case, as reporting in such source as the Administrator shall select. If there is no regular public trading market for such Common Shares, the Fair Market Value of the Common Shares shall be determined by the Administrator in good faith and in compliance with Section 409A of the Code.

- (i) "Incentive Stock Option" means a stock option that is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.
 - (j) "Nonemployee Director" means each person who is, or is elected to be, a member of the Board and who is not an employee of the Company or any Subsidiary.
 - (k) "Nonqualified Stock Option" means a stock option that is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.
 - (l) "Option" means an Incentive Stock Option and/or a Nonqualified Stock Option granted pursuant to Section 6 of the Plan.
 - (m) "Participant" means any individual described in Section 3 to whom Awards have been granted from time to time by the Committee and any authorized transferee of such individual.
 - (n) "Performance Award" means an Award, the grant, issuance, retention, vesting or settlement of which is subject to satisfaction of one or more performance criteria pursuant to Section 12.
 - (o) "Plan" means the Integral Systems, Inc. 2008 Stock Incentive Plan as set forth herein and as amended from time to time.
 - (p) "Prior Plan" means the Integral Systems, Inc. 2002 Stock Option Plan.
 - (q) "Qualifying Performance Criteria" has the meaning set forth in Section 12(b).
 - (r) "Restricted Stock" means Common Shares granted pursuant to Section 8 of the Plan.
 - (s) "Restricted Stock Unit" means an Award granted to a Participant pursuant to Section 8 pursuant to which Common Shares or cash in lieu thereof may be issued in the future.
 - (t) "Stock Appreciation Right" means a right granted pursuant to Section 7 of the Plan that entitles the Participant to receive, in cash or Common Shares or a combination thereof, as determined by the Committee, value equal to or otherwise based on the excess of (i) the market price of a specified number of Common Shares at the time of exercise over (ii) the exercise price of the right, as established by the Committee on the date of grant.
 - (u) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company where each of the corporations in the unbroken chain other than the last corporation owns stock possessing at least 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in the chain, and if specifically determined by the Committee in the context other than with respect to Incentive Stock Options, may include an entity in which the Company has a significant ownership interest or that is directly or indirectly controlled by the Company.
 - (v) "Substitute Awards" means Awards granted or Common Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a corporation acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.
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3. Eligibility

Subject to the limitations set forth in this section, any person who is an officer or employee of the Company or of any Subsidiary (including any director who is also an employee, in his or her capacity as such) and any Nonemployee Director shall be eligible for selection by the Committee for the grant of Awards hereunder. In addition, any service provider who has been retained to provide consulting, advisory or other services to the Company or to any Subsidiary shall be eligible for selection by the Committee for the grant of Awards hereunder.

Awards may be granted after July 27, 2011 only to individuals who were not employed by the Company, or its subsidiaries, on July 27, 2011. Notwithstanding the foregoing, individuals who were employed by Integral Systems, Inc. on July 27, 2011 may also be granted Awards or Grants under the Plan.

Notwithstanding the foregoing, the following limitations shall apply:

- (a) To the extent required by NASDAQ Listing Rule 5635 and IM-5635-1, Awards granted after July 27, 2011 may not be granted to individuals who were employed by or provided services to the Company, or its subsidiaries, on July 27, 2011.
- (b) Nothing in this Plan, as amended, extends the time during which Common Shares are available for Awards beyond the period when they would have been available under the Plan as it existed on the date prior to July 27, 2011.
- (c) Options intending to qualify as Incentive Stock Options may only be granted to employees of the Company or any Subsidiary within the meaning of the Code, as selected by the Committee.

4. Effective Date and Termination of the Plan

This Plan was adopted by the Board of Integral Systems, Inc. ("Integral") and became effective as of December 5, 2007, (the "Effective Date") subject to the approval of Integral's stockholders. All Awards granted under this Plan are subject to, and may not be exercised before, the approval of this Plan by the stockholders prior to the first anniversary of the Effective Date of the Plan by the affirmative vote of the holders of a majority of the outstanding Common Shares of Integral present, or represented by proxy, and entitled to vote, at a meeting of Integral's stockholders or by written consent in accordance with the laws of the State of Maryland; provided that if such approval by Integral stockholders is not forthcoming, all Awards previously granted under this Plan shall be void. The Plan shall remain available for the grant of Awards until the tenth (10th) anniversary of the Effective Date. Notwithstanding the foregoing, the Plan may be terminated at such earlier time as the Board of the Company may determine. Termination of the Plan will not affect the rights and obligations of the Participants and the Company arising under Awards theretofore granted and then in effect.

5. Common Shares Subject to the Plan and to Awards

- (a) *Aggregate Limits.* The stock issuable under the Plan shall be shares of the Company's authorized but unissued or reacquired Common Shares. Notwithstanding the foregoing, for Awards granted after July 27, 2011, the

Company may issue under the Plan no more than 983,741 Common Shares, plus (i) any Common Shares that were authorized for issuance under the Prior Plan that, as of the Effective Date, remain available for issuance under the Prior Plan (not including any Common Shares that are subject to outstanding awards under the Prior Plan or any Common Shares that were issued pursuant to awards granted under the Prior Plan) and (ii) any Common Shares subject to outstanding awards under the Prior Plan that on or after the Effective Date cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and nonforfeitable shares). The aggregate number of Common Shares available for grant under this Plan and the number of Common Shares subject to outstanding Awards shall be subject to adjustment as provided in Section 11. The Common Shares issued pursuant to Awards granted under this Plan may be shares that are authorized and unissued or shares that were reacquired by the Company, including shares purchased in the open market.

- (b) *Issuance of Common Shares.* For purposes of this Section 5, the aggregate number of Common Shares available for Awards under this Plan at any time shall not be reduced by (i) shares subject to Awards that have been terminated, expired unexercised, forfeited or settled in cash, (ii) shares subject to Awards that have been retained by the Company in payment or satisfaction of the exercise price, purchase price or tax withholding obligation of an Award, or (iii) shares subject to Awards that otherwise do not result in the issuance of Common Shares in connection with payment or settlement of an Award. In addition, Common Shares that have been delivered (either actually or by attestation) to the Company in payment or satisfaction of the exercise price, purchase price or tax withholding obligation of an Award shall be available for Awards under this Plan.
- (c) *Tax Code Limits.* The aggregate number of Common Shares subject to Awards granted under this Plan during any calendar year to any one Participant shall not exceed 500,000, which number shall be calculated and adjusted pursuant to Section 11 only to the extent that such calculation or adjustment will not affect the status of any Award intended to qualify as "performance based compensation" under Section 162(m) of the Code but which number shall not count any tandem SARs (as defined in Section 7). The aggregate number of Common Shares that may be issued pursuant to the exercise of Incentive Stock Options granted under this Plan shall not exceed 900,000, which number shall be calculated and adjusted pursuant to Section 11 only to the extent that such calculation or adjustment will not affect the status of any option intended to qualify as an Incentive Stock Option under Section 422 of the Code.
- (d) *Substitute Awards.* Substitute Awards shall not reduce the Common Shares authorized for issuance under the Plan or authorized for grant to a Participant in any calendar year. Additionally, in the event that a corporation acquired by the Company or any Subsidiary, or with which the Company or any Subsidiary combines, has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or

formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Common Shares authorized for issuance under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the

terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employees, directors or consultants of the Company or its Subsidiaries immediately before such acquisition or combination.

6. Options

- (a) *Option Awards.* Options may be granted at any time and from time to time prior to the termination of the Plan to Participants as determined by the Committee. No Participant shall have any rights as a stockholder with respect to any Common Shares subject to Option hereunder until said Common Shares have been issued, except that the Committee may authorize dividend equivalent accruals with respect to such Common Shares. Each Option shall be evidenced by an Award Agreement. Options granted pursuant to the Plan need not be identical but each Option must contain and be subject to the terms and conditions set forth below.
- (b) *Price.* The Committee will establish the exercise price per Common Share under each Option, which, in no event will be less than the Fair Market Value of the Common Shares on the date of grant; provided, however, that the exercise price per Common Share with respect to an Option that is granted in connection with a merger or other acquisition as a substitute or replacement award for options held by optionees of the acquired entity may be less than 100% of the market price of the Common Shares on the date such Option is granted if such exercise price is based on a formula set forth in the terms of the options held by such optionees or in the terms of the agreement providing for such merger or other acquisition. The exercise price of any Option may be paid in Common Shares, cash or a combination thereof, as determined by the Committee, including an irrevocable commitment by a broker to pay over such amount from a sale of the Common Shares issuable under an Option, the delivery of previously owned Common Shares and withholding of Common Shares deliverable upon exercise.
- (c) *No Repricing.* Other than in connection with a change in the Company's capitalization (as described in Section 11) the exercise price of an Option may not be reduced without stockholder approval (including canceling previously awarded Options and regranting them with a lower exercise price).
- (d) *Provisions Applicable to Options.* The date on which Options become exercisable shall be determined at the sole discretion of the Committee and set forth in an Award Agreement. Unless provided otherwise in the applicable Award Agreement, to the extent that the Committee determines that an approved leave of absence or employment on a less than full-time basis is not a termination of employment or other service, the vesting period and/or exercisability of an Option shall be adjusted by the Committee during or to reflect the effects of any period during which the Participant is on an approved leave of absence or is employed on a less than full-

time basis.

- (e) *Term of Options and Termination of Employment.* The Committee shall establish the term of each Option, which in no case shall exceed a period of ten (10) years from the date of grant. Unless an Option earlier expires upon the expiration date established pursuant to the foregoing sentence or upon the termination of the Participant's employment or other service, his or her rights to exercise an Option then held shall be determined by the Committee and set forth in an Award Agreement.
- (f) *Incentive Stock Options.* Notwithstanding anything to the contrary in this Section 6, in the case of the grant of an Option intending to qualify as an Incentive Stock Option: (i) if the Participant owns stock possessing more than 10 percent of the combined voting power of all classes of stock of the Company (a "10% Common Shareholder"), the exercise price of such Option must be at least 110 percent of the Fair Market Value of the Common Shares on the date of grant and the Option must expire within a period of not more than five (5) years from the date of grant, and (ii) termination of employment will occur when the person to whom an Award was granted ceases to be an employee (as determined in accordance with Section 3401(c) of the Code and the regulations promulgated thereunder) of the Company and its Subsidiaries. Notwithstanding anything in this Section 6 to the contrary, options designated as Incentive Stock Options shall not be eligible for treatment under the Code as Incentive Stock Options (and will be deemed to be Nonqualified Stock Options) to the extent that either (a) the aggregate Fair Market Value of Common Shares (determined as of the time of grant) with respect to which such Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Subsidiary) exceeds \$100,000, taking Options into account in the order in which they were granted, or (b) such Options otherwise remain exercisable but are not exercised within three (3) months of termination of employment (or such other period of time provided in Section 422 of the Code).

7. Stock Appreciation Rights

Stock Appreciation Rights may be granted to Participants from time to time either in tandem with or as a component of other Awards granted under the Plan ("tandem SARs") or not in conjunction with other Awards ("freestanding SARs") and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each grant or each recipient. Any Stock Appreciation Right granted in tandem with an Award may be granted at the same time such Award is granted or at any time thereafter before exercise or expiration of such Award. All freestanding SARs shall be granted subject to the same terms and conditions applicable to Options as set forth in Section 6 and all tandem SARs shall have the same exercise price, vesting, exercisability, forfeiture and termination provisions as the Award to which they relate. Subject to the provisions of Section 6 and the immediately preceding sentence, the Committee may impose such other conditions or restrictions on any Stock Appreciation Right as it shall deem appropriate. Stock Appreciation Rights may be settled in Common Shares, cash or a combination thereof, as determined by the Committee and set forth in the applicable Award Agreement. Other than in connection with a

change in the Company's capitalization (as described in Section 11), the exercise price of Stock Appreciation Rights may not be reduced without stockholder approval (including canceling previously awarded Stock Appreciation Rights and regranting them with a lower exercise price).

8. Restricted Stock and Restricted Stock Units

- (a) *Restricted Stock and Restricted Stock Unit Awards.* Restricted Stock and Restricted Stock Units may be granted at any time and from time to time prior to the termination of the Plan to Participants as determined by the Committee. Restricted Stock is an award or issuance of Common Shares the grant, issuance, retention, vesting and/or transferability of which is subject during specified periods of time to such conditions (including continued employment/service or performance conditions) and terms as the Committee deems appropriate. Restricted Stock Units are Awards denominated in units of Common Shares under which the issuance of Common Shares is subject to such conditions (including continued employment/service or performance conditions) and terms as the Committee deems appropriate. Each grant of Restricted Stock and Restricted Stock Units shall be evidenced by an Award Agreement. Unless determined otherwise by the Committee, each Restricted Stock Unit will be equal to one Common Share and will entitle a Participant to either the issuance of Common Shares or payment of an amount of cash

determined with reference to the value of Common Shares. To the extent determined by the Committee, Restricted Stock and Restricted Stock Units may be satisfied or settled in Common Shares, cash or a combination thereof. Restricted Stock and Restricted Stock Units granted pursuant to the Plan need not be identical but each grant of Restricted Stock and Restricted Stock Units must contain and be subject to the terms and conditions set forth below.

- (b) *Contents of Agreement.* Each Award Agreement shall contain provisions regarding (i) the number of Common Shares or Restricted Stock Units subject to such Award or a formula for determining such number, (ii) the purchase price of the Common Shares, if any, and the means of payment, (iii) the performance criteria, if any, and level of achievement versus these criteria that shall determine the number of Common Shares or Restricted Stock Units granted, issued, retainable and/or vested, (iv) such terms and conditions on the grant, issuance, vesting and/or forfeiture of the Common Shares or Restricted Stock Units as may be determined from time to time by the Committee, (v) the term of the performance period, if any, as to which performance will be measured for determining the number of such Common Shares or Restricted Stock Units, and (vi) restrictions on the transferability of the Common Shares or Restricted Stock Units. Common Shares issued under a Restricted Stock Award may be issued in the name of the Participant and held by the Participant or held by the Company, in each case as the Committee may provide.
- (c) *Vesting and Performance Criteria.* The grant, issuance, retention, vesting and/or settlement of shares of Restricted Stock and Restricted Stock Units will occur when and in such installments as the Committee determines or under criteria the Committee establishes, which may include Qualifying Performance Criteria. Notwithstanding anything in this Plan to the contrary, the performance criteria for any Restricted Stock or Restricted Stock Unit that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the

Code will be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified when the Award is granted.

- (d) *Discretionary Adjustments and Limits.* Subject to the limits imposed under Section 162(m) of the Code for Awards that are intended to qualify as “performance-based compensation,” notwithstanding the satisfaction of any performance goals, the number of Common Shares granted, issued, retainable and/or vested under an Award of Restricted Stock or Restricted Stock Units on account of either financial performance or personal performance evaluations may, to the extent specified in the Award Agreement, be reduced by the Committee on the basis of such further considerations as the Committee shall determine.
- (e) *Voting Rights.* Unless otherwise determined by the Committee, Participants holding shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those shares during the period of restriction. Participants shall have no voting rights with respect to Common Shares underlying Restricted Stock Units unless and until such Common Shares are reflected as issued and outstanding shares on the Company’s stock ledger.
- (f) *Dividends and Distributions.* Participants in whose name Restricted Stock is granted shall be entitled to receive all dividends and other distributions paid with respect to those Common Shares, unless determined otherwise by the Committee. The Committee will determine whether any such dividends or distributions will be automatically reinvested in additional shares of Restricted Stock and subject to the same restrictions on transferability as the Restricted Stock with respect to which they were distributed or whether such dividends or distributions will be paid in cash. Common Shares underlying Restricted Stock Units shall be entitled to dividends or dividend equivalents only to the extent provided by the Committee.

9. Deferral of Gains

The Committee may, in an Award Agreement or otherwise, provide for the deferred delivery of Common Shares upon settlement, vesting or other events with respect to Restricted Stock or Restricted Stock Units. Notwithstanding anything herein to the contrary, in no event will any deferral of the delivery of Common Shares or any other payment with respect to any Award be allowed if the Committee determines, in its sole discretion, that the deferral would result in the imposition of the additional tax under Section 409A(a)(1)(B) of the Code.

10. Conditions and Restrictions Upon Securities Subject to Awards

The Committee may provide that the Common Shares issued upon exercise of an Option or Stock Appreciation Right or otherwise subject to or issued under an Award shall be subject to such further agreements, restrictions, conditions or limitations as the Committee in its discretion may specify prior to the exercise of such Option or Stock Appreciation Right or the grant, vesting or settlement of such Award, including without limitation, conditions on vesting or transferability, forfeiture or repurchase provisions and method of payment for the Common Shares issued upon exercise, vesting or settlement of such Award (including the actual or constructive surrender of Common Shares already owned by the Participant) or payment of taxes arising in connection with an Award. Without limiting the foregoing, such restrictions may address the timing and manner of any resales by the Participant or other subsequent transfers by

the Participant of any Common Shares issued under an Award, including without limitation (i) restrictions under an insider trading policy or pursuant to applicable law, (ii) restrictions designed to delay and/or coordinate the timing and manner of sales by the Participant and holders of other Company equity compensation arrangements, (iii) restrictions as to the use of a specified brokerage firm for such resales or other transfers, and (iv) provisions requiring Common Shares to be sold on the open market or to the Company in order to satisfy tax withholding or other obligations.

11. Adjustment of and Changes in the Stock

The number and kind of Common Shares available for issuance under this Plan (including under any Awards then outstanding), and the number and kind of Common Shares subject to the limits set forth in Section 5 of this Plan, shall be equitably adjusted by the Committee to reflect any reorganization, reclassification, combination of shares, stock split, reverse stock split, spin-off, dividend or distribution of securities, property or cash (other than regular, quarterly cash dividends), or any other event or transaction that affects the number or kind of Common Shares of the Company outstanding. Such adjustment may be designed to comply with Section 425 of the Code or, except as otherwise expressly provided in Section 5(c) of this Plan, may be designed to treat the Common Shares available under the Plan and subject to Awards as if they were all outstanding on the record date for such event or transaction or to increase the number of such Common Shares to reflect a deemed reinvestment in Common Shares of the amount distributed to the Company’s securityholders. The terms of any outstanding Award shall also be equitably adjusted by the Committee as to price, number or kind of Common Shares subject to such Award, vesting, and other terms to reflect the foregoing events, which adjustments need not be uniform as between different Awards or different types of Awards.

In the event there shall be any other change in the number or kind of outstanding Common Shares, or any stock or other securities into which such Common Shares shall have been changed, or for which it shall have been exchanged, by reason of a change of control, other merger, consolidation or otherwise, then the Committee shall determine the appropriate and equitable adjustment to be effected. In addition, in the event of such change described in this paragraph, the Committee may accelerate the time or times at which any Award may be exercised and may provide for cancellation of such accelerated Awards that are not exercised within a time prescribed by the Committee in its sole discretion.

No right to purchase fractional shares shall result from any adjustment in Awards pursuant to this Section 11. In case of any such adjustment, the Common Shares subject to the Award shall be rounded down to the nearest whole share. The Company shall notify Participants holding Awards subject to any adjustments pursuant to this Section 11 of such adjustment, but (whether or not notice is given) such adjustment shall be effective and binding for all purposes of the Plan.

12. Qualifying Performance-Based Compensation

- (a) *General.* The Committee may establish performance criteria and level of achievement versus such criteria that shall determine the number of Common Shares, units, or cash to be granted, retained, vested, issued or issuable under or in settlement of or the amount payable pursuant to an Award, which criteria may be

based on Qualifying Performance Criteria or other standards of financial performance and/or personal performance evaluations. In addition, the Committee may specify that an Award or a portion of an Award is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code, provided that the performance criteria for such Award or portion of an Award that is intended by the Committee to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Award is granted. The Committee shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment, settlement or vesting of any Award that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code. Notwithstanding satisfaction of any performance goals, the number of Common Shares issued under or the amount paid under an award may, to the extent specified in the Award Agreement, be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

- (b) *Qualifying Performance Criteria.* For purposes of this Plan, the term “Qualifying Performance Criteria” shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to a designated comparison group, in each case as specified by the Committee: (i) cash flow (before or after dividends), (ii) earnings or earnings per share (including earnings before interest, taxes, depreciation and amortization), (iii) stock price, (iv) return on equity, (v) total stockholder return, (vi) return on capital or investment (including return on total capital, return on invested capital, or return on investment), (vii) return on assets or net assets, (viii) market capitalization, (ix) economic value added, (x) debt leverage (debt to capital), (xi) revenue, (xii) income or net income, (xiii) operating income, (xiv) operating profit or net operating profit, (xv) operating margin or profit margin, (xvi) return on operating revenue, (xvii) cash from operations, (xviii) operating ratio, (xix) operating revenue, (xx) bookings, (xxi) backlog, or (xxii) customer service. To the extent consistent with Section 162(m) of the Code, the Committee (A) shall appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to eliminate the effects of charges for restructurings, discontinued operations, extraordinary items and all items of gain, loss or expense determined to be extraordinary or unusual in nature or related to the acquisition or disposal of a segment of a business or related to a change in accounting principle all as determined in accordance with standards established by opinion No. 30 of the Accounting Principles Board (APA Opinion No. 30) or other applicable or successor accounting provisions, as well as the cumulative effect of accounting changes, in each case as determined in accordance with generally accepted accounting principles or identified in the Company’s financial statements or notes to the financial statements, and (B) may appropriately adjust any evaluation

of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation, claims, judgments or settlements, (iii) the effect of changes in tax law or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs and (v) accruals of any amounts for payment under this Plan or any other compensation arrangement maintained by the Company.

13. Transferability

Unless the Committee provides otherwise, each Award may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated by a Participant other than by will or the laws of descent and distribution, and each Option or Stock Appreciation Right shall be exercisable only by the Participant during his or her lifetime.

14. Compliance with Laws and Regulations

This Plan, the grant, issuance, vesting, exercise and settlement of Awards thereunder, and the obligation of the Company to sell, issue or deliver Common Shares under such Awards, shall be subject to all applicable foreign, federal, state and local laws, rules and regulations, stock exchange rules and regulations, and to such approvals by any governmental or regulatory agency as may be required. The Company shall not be required to register in a Participant’s name or deliver any Common Shares prior to the completion of any registration or qualification of such shares under any foreign, federal, state or local law or any ruling or regulation of any government body which the Committee shall determine to be necessary or advisable. To the extent the Company is unable to or the Committee deems it infeasible to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company’s counsel to be necessary to the lawful issuance and sale of any Common Shares hereunder, the Company and its Subsidiaries shall be relieved of any liability with respect to the failure to issue or sell such Common Shares as to which such requisite authority shall not have been obtained. No Option shall be exercisable and no Common Shares shall be issued and/or transferable under any other Award unless a registration statement with respect to the Common Shares underlying such Option is effective and current or the Company has determined that such registration is unnecessary.

15. Withholding

To the extent required by applicable federal, state, local or foreign law, a Participant shall be required to satisfy, in a manner satisfactory to the Company, any withholding tax obligations that arise by reason of an Option exercise, disposition of Common Shares issued under an Incentive Stock Option, the vesting of or settlement of an Award, an election pursuant to Section 83(b) of the Code or otherwise with respect to an Award. The Company and its Subsidiaries shall not be required to issue Common Shares, make any payment or to recognize the transfer or disposition of Common Shares until such obligations are satisfied. The Committee may provide for or permit the minimum statutory withholding obligations to be satisfied through the mandatory or elective sale of Common Shares and/or by having the Company withhold a portion of the Common Shares that otherwise would be issued to a Participant upon exercise of

the Option or the vesting or settlement of an Award, or by tendering Common Shares previously acquired.

16. Administration of the Plan

- (a) *Committee of the Plan.* The Plan shall be administered by the Committee which shall be the Compensation Committee of the Board or, in the absence of a Compensation Committee, a properly constituted Compensation Committee or the Board itself. Any power of the Committee may also be exercised by the Board, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16 of the Securities Exchange Act of 1934 or cause an Award designated as a Performance Award not to qualify for treatment as performance-based compensation under Section 162(m) of the Code. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control. The Committee may by resolution authorize one or more officers of the Company to perform any or all things that the Committee is authorized and empowered to do or perform under the Plan, and for all purposes under this Plan, such officer or officers shall be treated as the Committee; provided, however, that the resolution so authorizing such officer or officers shall specify the total number of Awards (if any) such officer or officers may award pursuant to such delegated authority, and any such Award shall be subject to the form of Award Agreement theretofore approved by the Committee. No such officer shall designate himself or herself as a recipient of any Awards granted under authority delegated to such officer. In addition, the Committee may delegate any or all aspects of the day-to-day administration of the Plan to one or more officers or employees of the Company or any Subsidiary, and/or to one or more agents.
- (b) *Powers of Committee.* Subject to the express provisions of this Plan, the Committee shall be authorized and empowered to do all things that it determines to be necessary or appropriate in connection with the administration of this Plan, including, without limitation: (i) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein; (ii) to determine which persons are Participants, to which of such Participants, if any, Awards shall be granted hereunder and the timing of any such Awards; (iii) to grant Awards to Participants and determine the terms and conditions thereof, including the number of Common Shares subject to Awards and the exercise or purchase price of such Common Shares and the circumstances under which Awards become exercisable or vested or are forfeited or expire, which terms may but need not be conditioned upon the passage of time, continued employment or other service, the satisfaction of performance criteria, the occurrence of certain events (including events which constitute a change of control), or other factors; (iv) to establish and verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award; (v) to prescribe and amend the terms of the agreements or other documents evidencing Awards made under this Plan (which need not be identical) and the terms of or form of any document or notice required to be delivered to the Company
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by Participants under this Plan; (vi) to determine the extent to which adjustments are required pursuant to Section 11; (vii) to interpret and construe this Plan, any rules and regulations under this Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Company; and (viii) to make all other determinations deemed necessary or advisable for the administration of this Plan.

- (c) *Determinations by the Committee.* All decisions, determinations and interpretations by the Committee regarding the Plan, any rules and regulations under the Plan and the terms and conditions of or operation of any Award granted hereunder, shall be final and binding on all Participants, beneficiaries, heirs, assigns or other persons holding or claiming rights under the Plan or any Award. The Committee shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer or other employee of the Company and such attorneys, consultants and accountants as it may select.

17. Amendment of the Plan or Awards

The Board may amend, alter or discontinue this Plan and the Committee may amend, or alter any agreement or other document evidencing an Award made under this Plan but, except as specifically provided for hereunder, no such amendment shall, without the approval of the stockholders of the Company (a) reduce the exercise price of outstanding Options or Stock Appreciation Rights, (b) reduce the price at which Options may be granted below the price provided for in Section 6 or (c) otherwise amend the Plan in any manner requiring stockholder approval by law or under applicable listing requirements. No amendment or alteration to the Plan or an Award or Award Agreement shall be made which would impair the rights of the holder of an Award, without such holder's consent, provided that no such consent shall be required if the Committee determines in its sole discretion and prior to the date of any change of control that such amendment or alteration either is required or advisable in order for the Company, the Plan or the Award to satisfy any law or regulation or to meet the requirements of or avoid adverse financial accounting consequences under any accounting standard.

18. Miscellaneous

- (a) *No Liability of Company.* The Company and any Subsidiary or affiliate which is in existence or hereafter comes into existence shall not be liable to a Participant or any other person as to: (i) the non-issuance or sale of Common Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Common Shares hereunder; and (ii) any tax consequence expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Award granted hereunder.
- (b) *Non-Exclusivity of Plan.* Neither the adoption of this Plan by the Board nor the submission of this Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or the Committee to adopt such other incentive arrangements

as either may deem desirable, including without limitation, the granting of restricted stock or stock options otherwise than under this Plan or an arrangement not intended to qualify under Code Section

162(m), and such arrangements may be either generally applicable or applicable only in specific cases.

- (c) *Governing Law.* This Plan and any agreements or other documents hereunder shall be interpreted and construed in accordance with the laws of Maryland and applicable federal law.
- (d) *No Right to Employment, Reelection or Continued Service.* Nothing in this Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Subsidiaries and/or its affiliates to terminate any Participant's employment, service on the Board or service for the Company at any time or for any reason not prohibited by law, nor shall this Plan or an Award itself confer upon any Participant any right to continue his or her employment or service for any specified period of time. Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company, any Subsidiary and/or its affiliates.
- (e) *Unfunded Plan.* The Plan is intended to be an unfunded plan. Participants are and shall at all times be general creditors of the Company with respect to their Awards. If the Committee or the Company chooses to set aside funds in a trust or otherwise for the payment of Awards under the Plan, such funds shall at all times be subject to the claims of the creditors of the Company in the event of its bankruptcy or insolvency.

Integral Systems, Inc. 2008 Stock Incentive Plan Form of RSU Agreement

**INTEGRAL SYSTEMS, INC.
2008 STOCK INCENTIVE PLAN**

**Notice of Grant of Restricted Stock Units
and Restricted Stock Unit Award Agreement**

Kratos Defense & Security Solutions, Inc. (the "Company") hereby awards you Restricted Stock Units ("RSUs"), subject to the terms and conditions set forth in this Restricted Stock Unit Award Agreement (the "Award Agreement" or "Award") and in the Integral Systems, Inc. 2008 Stock Incentive Plan (the "Plan"). A copy of the Plan is attached as Exhibit A. Terms capitalized in this Award Agreement have the meaning defined in the Plan (or in this Award Agreement, if defined herein).

This Award is conditioned on your execution of this Award Agreement within twenty days after the Grant Date specified in Section 1 below. By executing this Award Agreement, you irrevocably agree that all your rights under this Award will be determined solely and exclusively by reference to the Plan's terms and conditions, subject to the provisions set forth below. As a result, you should not execute this Award Agreement until you have (i) carefully considered the terms and conditions of the Plan and this Award (including all of the attached Exhibits), and (ii) consulted with your personal legal and tax advisors about all of these documents.

1. **Grant Terms.** Your RSUs have the following terms:

Name of Participant	[NAME]
Number of Common Shares ("Shares") Shares Subject to Award	[NUMBER OF SHARES]
Purchase Price per Share (if applicable)	Not applicable.
Grant Date	[GRANT DATE]
Vesting Schedule	Subject to the remainder of this Award Agreement, including Sections 3 and 8, to Plan Section 8 and to any other relevant Plan provisions: [e.g., Your Award will vest with respect to (%) of the RSUs under this Award on each one year anniversary date (each a " <u>Vesting Date</u> ") of the Grant Date, provided that you remain in

Continuous Service from the date hereof through each applicable Vesting Date.]

Accelerated Vesting Not allowed.

2. **Company's Obligation.** Subject to the terms of this Award Agreement and the Plan, each RSU represents the right to receive a Share on the Vesting Date.

- (a) Unless and until the RSUs vest according to the schedule set forth in Section 1, you have no right to receive Shares under the RSUs.
 - (b) Neither you nor any person claiming under or through you will have any of the rights or privileges of a stockholder of the Company with respect to any Shares deliverable hereunder unless and until certificates representing such Shares have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to you or your broker.
 - (c) Prior to actual distribution of Shares pursuant to any vested RSUs, such RSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.
3. **Payment After Satisfaction of Vesting Restrictions.** As soon as practicable after the Vesting Date, the Company will issue to you or your duly-authorized transferee, free from vesting restrictions (but subject to such legends as the Company determines to be appropriate), one Share for each vested RSU. Payment is subject to Section 8.
4. **Forfeiture upon Termination of Continuous Service.** If your Continuous Service terminates for any reason, any unvested RSUs awarded by this Award immediately will be forfeited without any payment to you. This Award shall be canceled and become automatically null and void immediately thereafter, but only to the extent your RSUs have not vested, pursuant to Section 1 above, on or before the date your Continuous Service ends. This Section 4 is subject to the terms of any employment agreement between you and the Company (and/or any Affiliate) in effect when your Continuous Service terminates.
5. **Change in Control.** In the event that a Change in Control occurs prior to the termination of the vesting schedule specified herein, RSUs vested as of the effective date of the Change in Control shall be settled by the Company through the issuance of Shares immediately prior to the effective date of the Change in Control.
6. **Payments after Death.** In the absence of a designation of beneficiary, any distribution or delivery to be made to you under this Award Agreement, if you are then deceased, will be made to the administrator or executor of your estate, who must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer. RSUs not vested as of your death shall be forfeited at no cost to the Company.
7. **Grant is Not Transferable.** Your rights under this Award Agreement may not be sold, pledged, or otherwise transferred (whether by operation of law or otherwise) without the

prior written consent of the Committee, except to the limited extent provided in Section 6. Further, your rights under this Award Agreement will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Award, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this Award and the rights and privileges conferred hereby immediately will become null and void.

8. **Taxes.**
- (a) **Code Section 409A.** Notwithstanding anything to the contrary in this Award Agreement, if you are a “specified employee” (as determined in accordance with Code Section 409A and related Treasury guidance and related Treasury guidance and regulations) and a payment under this Award Agreement would be subject to additional taxes and interest under Section 409A of the Code, then any such payment that you would otherwise be entitled to receive during the first six months following the date of your “separation from service” (as determined in accordance with Section 409A of the Code and related Treasury guidance and regulations) from the Company shall be accumulated and paid on the date that is six (6) months and one (1) day following the date of your separation from service, or if earlier, upon your death.
 - (b) Except to the extent otherwise specifically provided in an employment or consulting agreement between you and the Company, by signing this Award Agreement, you acknowledge that you shall be solely responsible for the satisfaction of any applicable taxes that may arise pursuant to this Award (including taxes arising under Code Sections 409A (regarding deferred compensation) or 4999 (regarding golden parachute excise taxes)), and that neither the Company nor the Committee shall have any obligation whatsoever to pay such taxes or to otherwise indemnify or hold you harmless from any or all of such taxes.
 - (c) Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to you, unless and until you have made satisfactory arrangements (as determined by the Company) with respect to the payment of income, employment and other taxes which the Company determines must be withheld or otherwise remitted to the government with respect to such Shares.
 - (d) To the extent determined appropriate by the Company in its discretion, it shall have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to you.
 - (e) If you fail to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable RSUs otherwise are scheduled to vest pursuant to this Award Agreement, you will forfeit permanently such RSUs and any right to receive Shares thereunder, and the RSUs will be returned to the Company at no cost to the Company.
 - (f) The Committee shall have the sole discretion to interpret the requirements of the Code, including Section 409A, for purposes of the Plan and this Award Agreement.

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9. **No Effect on Employment.** By executing this Award Agreement, you acknowledge and agree that (i) your employment with the Company is on an at-will basis only; (ii) nothing in this Award Agreement or the Plan confers on you any right to continue an employment, service or consulting relationship with the Company, nor shall it affect in any way your right or the Company’s right to terminate or change the terms of your employment, service, or consulting relationship at any time, with or without Cause; and (iii) the Company would not have granted this Award to you but for these acknowledgements and agreements.

10. **Additional Conditions to Issuance of Stock.** If at any time the Company determines, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to you (or your estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.
 11. **Investment Purposes.** By executing this Award, you represent and warrant to the Company that any Shares issued to you pursuant to your RSUs will be for investment for your own account and not with a view to, for resale in connection with, or with an intent of participating directly or indirectly in, any distribution of such Shares within the meaning of the Securities Act of 1933, as amended (the "**Securities Act**").
 12. **Securities Law Restrictions.** Regardless of whether the offering and sale of Shares under the Plan have been registered under the Securities Act, or have been registered or qualified under the securities laws of any state, the Company at its discretion may impose restrictions upon the sale, pledge or other transfer of such Shares (including the placement of appropriate legends on stock certificates or the imposition of stop-transfer instructions) if, in the judgment of the Company, such restrictions are necessary or desirable in order to achieve compliance with the Securities Act or the securities laws of any state or any other law or to enforce the intent of this Award.
 13. **Headings.** Section and other headings contained in this Award Agreement are for reference purposes only and are not intended to describe, interpret, define or limit the scope or intent of this Award Agreement or any provision hereof.
 14. **Severability.** Every provision of this Award Agreement and of the Plan is intended to be severable. If any term hereof is illegal or invalid for any reason, such illegality or invalidity shall not affect the validity or legality of the remaining terms of this Award Agreement.
 15. **Counterparts.** This Award Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.
 16. **Electronic Delivery.** The Company may, in its sole discretion, deliver any documents related to RSUs awarded under the Plan or future RSUs that may be awarded under the Plan by electronic means or request your consent to participate in the Plan by electronic means. By signing this Award Agreement, you hereby consent to receive such documents by
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electronic delivery and agree to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. **Notices.**
 - (a) Any notice or communication required or permitted by any provision of this Award Agreement to be given to you shall be in writing and shall be delivered electronically, personally, or sent by mail, addressed to you at the last address that the Company had for you on its records. Any such notice shall be deemed to be given as of the date such notice is personally or electronically delivered or properly mailed.
 - (b) Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company at 4820 Eastgate Mall, San Diego, California 92121; **Attn:** Stock Administration.
 - (c) Each party may, from time to time, specify a new address for delivery of notices relating to this Award Agreement by providing written notice to the other party hereto, delivered electronically, personally, or by mail.
 18. **Binding Agreement.** Except as otherwise provided in this Award Agreement or in the Plan, and subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the parties hereto and their respective heirs, legatees, legal representatives, successors and assigns.
 19. **Entire Agreement.** This Award Agreement and the Plan constitute the entire understanding of the parties on the subjects covered. You expressly warrant that you are not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein.
 20. **Modifications.** This Award Agreement and Plan may be modified or amended at any time, in accordance with the Plan. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement without your additional consent as it deems necessary or advisable, in its sole discretion, to comply with Section 409A of the Code or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Award.
 21. **Plan Governs.** By signing this Award Agreement, you acknowledge that you have received a copy of the Plan and that your Award Agreement is subject to all the provisions contained in the Plan, the provisions of which are made a part of this Award Agreement and your Award is subject to all interpretations, amendments, rules and regulations which from time to time may be promulgated and adopted pursuant to the Plan. In the event of a conflict between the provisions of this Award Agreement and those of the Plan, the provisions of the Plan shall control.
 22. **Plan Administrator Authority.** You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Plan Administrator upon any questions relating to the Plan and this award. The Plan Administrator has the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and
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application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any RSUs have vested). No member of the Plan Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

23. **Governing Law.** The laws of the United States of America and the State of Maryland (without giving effect to any provision that would result in the application of a different jurisdiction's laws) shall govern the validity of this Award Agreement, the construction of its terms, and the interpretation of the rights and duties of the parties hereto.

24. **Eligibility.** By signing this Award Agreement, you represent that you were not an employee of the Company or any of its Subsidiaries on July 27, 2011. If the foregoing representation is not accurate, this Award Agreement and the RSUs granted hereunder shall retroactively lapse as of the date hereof and automatically be null and void without any payment to you therefore and you shall have no rights whatsoever with respect to this Award Agreement or the RSUs subject to this Award Agreement.

BY YOUR SIGNATURE BELOW, along with the signature of the Company's representative, you and the Company agree that this Award is made under and governed by the terms and conditions of this Award Agreement and the Plan.

GRANTEE:

Date: _____

[NAME]

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

Date: _____

Eric M. DeMarco, President
and Chief Executive Officer

Exhibit A

**INTEGRAL SYSTEMS, INC.
2008 STOCK INCENTIVE PLAN**

Plan Document

(attached under this page)

PAUL HASTINGS

Atlanta
Beijing
Brussels
Chicago
Frankfurt
Hong Kong
London
Los Angeles
Milan
New York
Orange County
Palo Alto
Paris
San Diego
San Francisco
Shanghai
Tokyo
Washington, DC

March 7, 2012

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

Re: Registration Statement on Form S-8

Ladies and Gentlemen:

We have acted as counsel to Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "Company"), in connection with the preparation of the Registration Statement on Form S-8 to be filed by the Company with the U.S. Securities and Exchange Commission (the "Commission") on or about the date hereof (the "Registration Statement") to effect registration under the Securities Act of 1933, as amended (the "Securities Act"), 1,535,242 shares (the "Shares") of the Company's common stock, \$0.001 par value per share ("Common Stock"), issuable upon vesting and/or exercise of awards to be granted by the Company pursuant to the Amended and Restated Herley Industries, Inc. 2010 Stock Plan (the "Herley Plan") and the Amended and Restated Integral Systems, Inc. 2008 Stock Incentive Plan (the "Integral Plan" and together with the Herley Plan, the "Assumed Plans").

As such counsel and for purposes of our opinion set forth herein, we have examined and relied upon originals or copies, certified or otherwise identified to our satisfaction, of such documents, resolutions, certificates and instruments of the Company, certificates of public officials and such other instruments and documents as we have deemed necessary or appropriate as a basis for the opinion set forth herein, including, without limitation:

- (i) the Registration Statement;
 - (ii) the Amended and Restated Certificate of Incorporation of the Company, as certified as of March 6, 2012 by the Secretary of State of the State of Delaware;
 - (iii) the Second Amended and Restated Bylaws of the Company;
 - (iv) the resolutions adopted by the Board of Directors of the Company (the "Board") on February 20, 2012 (a) confirming the assumption of the Assumed Plans and authorizing the issuance of the Shares upon vesting and/or exercise of awards granted pursuant to the Assumed Plans and (b) approving the filing of the Registration Statement and the registration of the Shares issuable upon vesting and/or exercise of awards granted pursuant to the Assumed Plans;
-
- (v) the Assumed Plans, including the forms of award agreements related thereto; and
 - (vi) a certificate, dated as of March 6, 2012, from the Office of the Secretary of State of the State of Delaware, as to the existence and good standing of the Company under the laws of the State of Delaware.

In addition to the foregoing, we have made such investigations of law as we have deemed necessary or appropriate as a basis for the opinion set forth herein.

In such examination and in rendering the opinion set forth herein, we have assumed, without independent investigation or verification: (i) the genuineness of all signatures on all agreements, instruments, corporate records, certificates and other documents submitted to us; (ii) the authenticity and completeness of all agreements, instruments, corporate records, certificates and other documents submitted to us as originals; (iii) that all agreements, instruments, corporate records, certificates and other documents submitted to us as certified, electronic, facsimile, conformed, photostatic or other copies conform to the originals thereof, and that such originals are authentic and complete; (iv) the legal capacity and authority of all persons or entities executing all agreements, instruments, corporate records, certificates and other documents submitted to us; (v) the due authorization, execution and delivery of all agreements, instruments, certificates and other documents by all parties thereto; (vi) that the statements contained in the certificates and comparable documents of public officials, officers and representatives of the Company and other persons on which we have relied for the purposes of this opinion letter are true and correct; and (vii) that the officers and directors of the Company have properly exercised their fiduciary duties. As to all questions of fact material to the opinion set forth herein and as to the materiality of any fact or other matter referred to herein, we have relied (without independent investigation) upon representations and certificates or comparable documents of officers and representatives of the Company.

Based upon the foregoing, and in reliance thereon, and subject to the limitations, qualifications and exceptions set forth herein, we are of the opinion that the Shares are duly authorized and, when issued and sold as described in the Registration Statement and in accordance with the Assumed Plans and the applicable award agreements thereunder (including the receipt by the Company of the full consideration therefor), will be validly issued, fully paid and nonassessable.

Without limiting any of the other limitations, exceptions and qualifications stated elsewhere herein, we express no opinion with regard to the applicability or effect of the laws of any jurisdiction other than, as in effect on the date of this opinion letter, the Delaware General Corporation Law.

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This opinion letter deals only with the specified legal issues expressly addressed herein, and you should not infer any opinion that is not explicitly addressed herein from any matter stated in this opinion letter.

This opinion letter is rendered solely to you in connection with the issuance and delivery of the Shares. This opinion letter is rendered to you as of the date hereof, and we assume no obligation to advise you or any other person with regard to any change after the date hereof in the circumstances or the law that may bear on the matters set forth herein even if the change may affect the legal analysis, legal conclusion or other matters in this opinion letter.

We hereby consent to the filing of this opinion letter as Exhibit 5.1 to the Registration Statement. In giving this consent, we do not hereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission thereunder.

Very truly yours,

/s/ Paul Hastings LLP

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 7, 2012 with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report on Form 10-K for the year ended December 25, 2011 of Kratos Defense & Security Solutions, Inc., which are incorporated by reference in this Registration Statement. We consent to the incorporation by reference in the Registration Statement of the aforementioned reports.

/s/ GRANT THORNTON LLP

San Diego, California

March 7, 2012

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Kratos Defense & Security Solutions, Inc. on Form S-8 (the "Registration Statement") of our report dated October 16, 2009 with respect to our audit of the consolidated financial statements and related consolidated financial statement schedule of Herley Industries, Inc. as of August 2, 2009 and for the fifty-two (52) weeks ended August 2, 2009 and the fifty-three (53) weeks ended August 3, 2008, which report appears in the Current Report on Form 8-K/A of Kratos Defense & Security Solutions, Inc. dated April 11, 2011. We also consent to the incorporation by reference of said report in the Registration Statements of Kratos Defense & Security Solutions, Inc. on the following Forms S-8: File No. 333-90455, File No. 333-54818, File No. 333-71702, File No. 333-91852, File No. 333-116903, File No. 333-124957, File No. 333-127060, File No. 333-155317, File No. 333-157826, File No. 333-171257, File No. 333-167839, File No. 333-173383 and File No. 333-177494.

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

/s/ Marcum LLP

Marcum LLP
Melville, NY
March 7, 2012

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Kratos Defense & Security Solutions, Inc. on Form S-8 (File No. 333-90455, File No. 333-54818, File No. 333-71702, File No. 333-91852, File No. 333-116903, File No. 333-124957, File No. 333-127060, File No. 333-155317, File No. 333-157826, File No. 333-171257, File No. 333-167839 and File No. 333-173383) of our report dated October 4, 2010, relating to the financial statements of General Microwave Israel Corp not presented separately herein, appearing in Annex B to the Prospectus Supplement of Kratos Defense & Security Solutions, Inc. ("Kratos") filed with the Securities and Exchange Commission on February 8, 2011, pursuant to Kratos' Registration Statement on Form S-3 (File No. 333-161340).

/s/ Brightman Almagor Zohar & Co

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel

March 7, 2012

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated October 14, 2010 with respect to the consolidated financial statements, schedule and internal control over financial reporting included in the Annual Report on Form 10-K for the 52 week period ended August 1, 2010 of Herley Industries, Inc. included in the Form 8-K of Kratos Defense & Security Solutions, Inc. dated February 7, 2011, which are incorporated by reference in this Registration Statement. We consent to the incorporation by reference in the Registration Statement of the aforementioned reports.

/s/ GRANT THORNTON LLP
Philadelphia, Pennsylvania
March 7, 2012

Consent of Independent Registered Public Accounting Firm

We consent to the use of our report dated December 8, 2010, with respect to the consolidated balance sheet of Integral Systems, Inc. and subsidiaries as of September 24, 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the year ended September 24, 2010 and the effectiveness of internal control over financial reporting as of September 24, 2010, incorporated herein by reference.

Our report dated December 8, 2010, on the effectiveness of internal control over financial reporting as of September 24, 2010, expresses our opinion that Integral Systems, Inc. and subsidiaries did not maintain effective internal control over financial reporting as of September 24, 2010 because of the effect of a material weakness on the achievement of the objectives of the control criteria and contains an explanatory paragraph that states a material weakness related to a lack of sufficient qualified accounting resources has been identified and included in management's assessment.

/s/ KPMG LLP
Baltimore, Maryland
March 7, 2012

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8) of Kratos Defense & Security Solutions, Inc. pertaining to the Integral Systems, Inc. 2008 Stock Incentive Plan and to the Herley Industries, Inc. 2010 Stock Plan, with respect to the consolidated financial statements of Integral Systems, Inc. and subsidiaries as of September 25, 2009 and for the years ended September 25, 2009 and September 30, 2008, included in the October 11, 2011 Form 8-K/A of Kratos Defense & Security Solutions, Inc.

/s/ ERNST & YOUNG LLP

McLean, Virginia

March 7, 2012
