

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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)

**Integral Systems, Inc. Amended and Restated 2002 Stock Option Plan
Integral Systems, Inc. 2008 Stock Incentive Plan
Amended and Restated 1999 Employee Stock Purchase Plan
2011 Equity 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 (3)	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Integral Systems, Inc. Amended and Restated 2002 Stock Option Plan(2) Common Stock, par value \$0.001 per share	5,736	\$ 14.46(6)	\$ 82,942.56	\$ 9.51
Integral Systems, Inc. 2008 Stock Incentive Plan(2) Common Stock, par value \$0.001 per share	42,061	\$ 15.71(6)	\$ 660,778.31	\$ 75.73
Amended and Restated 1999 Employee Stock Purchase Plan Common Stock, par value \$0.001 per share	250,000(4)	\$ 6.82(7)	\$ 1,705,000.00	\$ 195.39
2011 Equity Incentive Plan Common Stock, par value \$0.001 per share	2,000,000(5)	\$ 6.82(7)	\$ 13,640,000.00	\$ 1,563.14

- (1) Each share of the Registrant's common stock, par value \$0.001 per share ("**Common Stock**"), 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, under certain circumstances.
- (2) Pursuant to an Agreement and Plan of Merger, made and entered into as of May 15, 2011 (the "**Merger Agreement**"), by and among Kratos Defense & Security Solutions, Inc., a Delaware corporation (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 Maryland corporation ("**Integral**"), the Registrant assumed, pursuant to the Integral plans listed above (the "**Integral Plans**"), each option to purchase Integral common stock that was outstanding and unexercised immediately prior to the completion of the merger contemplated by the Merger Agreement and not cancelled in exchange for cash at the effective time of such merger per the written instructions of the holder thereof. Pursuant to the terms of the Merger Agreement, the assumed options were converted into the right to receive shares of Common Stock.
- (3) Pursuant to Rule 416(a), this Registration Statement shall also cover any additional shares of the Registrant's 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.
- (4) Represents 250,000 additional shares of Common Stock available for future issuance under the Registrant's Amended and Restated 1999 Employee Stock Purchase Plan (the "**ESPP**"). 70,000 shares available for issuance under the ESPP were initially registered on a registration statement on Form S-8 filed with the Securities and Exchange Commission (the "**Commission**") on November 5, 1999 (Registration No. 333-90455). An additional 80,000 shares available for issuance under the ESPP were previously registered on a registration statement on Form S-8 filed with the Commission on October 17, 2001 (Registration No. 333-71702). An additional 135,000 shares available for issuance under the ESPP were previously registered on a registration statement on Form S-8 filed with the Commission on June 28, 2004 (Registration No. 333-116903). An additional 150,000 shares available for issuance under the ESPP were previously registered on a registration statement on Form S-8 filed with the Commission on November 12, 2008 (333-155317). An additional 625,000 shares available for issuance under the ESPP were previously registered on a registration statement on Form S-8 filed with the Commission on June 28, 2010 (333-167839). Pursuant to Rule 416(c) under the Securities Act of 1933, as amended (the "**Securities Act**"), this Registration Statement also covers an indeterminate amount of interests to be offered or sold pursuant to the ESPP.
- (5) Represents 2,000,000 shares of Common Stock authorized to be issued under the Registrant's 2011 Equity Incentive Plan (the "**2011 Plan**").
- (6) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(h) of the Securities Act. The price per share and aggregate offering price are based upon the weighted average exercise price of the outstanding options under each Integral Plan.
- (7) 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 Registrant's Common Stock on October 18, 2011, as reported on the NASDAQ Global Select Market.

INTRODUCTORY NOTES

On July 27, 2011, the Registrant completed the previously announced merger (the "**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 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 Merger per the written instructions of the holder thereof (each an **“Integral Option”**), was assumed by the Registrant and converted into and became an option to purchase Common Stock with (i) the number of shares subject to such Integral Option multiplied by 0.9559, rounded up to the nearest whole share, and (ii) the per share exercise price under each such Integral Option adjusted by dividing the per share exercise price under such option by 0.9559, rounded up to the nearest whole cent. The Registrant assumed each Integral Option in accordance with the terms (as in effect as of the date of the Merger Agreement) of the applicable Integral Plan and the option agreement pursuant to which such Integral Option was granted.

On May 27, 2011, the Registrant held its annual meeting of stockholders, at which the Registrant’s stockholders approved the adoption of the 2011 Plan and an amendment to the ESPP which increased the aggregate number of shares that may be issued under the ESPP by 250,000 shares.

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 26, 2010 as filed with the Commission on March 2, 2011;
- (b) The Registrant’s quarterly reports on Form 10-Q for its fiscal quarter ended (i) March 27, 2011, filed with the Commission on May 6, 2011, and (ii) June 26, 2011, filed with the Commission on August 4, 2011;
- (c) The Registrant’s Current Reports on Form 8-K filed with the Commission on January 5, 2011, February 4, 2011, February 7, 2011, February 8, 2011, February 10, 2011, March 1, 2011, March 15, 2011, March 22, 2011, March 23, 2011, March 29, 2011, April 5, 2011, April 7, 2011, April 11, 2011, April 20, 2011, May 5, 2011, May 16, 2011, May 18, 2011, June 1, 2011, June 8, 2011, July 14, 2011, July 18, 2011, July 29, 2011, August 4, 2011, and October 11, 2011;
- (d) The 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;
- (e) The unaudited historical financial information for Herley Industries, Inc. as of and for the 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;

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- (f) The audited consolidated financial statements of Gichner Holdings, Inc. as of and for the years ended December 31, 2009 and 2008, the audited consolidated financial statements of Gichner Holdings, Inc. as of and for the period ended December 31, 2007, the audited combined financial statements of Gichner Systems Group, LLC and Related Entities as of and for the period ended August 22, 2007, and the unaudited financial statements of Gichner Holdings, Inc. as of and for the three months ended March 31, 2010 and 2009, included in Item 9.01(a) of the Registrant’s Current Report on Form 8-K, filed with the Commission on May 25, 2010;
 - (g) 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
 - (h) 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.	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	Integral Systems, Inc. Amended and Restated 2002 Stock Option Plan.				X
4.11	Integral Systems, Inc. 2008 Stock Incentive Plan.				X
4.12	Amended and Restated 1999 Employee Stock Purchase Plan, as amended.				X
4.13	2011 Equity Incentive Plan.				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 Independent Registered Public Accountants, Amper, Politziner & Mattia LLP.				X
23.4	Consent of Registered Public Accounting Firm, Plante & Moran, PLLC.				X
23.5	Consent of Registered Public Accounting Firm, Marcum LLP.				X
23.6	Consent of Registered Public Accounting Firm, Brightman Almagor Zohar & Co.				X

23.7	Consent of Registered Public Accounting Firm, Grant Thornton LLP.	X
23.8	Consent of Independent Registered Public Accounting Firm, KPMG LLP.	X
23.9	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 the 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 the Registration Statement or any material change to such information in the Registration Statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) of this section do not apply if the 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.

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 24th day of October, 2011.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

By: /s/ Eric M. DeMarco
Eric M. DeMarco
President and Chief Executive Officer

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 Deanna H. Lund his 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 or her 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>	October 24, 2011
<u>/s/ Deanna H. Lund</u> Deanna H. Lund	Executive Vice President and Chief Financial Officer <i>(Principal Financial Officer)</i>	October 24, 2011
<u>/s/ Laura Siegal</u> Laura Siegal	Vice President and Corporate Controller <i>(Principal Accounting Officer)</i>	October 24, 2011
<u>/s/ Scott I. Anderson</u> Scott I. Anderson	Director	October 24, 2011
<u>/s/ Bandel L. Carano</u> Bandel L. Carano	Director	October 24, 2011
<u>/s/ William A. Hogle</u> William A. Hogle	Director	October 24, 2011
<u>/s/ Scot B. Jarvis</u> Scot B. Jarvis	Director	October 24, 2011
<u>/s/ Jane E. Judd</u> Jane E. Judd	Director	October 24, 2011
<u>/s/ Samuel N. Liberatore</u> Samuel N. Liberatore	Director	October 24, 2011

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EXHIBIT INDEX

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Amended and Restated
INTEGRAL SYSTEMS, INC.
2002 STOCK OPTION PLAN
Effective as of May 1, 2005

ARTICLE I

PURPOSE OF PLAN

1.1 PURPOSE OF PLAN. The purpose of the Stock Option Plan is to serve as a performance incentive and to encourage the ownership of Common Stock by officers, directors, other employees and non-employee consultants of the Company so that the person to whom the option is granted may acquire a proprietary interest in the success of the Company, and to encourage such person to remain in the employ of the Company. This Plan shall consist of grants of incentive stock options, which are intended to qualify under section 422 of the Internal Revenue Code of 1986, as amended, and of options which are intended not to so qualify.

ARTICLE II

DEFINITIONS

2.1 AWARD means Options granted hereunder.

2.2 BOARD means the Board of Directors of Integral Systems, Inc.

2.3 CODE means the Internal Revenue Code of 1986, as amended. Reference in this Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations promulgated thereunder.

2.4 COMMITTEE means, as designated by the Board, either the full Board of Directors or a committee of the Board which shall consist solely of two or more members of the Board who are "Non-Employee Directors" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and "Outside Directors" within the meaning of Code Section 162(m).

2.5 COMPANY means Integral Systems, Inc. or any successors as described in Article XI and any subsidiary entity of the Company of which the Company owns, directly or indirectly, greater than fifty percent (50%) of its voting capital stock or voting interests.

2.6 DATE OF DISABILITY means the date on which a Participant is classified Disabled.

2.7 DISABILITY or DISABLED means the classification of a Participant as "Disabled" pursuant to a long-term disability plan of the Company, if any, or successor to such plan (or, if there is no such plan, as determined by the Committee), provided that Participant meets the requirements of section 22(e)(3) of the Code.

2.8 EFFECTIVE DATE means May 1, 2005.

2.9 ELIGIBLE EMPLOYEE means any person employed by the Company who satisfies all of the requirements of Article VI.

2.10 ELIGIBLE NON-EMPLOYEE means any person performing bona fide services for the Company in a capacity other than as an employee, such as a non-employee director or consultant.

2.11 FAIR MARKET VALUE means, with respect to the fair market value of the Stock on any date, the last sale price reported for the Stock on a national securities exchange or on the NASDAQ system on such date or, if no sales of the Stock are reported on such date (even though the Stock is then traded on a national securities exchange or NASDAQ), on the next preceding date on which a sale was reported, or such other price as determined in good faith by the Committee consistent with governing rules and regulations.

2.12 INCENTIVE STOCK OPTION means an Option which is an "incentive stock option" within the meaning of section 422 of the Code and which is granted under Article VII.

2.13 INSIDER means an "officer" or "director" of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended.

2.14 NON-QUALIFIED STOCK OPTION means an Option which is not an Incentive Stock Option and which is granted under Article VII.

2.15 OPTION means either a Non-Qualified Stock Option or an Incentive Stock Option granted under Article VII.

2.16 PARTICIPANT means an Eligible Employee or Eligible Non-Employee who has been granted an Award under this Plan.

2.17 PLAN means the Integral Systems, Inc. 2002 Stock Option Plan, as amended and restated as set forth herein.

2.18 RETIREMENT means the normal retirement by an employee from the Company under a pension or retirement plan maintained by the Company.

2.19 RETIREMENT DATE is the employee's date of Retirement from the Company.

2.20 STOCK means Common Stock of Integral Systems, Inc., par value \$.01 per share.

2.21 STOCK OPTION AGREEMENT means an agreement with respect to Options, as described in Article VIII.

2.22 TERMINATION means resignation or discharge from employment with the Company, except in the event of death, Disability or Retirement.

2.23 VESTED OPTION means, at any date, an Option which a Participant is then entitled to exercise pursuant to the terms of the Plan and an applicable Stock Option Agreement.

ARTICLE III

EFFECTIVE DATE AND DURATION

3.1 EFFECTIVE DATE. Subject to the approval by a majority of the holders of Stock voted, in person or by proxy, at the 2005 Annual Meeting of Stockholders of the Company, this Plan shall be effective as of the Effective Date.

3.2 PERIOD FOR GRANTS OF AWARDS. Awards may be made as provided herein for a period of ten (10) years after the Effective Date but not after the Plan's termination date.

3.3 TERMINATION. This Plan may be terminated as provided in Article XII, but shall continue in effect until all matters relating to the payment of the Awards and the administration of the Plan have been settled.

ARTICLE IV

ADMINISTRATION

4.1 ADMINISTRATION. Except where this Plan expressly reserves administrative or other powers to the Company or the Board, this Plan shall be administered by the Committee. All questions of interpretation and application of this Plan, or of the terms and conditions pursuant to which Awards are granted, exercised or forfeited under the provisions hereof, shall be subject to the determination of the Committee. Such determination shall be final and binding upon all parties affected thereby.

It is contemplated that Awards granted hereunder will be recommended by the management of the Company or the Board to the Committee, and that the Committee will determine whether to accept such recommendations.

ARTICLE V

GRANT OF AWARDS AND LIMITATION OF NUMBER OF SHARES OF STOCK AWARDED

5.1 GRANTS OF AWARDS; NUMBER OF SHARES. The Committee may, from time to time, grant Awards of Options to one or more Eligible Employees or Eligible Non-Employees in its discretion; provided, however, that:

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- (i) subject to any adjustment pursuant to Article X or Article XI, the aggregate number of shares of Stock issuable pursuant to Awards under this Plan may not exceed One Million One Hundred Fifty Thousand (1,150,000) shares of Stock;
 - (ii) to the extent that an Award lapses or the rights of the Participant to whom it was granted terminate, or to the extent that the Award is canceled by mutual agreement of the Committee and the Participant (which cancellation opportunities may be offered by the Committee to Participants from time to time), any shares of Stock subject to such Award shall again be available for the grant of an Award hereunder;
 - (iii) shares of Stock ceasing to be subject to an Award because of the exercise of an Option shall no longer be available for the grant of an Award hereunder; and
 - (iv) Eligible Non-Employees shall not be entitled to receive Awards of Incentive Stock Options.

In determining the size of Awards, the Committee may take into account recommendations by the Board or the Company's management, a Participant's responsibility level, performance, potential, and cash compensation level, the Fair Market Value of the Stock at the time of granting Awards and such other considerations as it deems appropriate.

The maximum number of shares of Stock subject to Options that may be granted during any one calendar year under this Plan to any one individual shall be limited to 50,000. To the extent required by Code Section 162(m), and so long as Section 162(m) of the Code is applicable to persons eligible to participate in the Plan, shares of Stock subject to the foregoing limit with respect to which the related Option is terminated, surrendered or canceled shall not again be available for grant to the respective grantee under this limit.

ARTICLE VI

ELIGIBILITY

6.1 ELIGIBLE INDIVIDUALS. All Eligible Employees and Eligible Non-Employees shall be eligible to receive Awards hereunder. Subject to the provisions of this Plan, the Committee shall from time to time select from such Eligible Employees and Eligible Non-Employees those to whom Awards shall be granted and determine the size of the Awards. A Participant may hold more than one Option at any one time. No person shall have any right to be granted an Award under this Plan, as all Awards granted hereunder are granted in the sole and absolute discretion of the Committee, as provided herein.

ARTICLE VII

OPTIONS

7.1 GRANTS OF OPTIONS. Awards shall be granted to Participants in the form of Options to purchase Stock.

7.2 TYPE OF OPTIONS. The Committee may choose to grant a Participant who is an Eligible Employee either Incentive Stock Options or Non-Qualified Stock Options or both, subject to the limitations contained herein, and shall designate the Option as such in the Stock Option Agreement. The Committee shall grant to a Participant who is an Eligible Non-Employee only Non-Qualified Stock Options, subject to the limitations contained herein.

7.3 INCENTIVE STOCK OPTION DOLLAR LIMITATIONS. If the Committee grants Incentive Stock Options, the aggregate Fair Market Value (determined as of the date the Option is granted) of the shares of Stock under any such Options plus any incentive stock options granted under any other plans of the Company which shall be first exercisable by any one Participant during any one calendar year shall not exceed \$100,000, or such other dollar limitation as may be provided in the Code.

ARTICLE VIII

TERMS AND CONDITIONS OF STOCK OPTION AGREEMENTS

8.1 STOCK OPTION AGREEMENTS. Awards shall be evidenced by Stock Option Agreements in such form as the Committee shall, from time to time, approve. Such Stock Option Agreements, which need not be identical, shall comply with and be subject to the following terms and conditions:

(a) Medium of Payment. Upon exercise of the Option, the Option price shall be payable either (i) in United States dollars, in cash, or by certified check, bank draft or money order payable to the order of the Company, or (ii) in the discretion of the Committee, through the delivery of shares of Stock held for at least six months with the Fair Market Value equal to the total Option price, or (iii) by a combination of the methods described in (i) and (ii).

In addition to the above, the Committee, subject to such limitations as it may determine, may authorize payment of the exercise price, in whole or in part, by delivery of a properly executed exercise notice, together with irrevocable instructions to: (i) a brokerage firm designated by the Company to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the exercise price and the amount necessary to satisfy the Company's minimum statutory tax withholding that may arise in connection with the exercise, and (ii) the Company to deliver the certificates for such purchased shares directly to such brokerage firm.

(b) Number of Shares. The Stock Option Agreement shall state the total number of shares to which it pertains.

(c) Option Price. With respect to Non-Qualified Stock Options, the Option price shall be an amount determined by the Committee, which amount may be less than, equal to or greater than the Fair Market Value of such Shares on the date of the granting of the Option. With respect to Incentive Stock Options, the Option price shall be not less than the Fair Market Value of such shares on the date of the granting of the Option (or one hundred ten percent (110%) of such amount if the Option is granted to an individual owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of Integral Systems, Inc. or any subsidiary, within the meaning of Code Section 424(f), taking into account the attribution rules of Code Section 424(d)).

(d) Term of Options. Each Non-Qualified Option and Incentive Stock Option granted under this Plan shall expire not more than ten (10) years from the date the Option is granted, except that each Incentive Stock Option granted under the Plan to an individual owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of Integral Systems, Inc. or any subsidiary, within the meaning of Code Section 424(f), taking into account the attribution rules of Code Section 424(d), shall expire not more than five (5) years from the date the Option is granted.

(e) Date of Exercise. Subject to subsection (d) and (f) of this Section, an Option which becomes a Vested Option may be exercised in whole or in part at any time thereafter. Options which are awarded hereunder shall become exercisable as Vested Options, as follows:

(i) The aggregate number of shares of Stock subject to any Award shall be divided into three installments (equally or unequally at the discretion of the Committee), as specified in the Stock Option Agreement. The first installment shall become Vested Options one year from the date of such Award, the second installment shall become Vested Options two years from the date of such Award and the third installment shall become Vested Options three years from the date of such Award. Any other vesting schedule may be substituted for the above, as specified in the Stock Option Agreement, at the Committee's discretion.

(ii) Except as otherwise provided hereunder, the Committee may in its discretion accelerate the time at which an Option granted hereunder may be exercised.

(f) Forfeiture or Exercise of Option. When a Participant ceases employment with the Company, all Options held by him or her which are not Vested Options shall terminate. If a Participant terminates his or her employment or other service relationship with the Company prior to the exercise of the Participant's Vested Options which are Non-Qualified Stock Options, such Options shall be forfeited (or exercisable after termination only as provided in the applicable Stock Option Agreement). If a Participant terminates employment with the Company prior to exercise of the Participant's Vested Options which are Incentive Stock Options, such Vested Options shall be forfeited, or be exercised, as follows:

(i) Termination and Retirement. In the event of a Participant's Termination or Retirement, the Participant's Vested Options shall be forfeited three (3) months after the Participant's Termination or Retirement (or such shorter period as the Code or the terms of the particular Stock Option Agreement may require).

(ii) Disability. Upon the Disability of a Participant, the Participant's Vested Options shall be exercisable within twelve (12) months (or such shorter period as the Code or the terms of the particular Stock Option Agreement may require) of the Participant's Date of Disability.

(iii) Death. If the Participant dies while in the employment of the Company or within the period of time after Termination or Retirement during which the Participant would have been entitled to exercise his or her Vested Option rights, the Participant's estate, personal representative or beneficiary (as

applicable) shall have the right to exercise such Vested Options, within one (1) year from the date of the Participant's death (or such shorter period as the Code or the terms of the particular Stock Option Agreement may require).

(iv) Other Restrictions/Forfeiture Events. The Committee shall have complete discretion to prescribe any other events of forfeiture and/or conditions of exercisability of Options, as specified in the applicable Stock Option Agreement.

(g) Agreement as to Sale of Securities. If, at the time of the exercise of any Option, in the opinion of counsel for the Company, it is necessary or desirable, in order to comply with any applicable laws or regulations relating to the sale of securities, that the Participant exercising the Option shall agree to purchase the shares that are subject to the Option for investment only and not with any present intention to resell the same and that the Participant will dispose of such shares only in compliance with such laws and regulations, the Participant will, upon the request of the Company, execute and deliver to the Company an agreement to such effect.

(h) Required Amendments. Each Award shall be subject to any provision necessary to assure compliance with federal and state securities laws.

(i) Limitation of Participant Rights. A Participant shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Stock subject to an Option unless and until the Option shall have been exercised pursuant to the terms thereof, the Company shall have issued and delivered the shares to the Participant, and the Participant's name shall have been entered as a stockholder of record on the books of Integral Systems, Inc. Thereafter, the Participant shall have full voting, dividend and other ownership rights with respect to such shares of Stock.

ARTICLE IX

GRANTS IN SUBSTITUTION FOR OPTIONS GRANTED BY OTHER CORPORATION

9.1 SUBSTITUTE AWARDS. Awards may be granted under this Plan from time to time in substitution for similar awards held by employees, officers, directors or consultants of entities who become or are about to become employees, officers, directors or consultants of the Company as the result of a merger or consolidation of the employing entity with the Company, or the acquisition by the Company of the assets of the employing entity, or the acquisition by the Company of fifty percent (50%) or more of the stock or interests of the employing entity causing it to become a subsidiary of the Company. Subject to the procurement of the approval of the stockholders of the Company as may be required for the Plan to satisfy the requirements of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, the terms and conditions of the substitute Awards so granted may vary from the terms and conditions set forth in this Plan to such extent as the Committee at the time of the grant may deem appropriate to conform, in whole or in part, to the provisions of the options in substitution for which they are granted.

ARTICLE X

CHANGES IN CAPITAL STRUCTURE

10.1 CAPITAL STRUCTURE CHANGES:

(a) In the event of any change in the number of issued shares of Stock resulting from a subdivision or consolidation of shares or other capital adjustment, or the payment of a stock dividend or other such increase or decrease of such shares, then appropriate adjustments shall be made by the Committee with respect to outstanding Awards and the aggregate number of shares of Stock which may be awarded pursuant to this Plan in the aggregate and with respect to the per-individual limit set forth in Article V. Additions to Awards issued as a result of any such change shall bear the same restrictions and carry the same terms as the Awards to which they relate.

(b) In the event of a change in the Stock which is limited to a change in the designation thereof to "capital stock" or other similar designation, or in par value to no par value, without increase or decrease in the number of issued shares, the shares resulting from any such change shall be deemed to be Stock within the meaning of this Plan.

ARTICLE XI

COMPANY SUCCESSORS

11.1 IN GENERAL

(a) If the Company shall be the surviving or resulting corporation in any merger, sale of assets or sale of stock, consolidation or corporate reorganization (including a reorganization in which the holders of Stock receive securities of another corporation), any Award granted hereunder shall pertain to and apply to the securities to which a holder of Stock would have been entitled. The Committee shall make such appropriate determinations and adjustments as it deems necessary so as to substantially preserve the rights and benefits, both as to number of shares and otherwise, of Participants under this Plan.

(b) If the Company shall not be the surviving corporation in any merger, sale of assets or sale of stock, consolidation or corporate reorganization (including a reorganization in which the holders of Stock receive securities of another corporation) involving the Company, the successor corporation shall issue substitute options so as to preserve substantially the rights and benefits of the Participants under this Plan.

ARTICLE XII

AMENDMENT OR TERMINATION OF PLAN

12.1 AMENDMENTS AND TERMINATION. The Plan shall terminate on February 6, 2012, which is the tenth (10) anniversary of its initial adoption by the Board. The Board may at any time and from time to time otherwise alter, amend, suspend or terminate this Plan in whole or in part; provided, however, that (i) no such action may be taken, without stockholder approval, which materially increases the benefits accruing to Participants hereunder, materially increases the number of securities which may be issued pursuant to this Plan (except as provided in Sections 10.1 and 11.1), materially extends the period for granting

Awards hereunder, or materially modifies the requirements as to eligibility for participation hereunder; and (ii) no such action may be taken, without the consent of the Participant to whom any Award shall have been granted, which adversely affects the rights of such Participant concerning such Award, except as such termination or amendment of this Plan is required by statute, or rules and regulations promulgated thereunder, or as otherwise permitted hereunder.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

13.1 NON-TRANSFERABILITY. Except by the laws of descent and distribution, no benefit provided hereunder shall be subject to alienation, assignment or transfer by a Participant (or by any person entitled to such benefit pursuant to the terms of this Plan), nor shall it be subject to attachment or other legal process of whatever nature, and any attempted alienation, assignment, attachment or transfer shall be void and of no effect whatsoever and, upon any such attempt, the benefit shall terminate and be of no force or effect. During a Participant's lifetime, Options granted to the Participant shall be exercisable only by the Participant. Shares of Stock shall be delivered only into the hands of the Participant entitled to receive the same or into the hands of the Participant's authorized legal representative.

13.2 NO EMPLOYMENT RIGHT. Neither this Plan nor any action taken hereunder shall be construed as giving any right to any individual to be retained as an officer, employee, director or independent contractor of the Company.

13.3 TAX WITHHOLDING. The Participant receiving Stock pursuant to the exercise of an Option will be required to pay to the Company (in cash or cash equivalents) any amount required to be withheld for federal, state, local or employment taxes with respect to such Stock. Alternatively, at the request of a Participant, or as required by law, such sums as may be required for the payment of any estimated or accrued income tax liability or other tax

withholding obligations may be withheld from any cash compensation due the Participant from the Company and paid over to the governmental entity entitled to receive the same.

13.4 FRACTIONAL SHARES. Any fractional shares concerning Awards shall be eliminated at the time of payment or payout by rounding down for fractions of less than one-half (1/2) and rounding up for fractions of equal to or greater than one-half (1/2). No cash settlements shall be made with respect to fractional shares eliminated by rounding.

13.5 GOVERNMENT AND OTHER REGULATIONS. The obligation of the Company to make payment of Awards in Stock or otherwise shall be subject to all applicable laws, rules and regulations, and to such approvals by any government agencies as may be deemed necessary or appropriate by the Committee. If Stock awarded hereunder may in certain circumstances be exempt from registration under the Securities Act of 1933, the Company may restrict its transfer in such manner as it deems advisable to ensure such exempt status. The Plan is intended to comply with Rule 16b-3 under the Securities Exchange Act of 1934, as amended. Any provision inconsistent with such Rule shall be inoperative and shall not affect the validity of the Plan. The Plan shall be subject to any provision necessary to assure compliance with federal and state securities laws.

13.6 INDEMNIFICATION. Each person who is or at any time serves as a member of the Board or the Committee shall be indemnified and held harmless by Integral Systems, Inc. against and from (i) any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action or failure to act under this Plan; and (ii) any and all amounts paid by such person in satisfaction of judgment in any such action, suit or proceeding relating to this Plan. Each person covered by this indemnification shall give Integral Systems, Inc. an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend the same on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the charter or by-laws of Integral Systems, Inc. as a matter of law, or otherwise, or any power that Integral Systems, Inc. may have to indemnify such person or hold such person harmless.

13.7 RELIANCE ON REPORTS. Each member of the Board or the Committee shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company, and upon any other information furnished in connection with this Plan. In no event shall any person who is or shall have been a member of the Board or the Committee be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information, or for any action taken, including the furnishing of information, or failure to act, if in good faith.

13.8 GOVERNING LAW. All matters relating to this Plan or to Awards granted hereunder shall be governed by the laws of the State of Maryland, without regard to the principles of conflict of laws thereof, except to the extent preempted by the laws of the United States.

13.9 RELATIONSHIP TO OTHER BENEFITS. No payment under this Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing or group insurance plan of the Company.

13.10 EXPENSES. The expenses of implementing and administering this Plan shall be borne by the Company.

13.11 TITLES AND HEADINGS. The titles and headings of the Articles and Sections in this Plan are for convenience of reference only, and in the event of any conflict, the text of this Plan, rather than such titles or headings, shall control.

13.12 USE OF PROCEEDS. Proceeds from the sale of Stock pursuant to Options granted under the plan shall constitute general funds of the Company.

13.13 NON-EXCLUSIVITY OF PLAN. Neither the adoption of the Plan by the Board nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

Integral Systems, Inc.
2008 Stock Incentive Plan

1. Purpose

The purpose of the Integral Systems, Inc. 2008 Stock Incentive Plan (the “Plan”) is to advance the interests of Integral Systems, Inc. (the “Company”) 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 Company’s existing 2002 Stock Option Plan (the “2002 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 Integral Systems, Inc., a Maryland 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.
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- (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.

3. Eligibility

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. 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 and became effective as of December 5, 2007, (the “Effective Date”), subject to the approval by the Company’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 date of the effective date of the Plan by the affirmative vote of the holders of a majority of the outstanding Common Shares of the Company present, or represented by proxy, and entitled to vote, at a meeting of the Company’s stockholders or by written consent in accordance with the laws of the State of Maryland; provided that if such approval by the stockholders of the Company 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 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 aggregate number of Common Shares issuable pursuant to all Awards under this Plan shall not exceed 900,000, 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 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.
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KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

AMENDED AND RESTATED
EMPLOYEE STOCK PURCHASE PLAN

ADOPTED BY THE BOARD OF DIRECTORS ON AUGUST 16, 1999
 APPROVED BY THE STOCKHOLDERS ON SEPTEMBER 9, 1999
 AMENDED AND RESTATED AS OF MARCH 17, 2010
 AMENDED AS OF MAY 27, 2011

1. PURPOSE.

(a) The purpose of this Employee Stock Purchase Plan (the "Plan") is to provide a means by which employees of Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "Company"), and its Affiliates, as defined in subparagraph 1(b), which are designated as provided in subparagraph 2(b), may be given an opportunity to purchase stock of the Company.

(b) The word "Affiliate" as used in the Plan means any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f), respectively, of the Internal Revenue Code of 1986, as amended (the "Code").

(c) The Company, by means of the Plan, seeks to retain the services of its employees, to secure and retain the services of new employees, and to provide incentives for such persons to exert maximum efforts for the success of the Company.

(d) The Company intends that the rights to purchase stock of the Company granted under the Plan be considered options issued under an "employee stock purchase plan" as that term is defined in Section 423(b) of the Code.

2. ADMINISTRATION.

(a) The Plan shall be administered by the Board of Directors (the "Board") of the Company unless and until the Board delegates administration to a Committee, as provided in subparagraph 2(c). Whether or not the Board has delegated administration, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(b) The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine when and how rights to purchase stock of the Company shall be granted and the provisions of each offering of such rights (which need not be identical).

(ii) To designate from time to time which Affiliates of the Company shall be eligible to participate in the Plan.

(iii) To construe and interpret the Plan and rights granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iv) To amend the Plan as provided in paragraph 13.

(v) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to

promote the best interests of the Company and its Affiliates and to carry out the intent that the Plan be treated as an "employee stock purchase plan" within the meaning of Section 423 of the Code.

(c) The Board may delegate administration of the Plan to a Committee composed of one (1) or more members of the Board (the "Committee"). If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

(d) Any interpretation of the Plan by the Board of any decision made by it under the Plan shall be final and binding on all persons.

3. SHARES SUBJECT TO THE PLAN.

(a) Subject to the provisions of paragraph 12 relating to adjustments upon changes in stock, the stock that may be sold pursuant to rights granted under the Plan shall not exceed in the aggregate one million three hundred ten thousand (1,310,000) shares of the Company's common stock (the "Common Stock"). If any right granted under the Plan shall for any reason terminate without having been exercised, the Common Stock not purchased under such right shall again become available for the Plan.

(b) The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

4. GRANT OF RIGHTS; OFFERING.

(a) The Board or the Committee may from time to time grant or provide for the grant of rights to purchase Common Stock of the Company under the Plan to eligible employees (an "Offering") on a date or dates (the "Offering Date(s)") selected by the Board or the Committee. Each Offering shall be in such form and shall contain such terms and conditions as the Board or the Committee shall deem appropriate, which shall comply with the requirements of Section 423(b)(5) of the Code that all employees granted rights to purchase stock under the Plan shall have the same rights and privileges. The terms and

conditions of an Offering shall be incorporated by reference into the Plan and treated as part of the Plan. The provisions of separate Offerings need not be identical, but each Offering shall include (through incorporation of the provisions of this Plan by reference in the document comprising the Offering or otherwise) the period during which the Offering shall be effective, which period shall not exceed twenty-seven (27) months beginning with the Offering Date, and the substance of the provisions contained in paragraphs 5 through 8, inclusive.

(b) If an employee has more than one (1) right outstanding under the Plan, unless he or she otherwise indicates in agreements or notices delivered hereunder, a right with a lower exercise price (or an earlier-granted right if two (2) rights have identical exercise prices), will be exercised to the fullest possible extent before a right with a higher exercise price (or a later-granted right if two (2) rights have identical exercise prices) will be exercised.

5. ELIGIBILITY.

(a) Rights may be granted only to employees of the Company or, as the Board or the Committee may designate as provided in subparagraph 2(b), to employees of any Affiliate of the Company. Except as provided in subparagraph 5(b), an employee of the Company or any Affiliate shall not be eligible to be granted rights under the Plan unless, on the Offering Date, such employee has been in the employ of the Company or any Affiliate for such continuous period preceding such grant as the Board or the Committee may require, but in no event shall the required period of continuous employment be greater than two (2) years. In addition, unless otherwise determined by the Board or the Committee and set forth in the terms of the applicable Offering, no employee of the Company or any Affiliate shall be eligible to be granted rights under the Plan unless, on the Offering Date, such employee's customary employment with the Company or such Affiliate is for at least twenty (20) hours per week and at least five (5) months per calendar year.

(b) The Board or the Committee may provide that each person who, during the course of an Offering, first becomes an eligible employee of the Company or designated Affiliate will, on a date or dates specified in the Offering which coincides with the day on which such person becomes an eligible employee or occurs thereafter, receive a right under that Offering, which right shall thereafter be deemed to be a part of that Offering. Such right shall have the same characteristics as any rights originally granted under that Offering, as described herein, except that:

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- (i) the date on which such right is granted shall be the "Offering Date" of such right for all purposes, including determination of the exercise price of such right;
 - (ii) the period of the Offering with respect to such right shall begin on its Offering Date and end coincident with the end of such Offering; and
 - (iii) the Board or the Committee may provide that if such person first becomes an eligible employee within a specified period of time before the end of the Offering, he or she will not receive any right under that Offering.

(c) No employee shall be eligible for the grant of any rights under the Plan if, immediately after any such rights are granted, such employee owns stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Affiliate. For purposes of this subparagraph 5(c), the rules of Section 424(d) of the Code shall apply in determining the stock ownership of any employee, and stock which such employee may purchase under all outstanding rights and options shall be treated as stock owned by such employee.

(d) An eligible employee may be granted rights under the Plan only if such rights, together with any other rights granted under "employee stock purchase plans" of the Company and any Affiliates, as specified by Section 423(b)(8) of the Code, do not permit such employee's rights to purchase stock of the Company or any Affiliate to accrue at a rate which exceeds twenty five thousand dollars (\$25,000) of fair market value of such stock (determined at the time such rights are granted) for each calendar year in which such rights are outstanding at any time.

(e) Officers of the Company and any designated Affiliate shall be eligible to participate in Offerings under the Plan; provided, however, that the Board may provide in an Offering that certain employees who are highly compensated employees within the meaning of Section 423(b)(4)(D) of the Code shall not be eligible to participate.

6. RIGHTS; PURCHASE PRICE.

(a) On each Offering Date, each eligible employee, pursuant to an Offering made under the Plan, shall be granted the right to purchase up to the number of shares of Common Stock of the Company purchasable with a percentage designated by the Board or the Committee not exceeding fifteen percent (15%) of such employee's Earnings (as defined in subparagraph 7(a)) during the period which begins on the Offering Date (or such later date as the Board or the Committee determines for a particular Offering) and ends on the date stated in the Offering, which date shall be no later than the end of the Offering. The Board or the Committee shall establish one (1) or more dates during an Offering (the "Purchase Date(s)") on which rights granted under the Plan shall be exercised and purchases of Common Stock carried out in accordance with such Offering.

(b) In connection with each Offering made under the Plan, the Board or the Committee may specify a maximum number of shares that may be purchased by any employee as well as a maximum aggregate number of shares that may be purchased by all eligible employees pursuant to such Offering. In addition, in connection with each Offering that contains more than one (1) Purchase Date, the Board or the Committee may specify a maximum aggregate number of shares which may be purchased by all eligible employees on any given Purchase Date under the Offering. If the aggregate purchase of shares upon exercise of rights granted under the Offering would exceed any such maximum aggregate number, the Board or the Committee shall make a pro rata allocation of the shares available in as nearly a uniform manner as shall be practicable and as it shall deem to be equitable.

(c) The purchase price of stock acquired pursuant to rights granted under the Plan shall be not less than the lesser of:

- (i) an amount equal to eighty-five percent (85%) of the fair market value of the stock on the Offering Date; or
- (ii) an amount equal to eighty-five percent (85%) of the fair market value of the stock on the Purchase Date.

7. PARTICIPATION; WITHDRAWAL; TERMINATION.

(a) An eligible employee may become a participant in the Plan pursuant to an Offering by delivering an enrollment agreement to the Company within the time specified in the Offering, in such form as the Company provides. Each such agreement shall authorize payroll deductions of up to the maximum percentage specified by the Board or the Committee of such employee's Earnings during the Offering. "Earnings" is defined as an employee's

regular salary or wages (including amounts thereof elected to be deferred by the employee, that would otherwise have been paid, under any arrangement established by the Company that is intended to comply with Section 125, Section 401(k), Section 402(e)(3), Section 402(h) or section 403(b) of the Code, and also including any deferrals under a non-qualified deferred compensation plan or arrangement established by the Company), and also, if determined by the Board or the Committee and set forth in the terms of the Offering, may include any or all of the following: (i) overtime pay, (ii) commissions, (iii) bonuses, incentive pay, profit sharing and other remuneration paid directly to the employee, and/or (iv) other items of remuneration not specifically excluded pursuant to the Plan. Earnings shall not include the cost of employee benefits paid for by the Company or an Affiliate, education or tuition reimbursements, imputed income arising under any group insurance or benefit program, traveling expenses, business and moving expense reimbursements, income received in connection with stock options, contributions made by the Company or an Affiliate under any employee benefit plan, and similar items of compensation, as determined by the Board or the Committee. Notwithstanding the foregoing, the Board or Committee may modify the definition of "Earnings" with respect to one or more Offerings as the Board or Committee determines appropriate. The payroll deductions made for each participant shall be credited to an account for such participant under the Plan and shall be deposited with the general funds of the Company. A participant may reduce (including to zero) or increase such payroll deductions, and an eligible employee may begin such payroll deductions, after the beginning of any Offering only as provided for in the Offering. A participant may make additional payments into his or her account only if specifically provided for in the Offering and only if the participant has not had the maximum amount withheld during the Offering.

(b) At any time during an Offering, a participant may terminate his or her payroll deductions under the Plan and withdraw from the Offering by delivering to the Company a notice of withdrawal in such form as the Company provides. Such withdrawal may be elected at any time prior to the end of the Offering except as provided by the Board or the Committee in the Offering. Upon such withdrawal from the Offering by a participant, the Company shall distribute to such participant all of his or her accumulated payroll deductions (reduced to the extent, if any, such deductions have been used to acquire stock for the participant) under the Offering, without interest, and such participant's interest in that Offering shall be automatically terminated. A participant's withdrawal from an Offering will have no effect upon such participant's eligibility to participate in any other Offerings under the Plan but such participant will be required to deliver a new enrollment agreement in order to participate in subsequent Offerings under the Plan.

(c) Rights granted pursuant to any Offering under the Plan shall terminate immediately upon cessation of any participating employee's employment with the Company and any designated Affiliate, for any reason, and the Company shall distribute to such terminated employee all of his or her accumulated payroll deductions (reduced to the extent, if any, such deductions have been used to acquire stock for the terminated employee), under the Offering, without interest.

(d) Rights granted under the Plan shall not be transferable by a participant other than by will or the laws of descent and distribution, or by a beneficiary designation as provided in paragraph 14, and during a participant's lifetime, shall be exercisable only by such participant.

8. EXERCISE.

(a) On each Purchase Date specified therefor in the relevant Offering, each participant's accumulated payroll deductions and other additional payments specifically provided for in the Offering (without any increase for interest) will be applied to the purchase of whole shares of stock of the Company, up to the maximum number of shares permitted pursuant to the terms of the Plan and the applicable Offering, at the purchase price specified in the Offering. No fractional shares shall be issued upon the exercise of rights granted under the Plan. The amount, if any, of accumulated payroll deductions remaining in each participant's account after the purchase of shares which is less than the amount required to purchase one share of Common Stock on the final Purchase Date of an Offering shall be held in each such participant's account for the purchase of shares under the next Offering under the Plan, unless such participant withdraws from such next Offering, as provided in subparagraph 7(b), or is no longer eligible to be granted rights under the Plan, as provided in paragraph 5, in which case such amount shall be distributed to the participant after such final Purchase Date, without interest. The amount, if any, of accumulated payroll deductions remaining in any participant's account after the purchase of shares which is equal to the amount required to purchase one or more whole shares of Common Stock on the final Purchase Date of an Offering shall be distributed in full to the participant after such Purchase Date, without interest.

(b) No rights granted under the Plan may be exercised to any extent unless the shares to be issued upon such exercise under the Plan (including rights granted thereunder) are covered by an effective registration statement pursuant to the Securities Act of 1933, as amended (the "Securities Act") and the Plan is in material compliance with all applicable state, foreign and other securities and other laws applicable to the Plan. If on a Purchase Date in any Offering hereunder the Plan is not so registered or in such compliance, no rights granted under the Plan or any Offering shall be exercised on such Purchase Date, and the Purchase Date shall be delayed until the Plan is subject to such an effective registration statement and such compliance, except that the Purchase Date shall not be delayed more than twelve (12) months and the Purchase Date shall in no event be more than twenty-seven (27) months from the Offering Date. If on the Purchase Date of any Offering hereunder, as delayed to the maximum extent permissible, the Plan is not registered and in such compliance, no rights granted under the Plan or any Offering shall be exercised and all payroll deductions accumulated during the Offering (reduced to the extent, if any, such deductions have been used to acquire stock) shall be distributed to the participants, without interest.

9. COVENANTS OF THE COMPANY.

(a) During the terms of the rights granted under the Plan, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such rights.

(b) The Company shall seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of stock upon exercise of the rights granted under the Plan. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such rights unless and until such authority is obtained.

10. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to rights granted under the Plan shall constitute general funds of the Company.

11. RIGHTS AS A STOCKHOLDER.

A participant shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to rights granted under the Plan unless and until the participant's shareholdings acquired upon exercise of rights under the Plan are recorded in the books of the Company (or its transfer agent).

12. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) If any change is made in the stock subject to the Plan, or subject to any rights granted under the Plan (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan and outstanding rights will be appropriately adjusted in the class(es) and maximum number of shares subject to the Plan and the class(es) and number of shares and price per share of stock subject to outstanding rights. Such adjustments shall be made by the Board or the Committee, the determination of which shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a "transaction not involving the receipt of consideration by the Company.")

(b) In the event of: (1) a dissolution or liquidation of the Company; (2) a sale of all or substantially all of the assets of the Company; (3) a merger or consolidation in which the Company is not the surviving corporation; (4) a reverse merger in which the Company is the surviving corporation but the shares of the Company's Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise; (5) the acquisition by any person, entity or group within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any comparable successor provisions (excluding any employee benefit plan, or related trust, sponsored or maintained by the Company or any Affiliate of the Company) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act, or comparable successor rule) of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of directors; or (6) the

individuals who, as of the date of the adoption of this Plan, are members of the Board (the "Incumbent Board"; (if the election, or nomination for election by the Company's stockholders, of a new director was approved by a vote of at least fifty percent (50%) of the members of the Board then comprising the Incumbent Board, such new director shall upon his or her election be considered a member of the Incumbent Board) cease for any reason to constitute at least fifty percent (50%) of the Board; then the Board in its sole discretion may take any action or arrange for the taking of any action among the following: (i) any surviving or acquiring corporation may assume outstanding rights or substitute similar rights for those under the Plan, (ii) such rights may continue in full force and effect, or (iii) all participants' accumulated payroll deductions may be used to purchase Common Stock immediately prior to or within a reasonable period of time following the transaction described above and the participants' rights under the ongoing Offering terminated.

13. AMENDMENT OF THE PLAN OR OFFERINGS.

(a) The Board at any time, and from time to time, may amend the Plan or the terms of one or more Offerings. However, except as provided in paragraph 12 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company within twelve (12) months before or after the adoption of the amendment, where the amendment will:

(i) Increase the number of shares reserved for rights under the Plan;

(ii) Modify the provisions as to eligibility for participation in the Plan or an Offering (to the extent such modification requires stockholder approval in order for the Plan to obtain employee stock purchase plan treatment under Section 423 of the Code or to comply with the requirements of Rule 16b-3 promulgated under the Exchange Act, or any comparable successor rule ("Rule 16b-3"); or

(iii) Modify the Plan or an Offering in any other way if such modification requires stockholder approval in order for the Plan to obtain employee stock purchase plan treatment under Section 423 of the Code or to comply with the requirements of Rule 16b-3.

It is expressly contemplated that the Board may amend the Plan or an Offering in any respect the Board deems necessary or advisable to provide eligible employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to employee stock purchase plans and/or to bring the Plan and/or rights granted under an Offering into compliance therewith.

(b) The Board may, in its sole discretion, submit any amendment to the Plan or an Offering for stockholder approval.

(c) Rights and obligations under any rights granted before amendment of the Plan or Offering shall not be impaired by any amendment of the Plan, except with the consent of the person to whom such rights were granted, or except as necessary to comply with any laws or governmental regulations, or except as necessary to ensure that the Plan and/or rights granted under an Offering comply with the requirements of Section 423 of the Code.

14. DESIGNATION OF BENEFICIARY.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if applicable, from the participant's account under the Plan in the event of such participant's death subsequent to the end of an Offering but prior to delivery to the participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death during an Offering.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice in the form prescribed by the Company. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living (or if an entity, is otherwise in existence) at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such shares and/or cash to the spouse or to any one (1) or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may determine.

15. TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board in its discretion, may suspend or terminate the Plan at any time. The Plan shall automatically terminate if all the shares subject to the Plan pursuant to subparagraph 3(a) are issued. No rights may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Rights and obligations under any rights granted while the Plan is in effect shall not be impaired by suspension or termination of the Plan, except as expressly provided in the Plan or with the consent of the person to whom such rights were granted, or except as necessary to comply with any laws or governmental regulation, or except as necessary to ensure that the Plan and/or rights granted under an Offering comply with the requirements of Section 423 of the Code.

16. EFFECTIVE DATE OF PLAN.

The Plan shall become effective on the same day on which the Company's registration statement under the Securities Act with respect to the initial public offering of shares of the Company's Common Stock becomes effective (the "Effective Date"), but no rights granted under the Plan shall be exercised unless and until the Plan had been approved by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted by the Board or the Committee, which date may be prior to the Effective Date.

17. CHOICE OF LAW.

All questions concerning the construction, validity and interpretation of this Plan shall be governed by the law of the State of California, without regard to such state's conflict of laws rules.

KRATOS DEFENSE & SECURITY SOLUTIONS, INCORPORATED

2011 EQUITY INCENTIVE PLAN

 Plan Document

1. ESTABLISHMENT OF PLAN.

By resolution of its Board of Directors approved on March 10, 2011, Kratos Defense & Security Solutions, Inc. (the “Company”), a Delaware corporation, established this equity-based incentive compensation plan to be known as the “Kratos Defense & Security Solutions, Inc. 2011 Equity Incentive Plan” (the “Plan”), for the following purposes: (a) to attract, retain and reward persons performing services for the Participating Company Group; (b) to motivate such persons to contribute to the growth and profitability of the Participating Company Group; (c) to advance the interests of the Participating Company Group and its stockholders by enhancing the long-term performance and competitiveness of the Company; and (d) to align the interests of Plan participants with those of the Company’s shareholders.

1.1 **Defined Terms.** Terms in the Plan and any Appendix that begin with an initial capital letter have the defined meaning set forth in *Appendix I* or elsewhere in this Plan, in either case, unless the context of their use clearly indicates a different meaning as determined by the Administrator in its sole discretion.

1.2 **Effective Date.** This Plan shall become effective on the date on which it has received approval by a vote of a majority of the votes cast at a duly held meeting of the Company’s shareholders (or by such other shareholder vote that the Administrator determines to be sufficient for the issuance of Shares and Awards according to the Company’s governing documents and Applicable Law) (the “Effective Date”).

1.3 **Award Agreements.** Each Award shall be evidenced by either (a) a written Award Agreement in a form approved by the Administrator and executed by the Company by an Officer duly authorized to act on its behalf, or (b) an electronic notice of Award grant in a form approved by the Administrator and recorded by the Company (or its designee) in an electronic recordkeeping system used for the purpose of tracking Award grants under this Plan generally (in each case, an “Award Agreement”), as the Administrator may provide and, in each case and if required by the Administrator, executed or otherwise electronically accepted by the recipient of the Award in such form and manner as the Administrator may require.

1.3.1 The Administrator may authorize any Officer of the Company (other than the particular Award recipient) to execute any or all Award Agreements on behalf of the Company.

1.3.2 The Award Agreement shall set forth the material terms and conditions of the Award as established by the Administrator consistent with the express limitations of this Plan.

1.3.3 Each Award shall comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Committee and as amended from time to time. Any Award Agreement may consist of an appropriate form of Notice of Grant and a form of Agreement incorporated therein by reference, or such other form or forms as the Board may approve from time to time.

1.3.4 The Committee shall have the authority from time to time to vary the terms of any standard form of Award Agreement either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.

1.4 **Payment of Awards; Deferral and Settlement.** Payment of Awards may be in the form of cash, Shares, or any combination thereof as the Administrator shall determine, and with such restrictions as it may impose. The Administrator may also require or permit Participants to elect to defer the issuance of Shares or the settlement of Awards in cash under such rules and procedures as it may establish under this Plan. The Administrator may also provide that deferred settlements include the payment or crediting of interest or other earnings on the deferral amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in Shares.

1.5 **Effect on Other Plans, Awards, and Arrangements.**

1.5.1 **General.** This Plan shall not affect any stock options, equity-based compensation, or other benefits that the Company or its Affiliates may have provided, or may separately provide in the future, pursuant to any agreement, plan, or program that is independent of this Plan. This Plan and the Shares authorized for grant hereunder shall not deplete the number of Shares authorized for grant under any other Company or Affiliate plan, nor shall it limit the authority of the Board or any other entity to grant awards or authorize any other compensation, with or without reference to Shares, under any other plan.

1.5.2 **Relationship to Other Benefits.** No payment pursuant to the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder. Awards under this Plan may be made in addition to, in combination with, as alternatives to or in payment of, grants, Awards or commitments under any other plans or arrangements of the Company or its Subsidiaries.

2. TYPES OF AWARDS.

The Plan permits the granting of the following types of Awards according to the Sections of the Plan listed below:

Section 6	Stock Options
Section 7	Share Appreciation Rights (“ <u>SARs</u> ”)
Section 8	Restricted Shares and Restricted Share Units (“ <u>RSUs</u> ”)
Section 9	Deferred Share Units (“ <u>DSUs</u> ”)
Section 10	Performance Awards
Section 11	[Reserved]

3. ELIGIBILITY.

3.1 **General Rule.** Subject to the express provisions of the Plan, the Committee shall determine from the class of Eligible Persons those Persons to whom Awards may be granted. Eligible Persons may be granted more than one Award. However, eligibility in accordance with this section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award.

3.2 **Eligible Persons; Securities Law Compliance.** An Eligible Person is any person who is a Director, Consultant, or Employee of the Company or one of its Subsidiaries; provided, however, that a person who otherwise is an Eligible Person may participate in this Plan only if such participation would not adversely affect either the Company’s eligibility to use Form S-8 to register under the Securities Act of 1933, as amended (the “Securities Act”) the offering and sale of Shares issuable under this Plan by the Company or the Company’s compliance with any other applicable laws, rules, regulations or listing standards. For the purposes of the foregoing sentence, “Employees,” “Consultants,” and “Directors” shall include prospective Employees, Consultants, and Directors to whom Awards are granted in connection with written offers of an employment or other service relationship with the Participating Company Group; provided, however, that no Shares subject to any such Award shall vest, become exercisable or be issued prior to the date on which such person commences service.

3.3 **Replacement Awards.** Subject to Applicable Law (including any associated shareholder approval requirements), the Committee may, in its sole discretion and on such terms as it deems appropriate, require as a condition of the grant of an Award to a Participant that the Participant consent to surrender for cancellation some or all of the Awards or other grants that the Participant has received under this Plan or otherwise. An Award conditioned on such surrender may cover the same (or a lesser or greater) number of Shares as such surrendered Award, may have other terms that are determined without regard to the terms or conditions of such surrendered Award, and may contain any other terms that the Committee deems appropriate.

3.4 **International Awards.** One or more Awards may be granted to Eligible Persons who provide services to the Company or one of its Subsidiaries outside of the United States. Any Awards granted to such persons may be granted pursuant to the terms and conditions of any applicable sub-plans, if any, appended to this Plan and approved by the Administrator. The Administrator may adopt a different methodology for determining fair market value with respect to one or more Awards if a different methodology is necessary or advisable to secure any intended

favorable tax, legal or other treatment for the particular Awards (for example, and without limitation, the Administrator may provide that fair market value for purposes of one or more Awards will be based on an average of closing prices (or the average of high and low daily trading prices) for a specified period preceding the relevant date).

4. PLAN ADMINISTRATION.

4.1 **General.** The Committee shall administer the Plan in accordance with its terms as the Administrator, provided that the Board may act in lieu of the Committee on any matter. The Committee shall hold meetings at such times and places as it may determine and may prescribe, amend, and rescind such rules, regulations, and procedures for the conduct of its business and Plan operation as it deems advisable. In the absence of a duly appointed Committee, the Board shall function as the Committee for all Plan purposes.

4.2 **Delegation.** Subject to Applicable Law and the restrictions set forth in the Plan, the Committee may delegate ministerial, non-discretionary and administrative functions to individuals who are Directors or Employees or to third parties. A committee may delegate some or all of its authority to another committee so constituted. The Committee may delegate different levels of authority to different committees with administrative and grant authority under this Plan.

4.3 **Committee Composition.** The Board shall appoint the members of the Committee. To the extent permitted by Applicable Law, the Committee may authorize one or more executive Officers to make Awards to Eligible Persons other than themselves. The Board may at any time appoint additional members to the Committee, remove and replace members of the Committee with or without cause, and fill all Committee vacancies.

4.4 **Powers of the Committee.** Subject to the express provisions of this Plan, the Committee is authorized and empowered to do all things necessary or desirable in connection with the authorization of Awards and the administration of this Plan (in the case of a committee, within the authority delegated to that committee), including, without limitation, the authority to:

- (a) grant Awards and determine Eligible Persons to whom Awards shall be granted from time to time, and the number of Shares, units, or dollars to be covered by each Award;
- (b) designate Options as Incentive Stock Options, Non-ISOs or Indexed Options;
- (c) determine the types Awards, and their terms and conditions, that may be granted under the Plan;
- (d) determine whether an Award will be settled in Shares, cash, or in any combination thereof;

- (e) determine the Grant Date of an Award;
- (f) determine, from time to time, the Fair Market Value of Shares or other property;

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- (g) determine, and to set forth in Award Agreements, the terms and conditions of all Awards, including the installments and conditions under which an Award or any Shares acquired pursuant thereto shall become vested (which may be based on performance criteria or other factors), terminated, expired, cancelled, extended, deferred, or replaced, and the circumstances for vesting acceleration or waiver of forfeiture restrictions, and other restrictions and limitations;
- (h) approve the forms of Award Agreements and all other documents, notices and certificates in connection therewith which need not be identical either as to type of Award or among Participants;
- (i) construe and interpret the terms of the Plan and any Award Agreement, to determine the meaning of their terms, and to prescribe, amend, and rescind rules and procedures relating to the Plan and its administration;
- (j) determine whether, and the extent to which, adjustments are appropriate pursuant to Section 14;
- (k) authorize the termination, conversion, substitution or succession of Awards on the occurrence of an event of the type described in Section 14; acquire or settle (subject to Sections 14, 16, and 17) rights under Awards in cash, stock of equivalent value, or other consideration;
- (l) modify, cancel, or waive the Company's rights with respect to any Awards, to the maximum extent consistent with the purposes of the Plan and without amending the Plan;
- (m) adjust, amend, modify, extend, cancel, or renew any Award Agreements, subject to any consent required under Section 18, or to adjust or to modify Award Agreements for changes in Applicable Law, and to recognize differences in foreign law, tax policies, or customs;
- (n) require, as a condition precedent to the grant, vesting, settlement, and/or issuance of Shares pursuant to any Award, that a Participant execute a general release of claims (in any form that the Committee may require, in its sole discretion, which form may include any other provisions, *e.g.*, confidentiality and restrictions on competition);
- (o) implement paperless documentation, granting, or settlement of Awards by which a Participant may be permitted through the use of an automated system in the event that the Company establishes, for itself or using the services of a third party, an automated system for

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the documentation, granting, or settlement of Awards, such as a system using an internet website or interactive voice response; and

- (p) correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award Agreement and to make all interpretations and take all other actions that the Committee may consider necessary or advisable to administer the Plan or to effectuate its purposes, to the extent not inconsistent with the provisions of the Plan or applicable law.

4.5 **Local Law Adjustments and Sub-plans.** To facilitate the making of any grant of an Award under this Plan, the Committee may adopt rules and provide for such special terms for Awards to Participants who are located within the United States, foreign nationals, or persons who are employed by the Company or any Affiliate outside of the United States as the Committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Without limiting the foregoing, the Committee is specifically authorized to adopt rules and procedures regarding the conversion of local currency, taxes, withholding procedures and handling of stock certificates which vary with the customs and requirements of particular countries. The Committee may adopt sub-plans and establish escrow accounts and trusts, and settle Awards in cash in lieu of Shares, as may be appropriate, required or applicable with respect to particular locations and countries.

4.6 **Action by Committee.** Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by all members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act on any report or other information furnished to that member by an Officer or other employee of the Company or any Affiliate, the Company's independent certified public accounts, or any executive compensation consultant or other professional retained by the Company or the Committee to assist in the administration of the Plan.

4.7 **Deference to Committee Determinations.** The Committee shall have the discretion to interpret or construe ambiguous, unclear, or implied (but omitted) terms and to correct drafting errors in any fashion it deems to be appropriate in its sole discretion, and to make any findings of fact needed in the administration of the Plan or Award Agreements. The Committee's prior exercise of its discretionary authority shall not obligate it to exercise its authority in a like fashion thereafter. The Committee's interpretation and construction of any provision of the Plan, or of any Award or Award Agreement, and all determination the Committee makes pursuant to the Plan (including correction of drafting errors) shall be final, binding, and conclusive. The validity of any such action, interpretation, construction, decision or finding of fact shall not be given *de novo* review if challenged in court, by arbitration, or in any other forum, and shall be upheld unless clearly made in bad faith or materially affected by fraud.

4.8 **No Liability; Indemnification.** Neither the Board nor any Committee member, nor any Person acting at the direction of the Board or the Committee, shall be liable to any Participant or other Eligible Person for any act, omission, interpretation, construction or determination made in good

addition to such other rights of indemnification as they may have as members of the Board or Officers or employees of the Participating Company Group, members of the Board and any Officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company and its Affiliates against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same. The Company and its Affiliates may, but shall not be required to, obtain liability insurance for such matters.

4.9 **Reliance on Experts.** In making any determination or in taking or not taking any action under this Plan, the Committee may obtain and may rely on the advice of experts, including employees and professional advisors to the Company. No Director, Officer, employee or agent of the Company or any of its Subsidiaries shall be liable for any such action or determination taken or made or omitted in good faith.

4.10 **Expenses.** The expenses of administering the Plan shall be borne by the Company and its Affiliates; provided, however, that an arbitrator or court may award the prevailing party attorneys' fees and costs to the extent provided by Applicable Law.

4.11 **No Repricing.** Without the affirmative vote of holders of a majority of the Shares cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding Shares is present or represented by proxy, the Board shall not approve a program providing for the amendment of outstanding Options or SARs to reduce the exercise price thereof. This paragraph shall not be construed to apply to (a) "issuing or assuming a stock option in a transaction to which section 424(a) applies," within the meaning of Section 424 of the Code or (b) any Option Exchange Program.

4.12 **Provision of Information.** Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

5. SHARES OF COMMON STOCK SUBJECT TO THE PLAN; SHARE LIMITS.

5.1 **Shares Available for Awards.** Subject to adjustment under Section 14, a total of 2,000,000 Shares shall be available for issuance under the Plan. The Shares deliverable pursuant to Awards shall be authorized, but unissued Shares, or Shares that the Company otherwise holds in treasury or in trust.

5.1.1 *Limits on Restricted Share Units, Options, Share Appreciation Rights, and Restricted Shares per Person per year.* No Participant shall be granted Restricted Share Units, Options,

Share Appreciation Rights, or Restricted Shares within any fiscal year of the Company that relate (in the aggregate) to more than 125,000 Shares (as adjusted pursuant to Section 14).

5.1.2 *Option and SAR Limits per Person.* No Participant may receive Restricted Share Units, Options, Share Appreciation Rights or Restricted Shares that relate to more than 500,000 Shares (in the aggregate) under the Plan (as adjusted pursuant to Section 14).

5.1.3 *ISO Share Reserve.* The maximum number of Shares that may be issued pursuant to Incentive Stock Option Awards is 500,000 (as adjusted pursuant to Section 14, and as determined in accordance with Code Section 422).

5.2 **Replenishment; Counting of Shares.** Any Shares reserved for Plan Awards will again be available for future Awards if the Shares for any reason will never be issued to a Participant or Beneficiary pursuant to an Award (for example, due to its settlement in cash rather than in Shares, or the Award's forfeiture, cancellation, expiration, or net settlement through the issuance of Shares). Further, and to the extent permitted under Applicable Law, the maximum number of Shares available for delivery under the Plan shall not be reduced by any Shares issued under the Plan through the settlement, assumption, or substitution of outstanding awards or obligations to grant future Awards as a condition of the Company's or an Affiliate's acquiring another entity. On the other hand, Shares that a Person owns and tenders in payment of all or part of the satisfaction of applicable Withholding Taxes shall not increase the number of Shares available for future issuance under the Plan.

5.3 **Reservation of Shares; Grant Limitations.** The Company shall at all times reserve a number of Shares sufficient to cover the Company's obligations and contingent obligations to deliver Shares with respect to Awards then outstanding under this Plan.

5.4 **Vesting Limitations.** Notwithstanding any other provision of the Plan to the contrary, Awards shall become vested at a rate no faster than pro rata over a period of at least four years following the Grant Date (or, in the case of vesting with respect to Awards subject to performance-based or event-based vesting, no portion of such Award shall vest prior to one year following the Grant Date). Awards may only be subject to accelerated vesting in connection with unusual circumstances to the extent that the Administrator believes such acceleration to be in the best interest of the Company, a Change in Control, a Participant's death or pursuant to the terms and conditions of any enforceable written agreement between a Participant and the Company or one of its Subsidiaries.

6. STOCK OPTIONS.

6.1 **Grants.** Subject to the special rules for ISOs set forth in the next paragraph, the Committee may grant Options to Eligible Persons pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan that may become exercisable in whole or in part based on future events or conditions, that shall include vesting requirements for the right to exercise the Option, and that may differ for any reason between Eligible Persons or classes of Eligible Persons, provided in all instances that:

- (a) the exercise price for Shares subject to purchase through exercise of an Option shall not be less than 100% of the Fair Market Value

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of the underlying Shares on the Grant Date (unless the Award replaces a previously issued Option or SAR); and

- (b) no Option shall be exercisable for a term ending more than ten years after its Grant Date.

6.2 **Special ISO Provisions.** The following provisions shall control any Option grants that are denominated as ISOs; provided that ISOs may not be awarded unless the Plan receives shareholder approval within 12 months after its Effective Date, and ISOs may not be granted more than 10 years after Board approval of the Plan.

6.2.1 **Eligibility.** The Committee may grant ISOs only to Employees (including Officers who are Employees) of the Company or an Affiliate that is a “parent corporation” or “subsidiary corporation” within the meaning of Code Section 424 (each being an “ISO-Qualifying Corporation”). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Non-ISO. An Incentive Stock Option granted to a prospective Employee on the condition that such person become an Employee of an ISO-Qualifying Corporation shall be deemed granted effective on the date such person commences a period of Continuous Service with an ISO-Qualifying Corporation, with an exercise price determined as of such date in accordance with Section 6.1(a).

6.2.2 **Documentation.** Each Option that is intended to be an ISO must be designated in the Award Agreement as an ISO, provided that any Option designated as an ISO will be a Non-ISO to the extent the Option does not meet the requirements of Code Section 422 or the provisions of this Section 6.2.2. In the case of an ISO, the Committee shall determine on the Grant Date the acceptable methods of paying the exercise price for Shares, and it shall be included in the applicable Award Agreement.

6.2.3 **\$100,000 Limit.** To the extent that the aggregate Fair Market Value of Shares with respect to which ISOs first become exercisable by a Participant in any calendar year (under this Plan and any other plan of the Company or any Affiliate) exceeds \$100,000, such excess Options shall be treated as Non-ISOs. For purposes of determining whether the \$100,000 limit is exceeded, the Fair Market Value of the Shares subject to an ISO shall be determined as of the Grant Date. In reducing the number of Options treated as ISOs to meet the \$100,000 limit, the most recently granted Options shall be reduced first. In the event that Code Section 422 is amended to alter the limitation set forth therein, the limitation of this paragraph automatically shall be adjusted accordingly.

6.2.4 **Grants to 10% Holders.** In the case of an ISO granted to an Employee who is a Ten Percent Holder on the Grant Date, the ISO’s term shall not exceed five years from the Grant Date, and the exercise price shall be at least 110% of the Fair Market Value of the underlying Shares on the Grant Date. In the event that Code Section 422 is amended to alter the limitations set forth therein, the limitation of this paragraph automatically shall be adjusted accordingly.

6.2.5 **Substitution of Options.** In the event the Company or an Affiliate acquires (whether by purchase, merger, or otherwise) all or substantially all of outstanding capital

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stock or assets of another corporation or in the event of any reorganization or other transaction qualifying under Code Section 424, the Committee may, in accordance with the provisions of that Section, substitute ISOs for ISOs previously granted under the plan of the acquired company provided (A) the excess of the aggregate Fair Market Value of the Shares subject to an ISO immediately after the substitution over the aggregate exercise price of such Shares is not more than the similar excess immediately before such substitution, and (B) the new ISO does not give additional benefits to the Participant, including any extension of the exercise period.

6.2.6 **Notice of Disqualifying Dispositions.** By executing an ISO Award Agreement, each Participant agrees to notify the Company in writing immediately after the Participant sells, transfers or otherwise disposes of any Shares acquired through exercise of the ISO, if such disposition occurs within the earlier of (A) two years of the Grant Date, or (B) one year after the exercise of the ISO being exercised. Each Participant further agrees to provide any information about a disposition of Shares as may be requested by the Company to assist it in complying with any Applicable Laws.

6.3 **Method of Exercise.** Each Option may be exercised, in whole or in part (provided that the Company shall not be required to issue fractional Shares) at any time and from time to time prior to its expiration, but only pursuant to the terms of the applicable Award Agreement, and subject to the times, circumstances and conditions for exercise contained in the applicable Award Agreement. Exercise shall occur by delivery of both written notice of exercise to the secretary of the Company, and payment of the full exercise price for the Shares being purchased. The methods of payment that the Committee may in its discretion accept or commit to accept in an Award Agreement include:

- (a) cash or check payable to the Company (in U.S. dollars);
- (b) other Shares that (i) are owned by the Participant who is purchasing Shares pursuant to an Option, (ii) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which the Option is being exercised, (iii) are all, at the time of such surrender, free and clear of any and all claims, pledges, liens and encumbrances, or any restrictions which would in any manner restrict the transfer of such Shares to or by the Company (other than such restrictions as may have existed prior to an issuance of such Shares by the Company to such Participant), and (iv) are duly endorsed for transfer to the Company;

- (c) a net exercise by surrendering to the Company Shares otherwise receivable on exercise of the Option;
- (d) a cashless exercise program that the Committee may approve, from time to time in its discretion, pursuant to which a Participant may elect to concurrently provide irrevocable instructions (i) to such Participant's broker or dealer to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the exercise price of the Option plus all applicable taxes required

to be withheld by the Company by reason of such exercise, and (ii) to the Company to deliver the certificates for the purchased Shares directly to such broker or dealer in order to complete the sale; or

- (e) any combination of the foregoing methods of payment.

The Company shall not be required to deliver Shares pursuant to the exercise of an Option until the Company has received sufficient funds to cover the full exercise price due and all applicable Withholding Taxes required by reason of such exercise.

Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

6.4 **Exercise of an Unvested Option.** The Committee in its sole discretion may allow a Participant to exercise an unvested Option, in which case the Shares then issued shall be Restricted Shares having vesting restrictions analogous to those of the unvested Option.

6.5 **Termination of Continuous Service.** The Committee may establish and set forth in the applicable Award Agreement the terms and conditions on which an Option shall remain exercisable, if at all, following termination of a Participant's Continuous Service. The Committee may waive or modify these provisions at any time. To the extent that a Participant is not entitled to exercise an Option at the date of his or her termination of Continuous Service, or if the Participant (or other person entitled to exercise the Option) does not exercise the Option to the extent so entitled within the time specified in the Award Agreement or below (as applicable), except as otherwise set forth in an enforceable written agreement between the Participant and the Company or one of its Subsidiaries the Option shall terminate and the Shares underlying the unexercised portion of the Option shall revert to the Plan and become available for future Awards.

The following provisions shall apply to the extent an Award Agreement or other enforceable written agreement between the Participant and the Company or one of its Subsidiaries does not specify the terms and conditions on which an Option shall terminate when there is a termination of a Participant's Continuous Service:

<u>Reason for Terminating Continuous Service</u>	<u>Option Termination Date</u>
By the Company for Cause, or what would have been Cause if the Company had known all of the relevant facts.	Termination of the Participant's Continuous Service, or when Cause first existed if earlier.
Disability of the Participant.	Within one year after termination of the Participant's Continuous Service.
Retirement of the Participant.	Within six months after termination of the Participant's Continuous Service, unless the Committee or the Company's Chief Executive Officer determines that a shorter period of time should apply.
Death of the Participant during Continuous Service or within 90 days thereafter.	Within one year after termination of the Participant's Continuous Service.
Any other reason.	Within 90 days after termination of the Participant's Continuous Service.

If there is a Securities and Exchange Commission blackout period (or a Committee-imposed blackout period) that prohibits the buying or selling of Shares during any part of the ten-day period before the expiration of any Option based on the termination of a Participant's Continuous Service (as described above), the period for exercising the Options shall be extended until ten days beyond when such blackout period ends. Notwithstanding any provision hereof or within an Award Agreement, no Option shall ever be exercisable after the expiration date of its original term as set forth in the Award Agreement.

7. SARs.

7.1 **Grants.** The Committee may grant SARs to Eligible Persons pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan; provided that:

- (a) the exercise price for the Shares subject to each SAR shall not be less than 100% of the Fair Market Value of the underlying Shares on the Grant Date (unless the Award replaces a previously issued Option or SAR);
- (b) no SAR shall be exercisable for a term ending more than ten years after its Grant Date; and

- (c) each SAR shall, except to the extent an SAR Award Agreement provides otherwise, be subject to the provisions of Section 6.5 relating to the effect of a termination of Participant's Continuous Service with "SAR" being substituted for "Option."

7.2 **Settlement.** Subject to the Plan's terms, an SAR shall entitle the Participant, on exercise of the SAR, to receive Shares having a Fair Market Value on the date of exercise equal to the product of the number of Shares as to which the SAR is being exercised, and the excess of (i) the Fair Market Value, on such date, of the Shares covered by the exercised SAR, over (ii) an exercise price designated in the SAR Award Agreement. Notwithstanding the foregoing, an SAR Award Agreement may limit the total settlement value that the Participant will be entitled to receive on the SAR's exercise, and may provide for settlement either in cash or in any combination of cash or Shares that the Committee may authorize pursuant to an Award Agreement. If, on the date on which an SAR or portion thereof is to expire, the Fair Market Value of the underlying Shares exceeds the aggregate exercise price of such SAR (or portion thereof), then the SAR shall be deemed exercised

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and the Participant shall within ten days thereafter receive the Shares that would have been issued on such date if the Participant had affirmatively exercised the SAR on that date.

7.3 **SARs Related to Options.** The Committee may grant SARs either concurrently with the grant of an Option or with respect to an outstanding Option, in which case the SAR shall extend to all or a portion of the Shares covered by the related Option, and shall have an exercise price that is not less than the exercise price of the related Option. A SAR shall entitle the Participant who holds the related Option, on exercise of the SAR and surrender of the related Option, or portion thereof, to the extent the SAR and related Option each were previously unexercised, to receive payment of an amount determined pursuant to Section 7.2 above. Any SAR granted in tandem with an ISO will contain such terms as may be required to comply with the provisions of Code Section 422.

8. RESTRICTED SHARES AND RESTRICTED SHARE UNITS.

8.1 **Grants.** The Administrator may grant Restricted Share or Restricted Share Unit Awards to Eligible Persons, in all cases pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan. The Administrator shall establish as to each such Award the number of Shares deliverable (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 Administrator, including, without limitation, criteria based on the Participant's duration of employment, directorship or consultancy with the Company, individual, group, or divisional performance criteria, Company performance, or other criteria selection by the Administrator. The Committee may make Restricted Share and RSU Awards with or without the requirement for payment of cash or other consideration.

8.2 **Vesting and Forfeiture.** The Administrator shall set forth, in an Award Agreement granting Restricted Shares or RSUs, the terms and conditions under which the Participant's interest in the Restricted Shares or the Shares subject to RSUs will become vested and non-forfeitable. Except as set forth in the applicable Award Agreement or as otherwise provided in this Plan with respect to a Participant's death, on termination of a Participant's Continuous Service for any reason, or pursuant to the terms and conditions of any enforceable written agreement between a Participant and the Company or one of its Subsidiaries, the Participant shall forfeit his or her Restricted Shares and 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 Company shall return the purchase price to the Participant to the extent either set forth in an Award Agreement or required by Applicable Laws.

8.3 **Certificates for Restricted Shares.** Unless otherwise provided in an Award Agreement, the Company shall hold certificates representing Restricted Shares until the restrictions lapse, and the Participant shall provide the Company 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 Company shall entitle the Committee to unilaterally declare a forfeiture of all or some of the Participant's Restricted Shares.

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8.4 **Section 83(b) Elections.** A Participant may make an election under Code Section 83(b) (the "**Section 83(b) Election**") with respect to Restricted Shares. A Participant who has received RSUs may, within ten days after receiving the RSU Award, provide the Committee with a written notice of his or her desire to make a Section 83(b) Election with respect to the Shares subject to such RSUs. The Committee may in its discretion convert the Participant's RSUs into Restricted Shares, on a one-for-one basis, in full satisfaction of the Participant's RSU Award. The Participant may then make a Section 83(b) Election with respect to those Restricted Shares; provided that the Participant's Section 83(b) Election will be invalid if not filed with the Company and the appropriate U.S. tax authorities within 30 days after the Grant Date of the RSUs that are thereafter replaced by the Restricted Shares.

8.5 **Deferral Elections for RSUs.** To the extent specifically provided in an Award Agreement, a Participant may irrevocably elect, in accordance with Section 9 below, to defer the receipt of all or a percentage of the Shares that would otherwise be transferred to the Participant both more than twelve (12) months after the date of the Participant's deferral election and on the vesting of an RSU Award. If the Participant makes this election, the Company shall credit the Shares subject to the election, to a DSU account established pursuant to Section 9 below on the date such Shares would otherwise have been delivered to the Participant pursuant to this Section.

8.6 **Issuance of Shares on Vesting.** As soon as practicable after vesting of a Participant's right to receive Shares underlying RSUs, the Company 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 15 regarding Withholding Taxes. No fractional Shares will be distributed, and cash shall be paid in lieu thereof.

The Company will not be obligated to deliver any Shares unless and until it receives full payment of any withholding obligations under Section 15 and any other delivery conditions have been satisfied. Except as expressly provided in the applicable Award Agreement, the Administrator may at any time

eliminate or limit a Participant's ability to satisfy withholding obligations through any method other than cash payment to the Company.

9. DSUs.

9.1 **Elections to Defer.** The Committee may make DSU awards to Eligible Persons pursuant to Award Agreements (regardless of whether or not there is a deferral of the Eligible Person's compensation), and may permit select Eligible Persons to irrevocably elect, on a form provided by and acceptable to the Committee (the "Election Form"), to forego the receipt of cash or other compensation (including the Shares deliverable pursuant to any RSU Award) and in lieu thereof to have the Company credit to an internal Plan account a number of DSUs having a Fair Market Value equal to the Shares and other compensation deferred. These credits will be made at the end of each calendar quarter (or other period determined by the Committee) during which compensation is deferred. Notwithstanding the foregoing sentence, a Participant's Election Form will be ineffective with respect to any compensation that the Participant earns before the date on which the Election Form takes effect. For any Participant who is subject to U.S. income taxation, the Committee shall only authorize deferral elections under this Section (i) pursuant to written procedures, and using written Election Forms, that satisfy the requirements of Code Section 409A, and (ii) only by Eligible Persons who are Directors, Consultants, or members of a select group of management or highly compensated Employees (within the meaning of ERISA).

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9.2 **Vesting.** DSUs that defer other Awards shall be vested at the same time the underlying award becomes vested. Other DSUs shall be subject to the vesting requirements set forth in Section 5.5.

9.3 **Issuances of Shares.** Unless an Award Agreement expressly provides otherwise, the Company shall settle a Participant's DSU Award, by delivering one Share for each DSU, in five substantially equal annual installments that are issued before the last day of each of the five calendar years that end after the date on which the Participant's Continuous Service ends for any reason, subject to:

- (a) the Participant's right to elect a different form of distribution, only on a form provided by and acceptable to the Committee, that permits the Participant to select any combination of a lump sum and annual installments that are triggered by, and completed within ten years following, the last day of the Participant's Continuous Service, and
- (b) the Company's acceptance of the Participant's distribution election form executed at the time the Participant elects to defer the receipt of cash or other compensation pursuant to Section 9.1, provided that the Participant may change a distribution election through any subsequent election that (i) the Participant delivers to the Company at least one year before the date on which distributions are otherwise scheduled to commence pursuant to the Participant's initial distribution election, and (ii) defers the commencement of distributions by at least five years from the last-properly elected scheduled distribution commencement date.

Fractional Shares shall not be issued and instead shall be paid out in cash.

9.4 **Emergency Withdrawals.** In the event that a Participant suffers an unforeseeable emergency within the contemplation of this Section, the Participant may apply to the Committee for an immediate distribution of all or a portion of the Participant's DSUs. The unforeseeable emergency must result from a sudden and unexpected illness or accident of the Participant, the Participant's spouse, or a dependent (within the meaning of Code Section 152) of the Participant, casualty loss of the Participant's property, or other similar extraordinary and unforeseeable conditions beyond the control of the Participant. The Committee shall, in its sole and absolute discretion, determine whether a Participant has a qualifying unforeseeable emergency, may require independent verification of the emergency, and may determine whether or not to provide the Participant with cash or Shares. Examples of purposes that are not considered unforeseeable emergencies include post-secondary school expenses or the desire to purchase a residence. In no event will a distribution be made to the extent the unforeseeable emergency could be relieved through reimbursement or compensation by insurance or otherwise, or by liquidation of the Participant's nonessential assets to the extent such liquidation would not itself cause a severe financial hardship. The amount of any distribution hereunder shall be limited to the amount necessary to relieve the Participant's unforeseeable emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution. The number of Shares subject to the Participant's DSU Award shall be reduced by any Shares distributed to the Participant and by a number of Shares

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having a Fair Market Value on the date of the distribution equal to any cash paid to the Participant pursuant to this Section. For all DSUs granted to Participants who are U.S. taxpayers, the term "unforeseeable emergency" shall be interpreted in accordance with Code Section 409A.

9.5 **Termination of Service.** For purposes of this Section, a Participant's "Continuous Service" shall only end when the Participant incurs a "separation from service" within the meaning of Treasury Regulations § 1.409A-1(h). A Participant shall be considered to have experienced a termination of Continuous Service when the facts and circumstances indicate that either (a) no further services will be performed for the Company or any Affiliate after a certain date, or (b) that the level of bona fide services the Participant will perform after such date (whether as an Employee, Director, or Consultant) are reasonably expected to permanently decrease to no more than 50% of the average level of bona fide services performed by such Participant (whether as an Employee, Director, or Consultant) over the immediately preceding 36-month period (or full period of services to the Company and its Affiliates if the Participant has been providing such services for less than 36 months).

10. PERFORMANCE AND CASH-SETTLED AWARDS.

10.1 **Purpose.** The purpose of this Section 10 is to provide the Committee the ability to qualify Awards that are granted pursuant to the Plan as qualified performance-based compensation under Code Section 162(m). If the Committee, in its discretion, decides to grant a Performance-Based Award subject to Performance Goals to a Covered Employee, the provisions of this Section 10 will control over any contrary provision in the Plan; provided, however, that the Committee may in its discretion grant Awards to such Covered Employees that are based on Performance Goals or other specific criteria or goals but that do not satisfy the requirements of this Section 10.

10.2 **Applicability.** This Section 10 will apply to those Covered Employees who are selected by the Committee to receive any Award subject to Performance Goals. The designation of a Covered Employee as being subject to Section 162(m) will not in any manner entitle the Covered Employee to receive an Award under the Plan. Moreover, designation of a Covered Employee subject to Section 162(m) for a particular Performance Period will not require designation of such Covered Employee in any subsequent Performance Period and designation of one Covered Employee will not require designation of any other Covered Employee in such period or in any other period.

10.3 **Procedures with Respect to Performance Based Awards.** To the extent necessary to comply with the performance-based compensation requirements of Section 162(m), with respect to any Award granted subject to Performance Goals, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m)), the Committee will, in writing, (a) designate one or more Participants who are Covered Employees, (b) select the Performance Goals applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (d) specify the relationship between Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee will certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amounts

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earned by a Covered Employee, the Committee will have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

10.4 **Payment of Performance Based Awards.** Unless otherwise provided in the applicable Award Agreement, a Covered Employee must be employed by the Participating Company Group on the day a Performance-Based Award for such Performance Period is paid to the Covered Employee. Furthermore, a Covered Employee will be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved.

10.5 **Additional Limitations.** Notwithstanding any other provision of the Plan, any Award that is granted to a Covered Employee and is intended to constitute qualified performance based compensation under Code Section 162(m) will be subject to any additional limitations set forth in the Code (including any amendment to Section 162(m)) or any regulations and ruling issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m), and the Plan will be deemed amended to the extent necessary to conform to such requirements.

11. [RESERVED]

12. TRANSFER RESTRICTIONS.

12.1 **General.** Except as set forth in this Section 12, or as otherwise approved by the Administrator, Awards may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution. The designation of a death Beneficiary by a Participant will not constitute a transfer.

12.2 **Exceptions.** The Administrator may permit Awards to be paid to, or otherwise transferred to, other persons or entities pursuant to such conditions and procedures, including limitations on subsequent transfers, as the Administrator may, in its sole discretion, establish in writing. Any permitted transfer shall be subject to compliance with applicable federal and state securities laws and shall not be for value (other than nominal consideration, settlement of marital property rights, or for interests in an entity in which more than 50% of the voting interests are held by the Eligible Person or by the Eligible Person's family members).

12.3 **Further Exceptions to Limits on Transfer.** The transfer restrictions in this Section 12 shall not apply to:

- (a) transfers to the Company (for example, in connection with the expiration or termination of an Award);
- (b) the designation of a beneficiary to receive benefits in the event of the Participant's death or, if the Participant has died, transfers to the Participant's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution;

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- (c) transfers to a family member (or former family member) pursuant to a qualified domestic relations order if approved or ratified by the Administrator; or
- (d) if the Participant has become Disabled, permitted transfers by his or her legal representative.

13. EFFECT OF TERMINATION OF EMPLOYMENT OR SERVICE ON AWARDS.

13.1 **General.** Consistent with the terms of this Plan, the Administrator shall establish the effect of a termination of Continuous Service on the rights and benefits under each Award under this Plan and in so doing may make distinctions based on, inter alia, the cause of termination. If the Participant is not an employee of the Company or one of its Subsidiaries and provides other services to the Company or one of its Subsidiaries, the Administrator shall be the sole judge for purposes of this Plan (unless a contract or the Award otherwise provides) of whether the Participant continues to remain in Continuous Service and the date, if any, on which such Continuous Service shall be deemed to have terminated.

13.2 **Effect of Change of Subsidiary Status.** For purposes of this Plan and any Award, if an entity ceases to be a Subsidiary of the Company a termination of Continuous Service shall be deemed to have occurred with respect to each Eligible Person in respect of such Subsidiary who does

not continue as an Eligible Person in respect of the Company or another Subsidiary that remains a Participating Employer after giving effect to the transaction or other event giving rise to the change in status.

14. ADJUSTMENTS; ACCELERATION.

14.1 **Changes in Capitalization.** The Committee shall equitably adjust the number of Shares covered by each outstanding Award, and the number of Shares that have been authorized for issuance under the Plan but as to which no Awards have yet been granted or that have been returned to the Plan on cancellation, forfeiture, or expiration of an Award to reflect any increase or decrease in the number of issued Shares resulting from a stock-split, reverse stock-split, stock dividend, combination, recapitalization or reclassification of the Shares, merger, consolidation, change in organization form, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company. In the event of any such transaction or event, the Committee may provide in substitution for any or all outstanding Awards such alternative consideration (including cash or securities of any surviving entity) as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all Awards so replaced. In any case, such substitution of cash or securities shall not require the consent of any person who is granted Awards pursuant to the Plan. Except as expressly provided herein, or in an Award Agreement, if the Company issues for consideration shares of stock of any class or securities convertible into shares of stock of any class, the issuance shall not affect, and no adjustment by reason thereof shall be required to be made with respect to, the number or price of Shares subject to any Award.

14.2 **Dissolution or Liquidation.** In the event of the dissolution or liquidation of the Company other than as part of a Change in Control, each Award will terminate immediately prior

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to the consummation of such dissolution or liquidation, subject to the ability of the Committee to exercise any discretion authorized in the case of a Change in Control.

14.3 **Change in Control.** In the event of a Change in Control (other than an event described in clause (ii) of the definition of Change in Control) but subject to the terms of any Award Agreements or pursuant to the terms and conditions of any enforceable written agreement between a Participant and the Company or any of its Subsidiaries, each outstanding Award shall be assumed or a substantially equivalent award shall be substituted by the surviving or successor company or a parent or subsidiary of such successor company (in each case, the "Successor Company") on consummation of the transaction. Notwithstanding the foregoing, instead of having outstanding Awards be assumed or replaced with equivalent awards by the Successor Company, the Committee may in its sole and absolute discretion and authority, without obtaining the approval or consent of the Company's shareholders or any Participant with respect to his or her outstanding Awards, but subject to the terms and conditions of any enforceable written agreement between a Participant and the Company or any of its Subsidiaries, take one or more of the following actions (with respect to any or all of the Awards, and with discretion to differentiate between individual Participants and Awards for any reason):

- (a) accelerate the vesting of all or a portion of certain Awards so that such Awards or a portion thereof shall vest as to the Shares that otherwise would have been unvested and provide that repurchase rights of the Company with respect to Shares issued pursuant to an Award shall lapse as to the Shares subject to such repurchase right (for the avoidance of doubt, the Committee may accelerate vesting even if another enforceable written agreement between a Participant and the Company or one of its Subsidiaries provides for no, or partial, vesting in connection with a Change in Control);
- (b) arrange or otherwise provide for the payment of cash or other consideration to Participants in exchange for the satisfaction and cancellation of all or some outstanding Awards or a portion thereof (based on the Fair Market Value, on the date of the Change in Control, of the Award being cancelled, based on any reasonable valuation method selected by the Committee, and with the Committee having full discretion to cancel either all Awards or only select Awards or portions thereof (such as only those that have vested on or before the Change in Control));
- (c) terminate unvested awards with or without payment therefore; To the extent that an unvested Award is not settled prior to consummation of a transaction in which the Award is not being assumed or substituted, such Award shall terminate on such consummation; or
- (d) make such other modifications, adjustments or amendments to outstanding Awards or this Plan as the Committee deems necessary or appropriate, subject however to the terms set forth above.

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Notwithstanding the above and unless otherwise provided in an Award Agreement or in any enforceable agreement between a Participant and the Company or any of its Subsidiaries, in the event a Participant is Involuntarily Terminated on or within 12 months (or other period set forth in an Award Agreement) following a Change in Control, then any Award that is assumed or substituted pursuant to this Section 14.3 above shall accelerate and become fully vested (and become exercisable in full in the case of Options and SARs), and any repurchase right applicable to any Shares underlying the Award shall lapse in full. To the extent the foregoing sentence is more favorable than an enforceable written agreement between a Participant and the Company or one of its Subsidiaries, the foregoing sentence shall apply. The acceleration of vesting and lapse of repurchase rights provided for in the previous sentence shall occur immediately prior to the effective date of the Participant's Involuntary Termination.

14.4 **Death of Participant.** In the event of the death of a Participant, unless otherwise provided in the applicable Award Agreement, the Company's Chief Executive Officer determines otherwise in his or her sole discretion, or to the extent the Administrator has made a provision for the substitution, assumption, exchange or other continuation or settlement of the Award and subject to Section 14.6, each then-outstanding Award shall fully vest and automatically will be transferred to the Participant's Beneficiary (or, if no Beneficiary is designated or surviving, to the person or persons to whom the Participant's rights under the Award pass by will or the laws of descent and distribution). Once transfer has been made to an individual the Administrator determines in good faith is entitled to transfer pursuant to this Section 14.4, no Person, other than such transferee, shall have any claim for benefits or any other rights with respect to such Award.

14.5 **Role and Powers of Administrator.** The Administrator may adopt such valuation methodologies for outstanding Awards as it deems reasonable in the event of a cash or property settlement. The Administrator may take such action contemplated by this Section 14 prior to the occurrence of any such triggering event (as opposed to on the occurrence of such event) to the extent that the Administrator deems the action necessary to permit the Participant to realize the benefits intended to be conveyed with respect to the underlying Shares. Without limiting the generality of the foregoing, the Administrator may deem an acceleration to occur immediately prior to the applicable event and/or reinstate the original terms of the Award if an event giving rise to acceleration does not occur.

Any good faith determination by the Administrator pursuant to its authority under this Section 14 shall be conclusive and binding on all persons.

14.6 **Other Acceleration Rules.** Except as expressly set forth herein, the Administrator may override any automatic acceleration provision set forth in this Plan by express provision in the applicable Award Agreement (such provisions also may be overridden by an enforceable written agreement between the Participant and the Company or one of its Subsidiaries) and may accord any Eligible Person a right to refuse any acceleration, whether pursuant to the Award Agreement or otherwise, in such circumstances as the Administrator may approve.

14.7 **Golden Parachute Limitation.** Except as provided in the last sentence of this Section 14.7, notwithstanding anything in this Plan to the contrary, in no event shall any Award or payment be accelerated under this Plan to an extent or in a manner so that such Award or payment, together with any other compensation and benefits provided to, or for the benefit of, the Participant under any other plan or agreement of the Company or any of its Subsidiaries, would not

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be fully deductible by the Company or one of its Subsidiaries for federal income tax purposes because of Section 280G of the Code and any similar state, local or federal law (collectively, "Section 280G"). If a Participant would be entitled to benefits or payments hereunder and under any other plan or program that would constitute "parachute payments" as defined in Section 280G of the Code, then such parachute payments will be reduced or modified so that the Company or one of its Subsidiaries is not denied federal income tax deductions for any "parachute payments" because of Section 280G of the Code in the following order (unless cutting the parachute payments back in such order would result in the imposition on the Participant of an additional tax under Section 409A of the Code (or similar state or local law) and cutting the parachute payments back in another order would not, in which case benefits shall instead be cut back in such other order): First, all parachute payments that do not constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code (in the order designated by the Participant); second, all parachute payments that constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code that were granted to the Participant in the 12-month period of time preceding the applicable Section 280G event, in the order such benefits were granted to the Participant; and third, all remaining parachute payments shall be reduced pro-rata. Notwithstanding the foregoing, if a Participant is a party to an employment or other agreement with the Company or one of its Subsidiaries, or is a Participant in a severance program sponsored by the Company or one of its Subsidiaries, that contains express provisions regarding Section 280G and/or Section 4999 of the Code (or any similar successor provision), or the applicable Award Agreement includes such provisions, the Section 280G and/or Section 4999 provisions of such employment or other agreement or plan, as applicable, shall control as to the Awards held by that Participant (for example, and without limitation, a Participant may be a party to an employment agreement with the Company or one of its Subsidiaries that provides for a "gross-up" as opposed to a "cut-back" in the event that the Section 280G thresholds are reached or exceeded in connection with a change in control and, in such event, the Section 280G and/or Section 4999 provisions of such employment agreement shall control as to any Awards held by that Participant). This Section 14.7 shall not apply to the extent that the terms and conditions of any then-applicable employment agreement or Award Agreement provide for a different outcome or treatment.

15. TAX WITHHOLDING.

15.1 **General Rule.** Participants are solely responsible and liable for the satisfaction of all taxes, interest and penalties that may arise in connection with Awards, and neither the Company, any Affiliate, nor any of their employees, directors, or agents shall have any obligation to mitigate, indemnify, or to otherwise hold any Participant harmless from any or all of such taxes, interest or penalties. Except to the extent otherwise either provided in an Award Agreement or thereafter authorized by the Administrator, the Company or any Affiliate may satisfy required Withholding Taxes that the Participant has not otherwise arranged to settle before the due date thereof

- (a) first from withholding the cash otherwise payable to the Participant pursuant to the Award;
- (b) then by withholding and cancelling the Participant's rights with respect to a number of Shares that (i) would otherwise have been delivered to the Participant pursuant to the Award, and (ii) have an aggregate Fair Market Value equal to the Withholding Taxes (such

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withheld Shares to be valued on the basis of the aggregate Fair Market Value thereof on the date of the withholding); and

- (c) finally, withholding the cash otherwise payable to the Participant by the Company or its Subsidiaries.

The number of Shares withheld and cancelled to pay a Participant's Withholding Taxes will be rounded up to the nearest whole Share sufficient to satisfy such taxes, with cash being paid to the Participant in an amount equal to the amount by which the Fair Market Value of such Shares exceeds the Withholding Taxes.

15.2 **Unfunded Tax Status.** The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Person pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Person any rights that are greater than those of a general creditor of the Company or any Affiliate, and a Participant's rights under the Plan at all times constitute an unsecured claim against the general assets of the Company for the collection of benefits as they come due. Neither the Participant nor the Participant's duly-authorized transferee or Beneficiaries shall have any claim against or rights in any specific assets, Shares, or other funds of the Company.

16. TERMINATION, RESCISSION AND RECAPTURE OF AWARDS.

16.1 Each Award under the Plan is intended to align the Participant's long-term interests with those of the Company. Accordingly, unless otherwise expressly provided in an Award Agreement, the Company may terminate any outstanding, unexpired, unpaid, or deferred Awards ("Termination"), rescind any delivery pursuant to the Award ("Rescission"), or recapture any Shares (whether restricted or unrestricted) or proceeds from the Participant's sale of Shares issued pursuant to the Award ("Recapture"), if the Participant does not comply with the conditions of subsections 16.2, 16.4, 16.5, and 16.6 hereof (collectively, the "Conditions").

16.2 A Participant shall not, at any time after the Participant first received an Award under this Plan, take any action or inaction that would constitute "Cause," as defined herein.

16.3 A Participant shall not, without the Company's prior written authorization, disclose to anyone outside the Company, or use in other than the Company's business, any proprietary or confidential information or material, as those or other similar terms are used in any applicable patent, confidentiality, inventions, secrecy, or other agreement between the Participant and the Company or any of its Affiliates with regard to any such proprietary or confidential information or material.

16.4 Pursuant to any agreement between the Participant and the Company or its Affiliates with regard to intellectual property (including but not limited to patents, trademarks, copyrights, trade secrets, inventions, developments, improvements, proprietary information, confidential business and personnel information), a Participant shall promptly disclose and assign to the Company or its designee all right, title, and interest in such intellectual property, and shall take all reasonable steps necessary to enable the Company to secure all right, title and interest in such intellectual property in the United States and in any foreign country.

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16.5 On payment, or delivery of cash or Shares pursuant to an Award, the Participant shall, if requested in writing by the Company, certify on a form acceptable to the Company that he or she is in compliance with the terms and conditions of the Plan and, if a severance of Continuous Service has occurred for any reason, shall state the name and address of the Participant's then-current employer or any entity for which the Participant performs business services and the Participant's title, and shall identify any organization or business in which the Participant owns a greater-than-five-percent equity interest.

16.6 If the Company determines, in its sole and absolute discretion, that (a) a Participant has violated any of the Conditions or (b) during his or her Continuous Service, or within one year after its termination for any reason, a Participant (i) has rendered services to or otherwise directly or indirectly engaged in or assisted, any organization or business that, in the judgment of the Company in its sole and absolute discretion, is or is working to become competitive with the Company; (ii) has solicited any non-administrative employee of the Company to terminate employment with the Company; or (iii) has engaged in activities that are materially prejudicial to or in conflict with the interests of the Company, including any breaches of fiduciary duty or the duty of loyalty, then the Company may, in its sole and absolute discretion, to the extent not prohibited by Applicable Law, impose a Termination, Rescission, and/or Recapture with respect to any or all of the Participant's relevant Awards, Shares, and the proceeds thereof.

16.7 Within ten days after receiving notice from the Company of any such activity described in Section 16.6 above, the Participant shall deliver to the Company the Shares acquired pursuant to the Award, or, if Participant has sold the Shares, the gain realized, or payment received as a result of the rescinded payment, or delivery. Any payment by the Participant to the Company pursuant to this Section 16 shall be made either in cash or by returning to the Company the number of Shares that the Participant received in connection with the rescinded payment, or delivery. It shall not be a basis for Termination, Rescission or Recapture if after termination of a Participant's Continuous Service, the Participant purchases, as an investment or otherwise, stock or other securities of such an organization or business, as long as (a) such stock or other securities are listed on a recognized securities exchange or traded over-the-counter, and (b) such investment does not represent more than a five percent (5%) equity interest in the organization or business.

16.8 Notwithstanding the foregoing provisions of this Section, the Company has sole and absolute discretion not to require Termination, Rescission and/or Recapture, and its determination not to require Termination, Rescission and/or Recapture with respect to any particular act by a particular Participant or Award shall not in any way reduce or eliminate the Company's authority to require Termination, Rescission and/or Recapture with respect to any other act or Participant or Award. Nothing in this Section shall be construed to impose obligations on the Participant to refrain from engaging in lawful competition with the Company after the termination of employment that does not violate subsections 16.2, 16.4, 16.5 and 16.6, other than any obligations that are part of any separate agreement between the Company or its Affiliates and the Participant or that arise under Applicable Law.

16.9 All administrative and discretionary authority given to the Company under this Section shall be exercised by the most senior human resources executive of the Company or such other person or committee (including without limitation the Committee) as the Committee may designate from time to time.

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16.10 If any provision within this Section is determined to be unenforceable or invalid under any Applicable Law, such provision will be applied to the maximum extent permitted by Applicable Law, and shall automatically be deemed amended in a manner consistent with its objectives and any limitations required under Applicable Law.

17. RECOUPMENT OF AWARDS.

Unless otherwise specifically provided in an Award Agreement, and to the extent permitted by Applicable Law, the Administrator may in its sole and absolute discretion, without obtaining the approval or consent of the Company's shareholders or of any Participant, require that any Participant reimburse the Company for all or any portion of any Awards granted under this Plan ("Reimbursement"), or the Administrator may require the Termination or Rescission of, or the Recapture associated with, any Award, if and to the extent

- (a) the granting, vesting, or payment of such Award was predicated on the achievement of certain financial results that were subsequently the subject of a material financial restatement;

- (b) in the Administrator's view the Participant engaged in fraud or misconduct that caused or partially caused the need for a material financial restatement by the Company or any Affiliate; and
- (c) a lower granting, vesting, or payment of such Award otherwise would have occurred.

In each instance, the Administrator will, to the extent practicable and allowable under Applicable Laws, require Reimbursement, Termination or Rescission of, or Recapture relating to, any such Award granted to a Participant; provided that the Company will not seek Reimbursement, Termination or Rescission of, or Recapture relating to, any such Awards that were paid or vested more than three years prior to the first date of the applicable restatement period.

18. AMENDMENTS TO AWARDS.

Without limiting any other express authority of the Administrator under (but subject to) the express limits of this Plan, the Administrator may modify an Award to accept the cancellation of outstanding Awards or to make any change that the Plan would permit for a new Award. However, except in connection with a Change in Control or as approved by the Company's shareholders for any period during which it is subject to the reporting requirements of the Exchange Act, the Committee may not cancel an outstanding Option or SAR whose exercise price is greater than Fair Market Value at the time of cancellation for the purpose of reissuing the Option or SAR to the Participant at a lower exercise price, or granting a replacement award of a different type, or otherwise allowing for a "repricing" within the meaning of applicable federal securities laws. Notwithstanding the foregoing, except as expressly provided in this Plan or in an Award Agreement, no modification of an outstanding Award may materially and adversely affect a Participant's rights thereunder unless either (a) the Participant provides written consent to the modification, or (b) before a Change in Control, the Administrator determines in good faith that the modification is not materially adverse to the Participant.

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19. PLAN TERMINATION AND SUSPENSION; PLAN AMENDMENTS.

19.1 **Termination.** Unless earlier terminated by the Board, this Plan shall terminate at the close of business on the date ten years after its Effective Date. After the termination of this Plan either on such stated expiration date or its earlier termination by the Board, no additional Awards may be granted under this Plan, but previously granted Awards (and the authority of the Administrator with respect thereto, including the authority to amend such Awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of this Plan.

19.2 **Stockholder Approval.** To the extent then required by Applicable Law or any applicable agency or required under the Code to preserve the intended tax consequences of this plan, or deemed necessary or advisable by the Board, any amendment to this Plan shall be subject to stockholder approval.

19.3 **Plan Amendment.** The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part; provided that no change shall be made that increases the total number of Shares reserved for issuance pursuant to Awards (except pursuant to Section 14 above) unless such change is authorized by the shareholders of the Company. No Awards may be granted during any period that the Plan is suspended by the Board. A termination or amendment of the Plan shall not materially and adversely affect a Participant's vested rights under an Award previously granted to him or her, unless the Participant consents in writing to such termination or amendment. The loss of a tax deferral associated with acceleration of Awards shall not be considered to adversely affect a Participant's rights for purposes of this Plan. Notwithstanding the foregoing, the Administrator may amend the Plan to comply with changes in tax or securities laws or regulations, or in the interpretation thereof.

20. OTHER PROVISIONS.

20.1 **Compliance with Laws.** This Plan, the granting and vesting of Awards under this Plan, the offer, issuance and delivery of Shares, and the payment of money under this Plan or under Awards are subject to compliance with all applicable federal and state laws, rules and regulations (including, but not limited to, state and federal securities law and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. The Person acquiring any securities under this Plan will, if requested by the Company or one of its Subsidiaries, provide such assurances and representations to the Company or one of its Subsidiaries as the Administrator may deem necessary or desirable to assure compliance with all Applicable Laws and accounting requirements.

20.2 **No Rights to Award.** No person shall have any claim or rights to be granted an Award (or additional Awards, as the case may be) under this Plan, subject to any express contractual rights (set forth in a document other than this Plan) to the contrary.

20.3 **No Employment/Service Contract.** Nothing contained in this Plan (or in any other documents under this Plan or in any Award) shall confer on any Eligible Person or other Participant any right to continue in the employ or other service of the Company or one of its Subsidiaries, constitute any contract or agreement of employment or other service, or affect an employee's status as an employee at will, nor shall it interfere in any way with the right of the Company or one of its Subsidiaries to change a person's compensation or other benefits, or to

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terminate his or her employment or other service, with or without cause. Nothing in this Section 20.3, however, is intended to adversely affect any express independent right of such person under a separate employment or service contract other than an Award Agreement.

20.4 **No Fiduciary or Trust Relationship.** Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or one of its Subsidiaries and any Participant, beneficiary or other person.

20.5 **No Shareholder Rights.** Except as otherwise expressly authorized by the Administrator, a Participant shall not be entitled to any privilege of stock ownership as to any Shares not actually delivered to and held of record by the Participant. Neither a Participant nor any transferee or Beneficiary of a Participant shall have any rights as a shareholder of the Company with respect to any Shares underlying any Award until the date of issuance of a share certificate to such Participant, transferee, or Beneficiary for such Shares in accordance with the Company's governing instruments and Applicable

Law. Prior to the issuance of Shares or in the case of Restricted Shares, until the restrictions lapse, unless otherwise provided in an Award Agreement, a Participant shall not have the right to vote or to receive dividends or any other rights as a shareholder with respect to the Shares underlying the Award. No adjustment will be made for a dividend or other right that is determined based on a record date prior to the date the stock certificate is issued, except as otherwise specifically provided for by the Administrator, in this Plan or in an Award Agreement.

20.6 **No Corporate Action Restriction.** The existence of this Plan, the Award Agreements and the Awards granted hereunder shall not limit, affect or restrict in any way the right or power of the Board or the stockholders of the Company to make or authorize: (a) any adjustment, recapitalization, reorganization or other change in the capital structure or business of the Company or any Subsidiary, (b) any merger, amalgamation, consolidation or change in the ownership of the Company or any Subsidiary, (c) any issue of bonds, debentures, capital, preferred or prior preference stock ahead of or affecting the capital stock (or the rights thereof) of the Company or any Subsidiary, (d) any dissolution or liquidation of the Company or any Subsidiary, (e) any sale or transfer of all or any part of the assets or business of the Company or any Subsidiary, or (f) any other corporate act or proceeding by the Company or any Subsidiary. No Participant, beneficiary or any other person shall have any claim under any Award or Award Agreement against any member of the Board or the Administrator, or the Company or any employees, officers or agents of the Company or any Subsidiary, as a result of any such action.

21. GOVERNING LAW; CONSTRUCTION; SEVERABILITY.

21.1 **Choice of Law.** To the extent that U.S. Federal law does not apply, and except as expressly set forth in an applicable sub-plan or Award Agreement, this Plan, the Awards, all documents evidencing Awards and all other related documents shall be governed by, and construed in accordance with, the laws of the State of California, without regard to conflict of laws rules.

21.2 **Laws and Regulations.**

21.2.1 *General Rules.* This Plan, the granting of Awards, the exercise of Options and SARs, and the obligations of the Company hereunder (including those to pay cash or

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to deliver, sell or accept the surrender of any of its Shares or other securities) shall be subject to all Applicable Laws. In the event that any Shares are not registered under any Applicable Law prior to the required delivery of them pursuant to Awards, the Company may require, as a condition to their issuance or delivery, that the persons to whom the Shares are to be issued or delivered make any written representations and warranties (such as that such Shares are being acquired by the Participant for investment for the Participant's 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) that the Administrator may reasonably require, and the Administrator may in its sole discretion include a legend to such effect on the certificates representing any Shares issued or delivered pursuant to the Plan.

21.2.2 *Black-out Periods.* Notwithstanding any contrary terms within the Plan or any Award Agreement, the Administrator shall have the absolute discretion to impose a "blackout" period on the settlement of any Award, with respect to any or all Participants (including those whose Continuous Service has ended) to the extent that the Administrator determines that doing so is either desirable or required in order to comply with Applicable Law.

21.3 **Plan Construction.**

21.3.1 *Rule 16b-3.* It is the intent of the Company that the Awards and transactions permitted by Awards be interpreted in a manner that, in the case of Participants who are or may be subject to Section 16 of the Exchange Act, qualify, to the maximum extent compatible with the express terms of the Award, for exemption from matching liability under Rule 16b-3 promulgated under the Exchange Act. Notwithstanding the foregoing, the Company shall have no liability to any Participant for Section 16 consequences of Awards or events under Awards if an Award or event does not so qualify.

21.3.2 *Section 162(m).* Award Agreements may contain any provision designed to ensure deductibility under Section 162(m) of the Code.

21.4 **Captions.** Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

21.5 **Severability; Blue Pencil.** In the event that any one or more of the provisions of this Plan shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby. If, in the opinion of any court of competent jurisdiction such provision or provisions are not enforceable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions to make them enforceable and to enforce the remainder of these provisions as so amended.

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Appendix I: Definitions

As used in the Plan, the following terms have the meanings indicated when they begin with initial capital letters within the Plan:

“**Administrator**” means the Board, the Compensation Committee of the Board or one or more committees appointed by the Board or another committee (within its delegated authority) to administer all or certain aspects of this Plan. Any such committee shall be comprised solely of one or more directors or such number of directors as may be required under applicable law.

“**Affiliate**” means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, “control,” when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person or the power to elect directors, whether through the ownership of voting securities, by contract or otherwise or shall have such other meaning assigned such term for purposes of registration on Form S-8 under the Securities Act; and the terms “affiliated,” “controlling” and “controlled” have meanings correlative to the foregoing.

“**Applicable Law**” means the legal requirements relating to the administration of 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**” means any award made, in writing or by an electronic medium, pursuant to the Plan, whether alternative or cumulative.

“**Award Agreement**” means any written document setting forth the terms, conditions and restrictions of an Award granted to the Participant that has been authorized by the Committee. The Committee shall determine the form or forms of documents to be used, and may change them from time to time for any reason.

“**Beneficiary**” means the person or entity designated by the Participant, in a form approved by the Company, to receive payment or settlement under an Award after the Participant’s death.

“**Board**” means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, “Board” also means such Committee(s).

“**Cause**” will exist if the Company’s most-senior human resources executive (or his or her delegate) reasonably determines that: (i) the Participant willfully failed to substantially his or her duties and responsibilities to the Company or deliberately violated a material Company policy; (ii) the Participant committed any material act or acts of fraud, embezzlement, dishonesty, or other willful misconduct; (iii) the Participant engaged in unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom the Participant owes an obligation of nondisclosure as a result of his or her relationship with the Company; or (iv) the

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Participant willfully and materially breached any of his or her obligations under any written agreement or covenant with the Company. The foregoing definition does not in any way limit the Company’s ability to terminate a Participant’s employment or consulting relationship at any time, and the term “Company” will be interpreted herein to include any Affiliate or successor thereto, if appropriate. Furthermore, a Participant’s Continuous Service shall be deemed to have terminated for Cause within the meaning hereof if, at any time (whether before, on, or after termination of the Participant’s Continuous Service), facts or circumstances are discovered that would have justified a termination for Cause.

“**Change in Control**” means that, unless another definition is set forth in an Award Agreement, the first of the following to occur after the Effective Date:

(i) *Acquisition of Controlling Interest.* Any Person (other than Persons who are Employees at any time more than one year before a transaction) becomes the Beneficial Owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company’s then-outstanding securities. In applying the preceding sentence, an agreement to vote securities shall be disregarded unless its ultimate purpose is to cause what would otherwise be a Change in Control, as reasonably determined by the Board.

(ii) *Change in Board Control.* During any consecutive one-year period commencing after the date of adoption of this Plan, individuals who constituted the Board at the beginning of the period (or their approved replacements, as defined in the next sentence) cease for any reason to constitute a majority of the Board. A new Director shall be considered an “approved replacement” Director if his or her election (or nomination for election) was approved by a vote of at least a majority of the Directors then still in office who either were Directors at the beginning of the period or were themselves approved replacement Directors, but in either case excluding any Director whose initial assumption of office occurred as a result of an actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board.

(iii) *Merger.* The Company consummates a merger or consolidation of the Company with any other corporation unless: (a) the voting securities of the Company outstanding immediately before the merger or consolidation would continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; and (b) no Person (other than Persons who are Employees at any time more than one year before the transaction) 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 securities.

(iv) *Sale of Assets.* The stockholders of the Company approve an agreement for the sale or disposition by the Company of all, or substantially all, of the Company’s assets.

(v) *Liquidation or Dissolution.* The stockholders of the Company approve a plan or proposal for liquidation or dissolution of the Company.

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Notwithstanding the foregoing, a “Change in Control” shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity that owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

“**Code**” means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

“**Committee**” means the Compensation Committee of the Board or its successor or other committee of the Board duly appointed to administer the Plan; provided that the term “Committee” means (i) the Board when acting at any time in lieu of the Committee, (ii) with respect to any decision involving an Award intended to satisfy the requirements of Code Section 162(m), a committee consisting of two or more Directors of the Company who are “outside directors” within the meaning of Code Section 162(m), and (iii) with respect to any decision relating to a Reporting Person, a committee consisting solely of two or more Directors who are disinterested within the meaning of Rule 16b-3.

“**Common Stock**” shall mean the common stock of the Company and such other securities or property as may become the subject of Awards under this Plan, or may become subject to such Awards, pursuant to an adjustment made under Section 14.1.

“**Company**” means Kratos Defense & Security Solutions, Inc., a Delaware corporation; provided that, in the event the Company reincorporates to another jurisdiction, all references to the term “Company” shall refer to the Company in such new jurisdiction.

“**Conditions**” has the meaning set forth in Section 16.1 of the Plan.

“**Consultant**” means any person (other than an Employee or Director), including an advisor, who is engaged by the Company or any Affiliate to render services and is compensated for such services; provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on a Form S-8 Registration Statement under the Securities Act.

“**Continuous Service**” means 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 Committee, provided that such leave is for a period of not more than 90 days, unless reemployment on the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company 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 Company or between the Company and its Affiliates. 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 Company. The Committee 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

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determination, vesting for all Awards shall be tolled during any such unpaid leave (but not for a paid leave). In no event shall an Award vest after the expiration of the term set forth in the applicable Award Agreement.

“**Covered Employee**” means an Employee who is, or could be, a “covered employee” within the meaning of Section 162(m).

“**Deferred Share Units**” or “**DSUs**” mean Awards pursuant to Section 9 of the Plan.

“**Director**” means a member of the Board, or a member of the board of directors of an Affiliate.

“**Disabled**” will have the meaning set forth in any unexpired employment agreement between the Company and the Participant. In the absence of such an agreement, “Disabled” means a condition that causes the Participant to:

(i) be unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or

(ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receive income replacement benefits for a period of not less than three months under an accident or health plan covering employees of the Company.

“**Disqualifying Disposition**” has the meaning set forth in Section 6.2.6 of the Plan.

“**Effective Date**” means the date determined pursuant to Section 1.2.

“**Election Form**” has the meaning set forth in Section 9.1 of the Plan.

“**Eligible Person**” means any Consultant, Director, or Employee and includes non-Employees to whom an offer of employment has been or is being extended.

“**Employee**” means any person whom the Company or any Affiliate classifies as an employee (including an Officer) for employment tax purposes, whether or not that classification is correct. The payment by the Company of a director’s fee to a Director shall not be sufficient to constitute “employment” of such Director by the Company.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Fair Market Value**” means, unless otherwise determined or provided by the Administrator in the circumstances, the last price (in regular trading) or the mean of the closing bid and asked prices of a Share if the Shares are so quoted instead, as quoted on the Nasdaq National Market, The Nasdaq SmallCap Market, the Nasdaq Global Select Market or such other national or regional securities exchange or market system constituting the primary market for the Shares, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does

not fall on a day on which the Shares are traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Shares were so traded prior to the relevant date, or such other appropriate day as shall be determined by the Administrator, in its discretion. If Shares are no longer listed or are no longer actively traded on such a market as of the applicable date, the Fair Market Value of the Shares shall be the value as reasonably determined by the Administrator for purposes of the Award under the circumstances, without regard to any restriction other than a restriction that, by its terms, will never lapse.

“**Grant Date**” means the later of (i) the date designated as the “Grant Date” within an Award Agreement, and (ii) the date on which the Committee determines the key terms of an Award, unless otherwise designated by the Committee; provided that as soon as reasonably practical thereafter the Committee both notifies the Eligible Person of the Award and enters into an Award Agreement with the Eligible Person. The Grant Date may be a designated date after but not before the date of the Committee’s determination under clause (ii) of the preceding sentence.

“**Incentive Stock Option**” or “**ISO**” means an Option that qualifies for favorable income tax treatment under Code Section 422.

“**Indexed Option**” means an Option with an exercise price which either increases by a fixed percentage over time or changes by reference to a published index, as determined by the Board and set forth in the Option Agreement.

“**Insider**” means an Officer, a Director of the Company or other person whose transactions in Shares are subject to Section 16 of the Exchange Act.

“**International Awards**” has the meaning set forth in Section 3.5 of the Plan.

“**Involuntary Termination**” means termination of a Participant’s Continuous Service under the following circumstances occurring on or after a Change in Control:

(i) termination without Cause by the Company or an Affiliate or successor thereto, as appropriate; or

(ii) voluntary resignation by the Participant through the following actions: (1) the Participant provides the Company with written notice of the existence of one of the events, arising without the Participant’s consent, listed in clauses (A) through (C) below, within 30 days of the initial existence of such event; (2) the Company fails to cure such event within 30 days following the date such notice is given; and (3) the Participant elects to voluntarily terminate employment within the 90 day period immediately following such event. The events include: (A) a material reduction in the Participant’s authority, duties, and responsibilities, provided that a mere change in the Participant’s title shall not trigger an Involuntary Termination; (B) the Participant being required to relocate his place of employment, other than a relocation within 50 miles of the Participant’s principal work site at the time of the Change in Control; or (C) a material reduction in the Participant’s Base Salary other than any such reduction consistent with a general reduction of pay for similarly situated Participants.

“**ISO-Qualifying Corporation**” has the meaning set forth in Section 6.2.1 of the Plan.

“**Non-ISO**” means an Option not intended to qualify as an Incentive Stock Option, as designated in the applicable Award Agreement.

“**Notice of Grant**” means the document that the Administrator determines will be used to notify Participants of Awards granted to them.

“**Officer**” means any person designated by the Board as an officer of the Company.

“**Option**” means a right to purchase Shares at a price and on terms and conditions determined in accordance with the Plan.

“**Option Exchange Program**” means any program instituted by the Board that would permit either (i) Participants the opportunity to transfer any outstanding Options or SARs to a financial institution selected by the Board or (ii) the cancellation of outstanding Options or SARs and the grant in substitution therefore of any new Awards, including specifically any new Options or SARs having a lower exercise price.

“**Participant**” means any Eligible Person who holds one or more outstanding Awards.

“**Participating Company Group**” means all corporations that are then Participating Employers.

“**Participating Employer**” means the Company and each Subsidiary that has been authorized by the Committee to participate in this Plan.

“**Performance-Based Award**” means an Award granted to a Covered Employee pursuant to the Plan, but which is subject to the terms and conditions set forth in Section 10. All Performance-Based Awards are intended to qualify as qualified performance-based compensation under Section 162(m).

“**Performance Goal**” means the criteria that the Committee uses to establish qualified performance-based compensation under Section 162(m) and the formulas for determining whether such performance targets have been obtained. Such Performance Goals may be based on one or more Performance Measures, subject to the following: Performance Measures shall have the same meanings as used in the Company’s financial statements, or, if such terms are not used in the Company’s financial statements, they shall have the meaning applied pursuant to generally accepted accounting principles, or as used generally in the Company’s industry. Performance Measures shall be calculated with respect to the Company and each Affiliate consolidated therewith for

financial reporting purposes or such division or other business unit as may be selected by the Committee. For purposes of the Plan, the Performance Measures applicable to a Performance-Based Award shall be calculated in accordance with generally accepted accounting principles, but prior to the accrual or payment of any Performance-Based Award for the same Performance Period and excluding the effect (whether positive or negative) of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Performance-Based Award. Performance targets may include minimum, maximum, target level and intermediate levels of performance, with the final value of a Performance-Based Award determined under the applicable Performance-Based Award formula by the level attained during the applicable Performance Period. A Performance target may be stated as an absolute value or as a value determined relative to a standard selected by the Committee.

“Performance Measures” may be one or more of the following, or a combination of any of the following, as determined by the Committee: (i) revenue; (ii) gross margin; (iii) operating margin; (iv) operating income; (v) pre-tax profit; (vi) earnings before interest, taxes, depreciation and amortization (“EBITDA”); (vii) net income; (viii) cash flow; (ix) expenses; (x) the market price of the Shares; (xi) earnings per share; (xii) return on stockholder equity; (xiii) return on capital; (xiv) return on net assets; (xv) economic value added; (xvi) number of customers; (xvii) market share; (xviii) return on investment; (xix) profit after tax; (xx) customer satisfaction; (xxi) growth of earnings before interest and taxes; (xxii) days sales outstanding (“DSOs”); (xxiii) EBITDA margin; (xxiv) adjusted EBITDA margin; and (xxv) adjusted EBITDA.

“Performance Period” means a period established by the Committee pursuant to Section 10 of the Plan at the end of which one or more Performance Goals are to be measured.

“Person” means any natural person, association, trust, business trust, cooperative, corporation, general partnership, joint venture, joint-stock company, limited partnership, limited liability company, real estate investment trust, regulatory body, governmental agency or instrumentality, unincorporated organization or organizational entity.

“Plan” means this Kratos Defense & Security Solutions, Inc. 2011 Equity Incentive Plan.

“Recapture,” “Rescission,” “Reimbursement” have the meanings set forth in Section 16 of the Plan.

“Recoupment” has the meaning set forth in Section 17 of the Plan.

“Replacement Awards” has the meaning set forth in Section 3.4 of the Plan.

“Reporting Person” means an Employee, Director, or Consultant who is subject to the reporting requirements set forth under Rule 16b-3.

“Restricted Share” means a Share that is subject to restrictions imposed under Section 8, and may be subject to risk of forfeiture.

“Restricted Share Units” or **“RSU”** means a right granted to a Participant to receive Shares or cash on the lapse of restrictions imposed under the Plan.

“Restriction Period” has the meaning set forth in Section 8.1 of the Plan.

“Retirement” means a Participant’s termination of employment after age 65.

“Rule 16b-3” means Rule 16b-3 promulgated under the Exchange Act, as amended from time to time, or any successor provision.

“Section 162(m)” means Section 162(m) of the Code.

“Section 280G” has the meaning set forth in Section 14.7 of the Plan.

“Section 83(b) Election” has the meaning set forth in Section 8.4 of the Plan.

“Securities Act” means the Securities Act of 1933, as amended.

“Share” means a share of Common Stock of the Company, as adjusted in accordance with Section 14 of the Plan (also referred to as **“Stock”**).

“Share Appreciation Right” or **“SAR”** means a right to receive amounts awarded under Section 7.

“Subsidiary” means any corporation or other entity, a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

“Successor Company” has the meaning set forth in Section 14.3 of the Plan.

“Ten Percent Holder” means a person who owns (within the meaning of Code Section 422) stock representing more than ten percent (10%) of the combined voting power of all classes of stock of the Company.

“Termination” has the meaning set forth in Section 16 of the Plan.

“Unrestricted Shares” mean Shares (without restrictions) awarded pursuant to the Plan.

Withholding Taxes means the aggregate minimum amount of federal, state, local and foreign income, payroll and other taxes that the Company and any Affiliates are required to withhold in connection with any Award.

PAUL
HASTINGS

October 24, 2011

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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 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 register under the Securities Act of 1933, as amended (the "Securities Act"), 2,297,797 shares (the "Shares") of the Company's common stock, \$0.001 par value per share (the "Common Stock"), including the preferred stock purchase rights associated with such Shares, consisting of (i) 47,797 Shares issuable upon the exercise of outstanding options assumed by the Company pursuant to the terms of the Agreement and Plan of Merger, dated May 15, 2011 (the "Merger Agreement"), by and among the Company, IRIS Merger Sub Inc., a Maryland corporation and a direct wholly owned subsidiary of the Company, IRIS Acquisition Sub LLC, a single member Maryland limited liability company and a direct wholly owned subsidiary of the Company, and Integral Systems, Inc., a Maryland corporation ("Integral"), and governed by the following stock option plans of Integral: (a) the Amended and Restated 2002 Stock Option Plan and (b) the 2008 Stock Incentive Plan (together, the "Integral Plans"), (ii) 2,000,000 Shares issuable under the Company's 2011 Equity Incentive Plan (the "2011 Plan"), and (iii) 250,000 Shares issuable under the Company's Amended and Restated 1999 Employee Stock Purchase Plan (the "ESPP" and, collectively with the Integral Plans and the 2011 Plan, the "Plans").

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

- (i) the Amended and Restated Certificate of Incorporation of the Company, certified as of July 21, 2011 by the Secretary of State of the State of Delaware;
- (ii) the Second Amended and Restated Bylaws of the Company;
- (iii) a certificate from 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 as of October 21, 2011 (the "Good Standing Certificate");
- (iv) the Registration Statement;

Paul Hastings LLP | 4747 Executive Drive | Twelfth Floor | San Diego, CA 92121
t: +1.858.458.3000 | www.paulhastings.com

- (v) the Plans;
- (vi) the Merger Agreement;
- (vii) the resolutions adopted by the Company's board of directors on March 10, 2011 and May 15, 2011; and
- (viii) the minutes of the 2011 annual meeting of the Company's stockholders held on May 27, 2011.

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 expressed below, 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 photocopy, electronic, certified, conformed, facsimile and other copies submitted to us of original agreements, instruments, corporate records, certificates and other documents conform to the original agreements, instruments, corporate records, certificates and other documents, and that all such original agreements, instruments, corporate records, certificates and other documents were authentic and complete; (iv) the legal capacity and authority of all individuals executing agreements, instruments, corporate records, certificates and other documents submitted to us; (v) the due authorization, execution and delivery of all agreements, instruments, corporate records, 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; (vii) that there has not been any change in the good standing status of the Company from that reported in the Good Standing Certificate; and (viii) that the officers and directors of the Company have properly exercised their fiduciary duties. As to all questions of fact material to this opinion letter, 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, when issued and sold as described in the Registration Statement and in accordance with the terms of the Merger Agreement, the applicable 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 respect to the applicability or effect of the laws of any jurisdiction other than the Delaware General Corporation Law, the applicable provisions of the Delaware Constitution and reported judicial decisions interpreting these laws, as in effect on the date hereof.

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

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This opinion letter is rendered solely to you in connection with the issuance and delivery of the Shares as described in the Registration Statement and in accordance with the terms of the Merger Agreement, the applicable Plans and the applicable award agreements thereunder. 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 or a 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 such 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 or 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 1, 2011 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 26, 2010 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
October 24, 2011

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 of Kratos Defense & Security Solutions, Inc. of our report dated March 12, 2010 on the consolidated financial statements of Henry Bros. Electronics, Inc. and Subsidiaries as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 included in the Current Report on Form 8-K/A filed by Kratos Defense & Security Solutions, Inc. on February 4, 2011.

/s/ AMPER, POLITZINER & MATTIA LLP
October 24, 2011

Edison, New Jersey

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 of Kratos Defense & Security Solutions, Inc. (including any post-effective amendments or prospectus supplements related thereto), to be dated on or about October 24, 2011, of our report dated March 24, 2010 on the consolidated financial statements of Gichner Holdings, Inc. and Subsidiaries as of and for the periods ending December 31, 2009 and 2008, our report dated April 4, 2008 on the consolidated financial statements of Gichner Holdings, Inc. and Subsidiaries as of and for the period ending December 31, 2007, and our report dated April 26, 2010 on the combined balance sheet of Gichner Systems Group, LLC and Related Entities as of August 22, 2007 and the related combined statements of operations, equity, and cash flows for the period from January 1, 2007 through August 22, 2007 (collectively, the "Incorporated Financials") and to the reference to our firm under the heading "Experts" in the prospectus which is part of the Registration Statement.

/s/ PLANTE & MORAN, PLLC

Cleveland, Ohio

October 24, 2011

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 appearing in the Annual Report on Form 10-K of Herley Industries, Inc. for the fifty-two weeks (52) weeks ended August 1, 2010. We also consent to the incorporation by reference of said report in the Registration Statements of Kratos Defense & Security Solutions, Inc. on the following Forms S-8: File No. 333-90455, File No. 333-54818, File No. 333-71702, File No. 333-91852, File No. 333-116903, File No. 333-124957, File No. 333-127060, File No. 333-155317, File No. 333-157826, File No. 333-171257 and File No. 333-167839.

We 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
October 24, 2011

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-4 (File No. 333-174745) and on Forms S-8 (File No. 333-90455, File No. 333-54818, File No. 333-71702, File No. 333-91852, File No. 333-116903, File No. 333-124957, File No. 333-127060, File No. 333-155317, File No. 333-157826, File No. 333-171257, 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

October 24, 2011

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
October 24, 2011

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
October 24, 2011

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. Amended and Restated 2002 Stock Option Plan, Integral Systems, Inc. 2008 Stock Incentive Plan, Amended and Restated 1999 Employee Stock Purchase Plan and the 2011 Equity Incentive 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
October 24, 2011
