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

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**FORM S-8**

**REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

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**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)

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**Herley Industries, Inc. 1996 Stock Option Plan  
Herley Industries, Inc. 1997 Stock Option Plan  
Herley Industries, Inc. 1998 Stock Option Plan  
Herley Industries, Inc. 2000 Stock Option Plan  
Herley Industries, Inc. 2003 Stock Option Plan  
Herley Industries, Inc. Amended and Restated 2006 New Employee Stock Option Plan**  
(Full titles of the plans)

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**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)

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**Copy to:**

**Deyan Spiridonov, Esq.**  
**Teri O'Brien, Esq.**  
Paul, Hastings, Janofsky & Walker LLP  
4747 Executive Drive, 12<sup>th</sup> 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.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

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Title of securities to be registered(1)(2)	Amount to be registered (3)	Proposed maximum offering price per share(4)	Proposed maximum aggregate offering price	Amount of registration fee
<b>Herley Industries, Inc. 1996 Stock Option Plan</b> Common Stock, par value \$0.001 per share	9,455	\$ 14.47	\$ 136,813.85	\$ 15.88
<b>Herley Industries, Inc. 1997 Stock Option Plan</b> Common Stock, par value \$0.001 per share	17,746	\$ 14.47	\$ 256,784.62	\$ 29.81
<b>Herley Industries, Inc. 1998 Stock Option Plan</b> Common Stock, par value \$0.001 per share	354,030	\$ 14.47	\$ 5,122,814.10	\$ 594.76
<b>Herley Industries, Inc. 2000 Stock Option Plan</b> Common Stock, par value \$0.001 per share	337,375	\$ 14.47	\$ 4,881,816.25	\$ 566.78
<b>Herley Industries, Inc. 2003 Stock Option Plan</b> Common Stock, par value \$0.001 per share	29,685	\$ 13.92	\$ 413,215.20	\$ 47.97
<b>Herley Industries, Inc. Amended and Restated 2006 New Employee Stock Option Plan</b> Common Stock, par value \$0.001 per share	6,747	\$ 15.70	\$ 105,927.90	\$ 12.30

- (1) Pursuant to an Agreement and Plan of Merger, dated February 7, 2011 (the “**Merger Agreement**”), by and among Kratos Defense & Security Solutions, Inc., a Delaware corporation (the “**Registrant**”), Lanza Acquisition Co., a Delaware corporation and wholly-owned subsidiary of the Registrant, and Herley Industries, Inc., a Delaware corporation (“**Herley**”), the Registrant assumed certain outstanding options to purchase stock of Herley issued pursuant to the plans listed below (the “**Herley Plans**”). Pursuant to the terms of the Merger Agreement, (i) all out-of-the-money options to purchase Herley common stock were assumed by the Registrant, and (ii) in-the-money-options to purchase Herley common stock for which the holder thereof did not elect a cash out of such options pursuant to the terms of the Merger Agreement were also assumed by the Registrant, and each such option was converted into the right to receive shares of the Registrant’s common stock, par value \$0.001 per share (“**Common Stock**”).
- (2) Each share of 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.
- (3) Pursuant to Rule 416(a) of the Securities Act of 1933, as amended (the “**Securities Act**”), this Registration Statement shall also cover any additional shares of 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) 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 Herley Plan.

## INTRODUCTORY NOTE

On March 30, 2011, the Registrant completed the previously announced merger (the “**Merger**”) of Lanza Acquisition Co., an indirect, wholly-owned subsidiary of the Registrant, with and into Herley, whereby Herley became a wholly-owned subsidiary of the Registrant. Upon the completion of the Merger, (i) all out-of-the-money options to purchase Herley common stock were assumed by the Registrant, and (ii) in-the-money-options to purchase Herley common stock for which the holder thereof did not elect a cash out of such options pursuant to the terms of the Merger Agreement were also assumed by the Registrant (collectively, the “**Herley Options**”), and each such option was converted into and became an option to purchase Common Stock of the Registrant and the Registrant assumed each Herley Option in accordance with the terms (as in effect as of the date of the Merger Agreement) of the applicable Herley Plan and the option agreement pursuant to which such Herley Option was granted.

## 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 Securities and Exchange Commission (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 Current Reports on Form 8-K filed with the SEC 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 and April 7, 2011;
- (c) 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 SEC on May 25, 2010;

(d) The description of the Registrant's 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

(e) 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 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 de-registers 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 documents. Any statement contained in a 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 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.

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**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.

The foregoing summaries are necessarily subject to the complete text of the statutes, the Company's amended and restated certificate of incorporation and second amended and restated bylaws, and the arrangements referred to above and are qualified in their entirety by reference thereto.

**Item 7. Exemption From Registration Claimed.**

Not applicable.

**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	

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4.6	Certificate of Designation of Series C Preferred Stock	8-K	12/17/04	3.1	
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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	Herley Industries, Inc. 1996 Stock Option Plan.				X
4.11	Herley Industries, Inc. 1997 Stock Option Plan.				X
4.12	Herley Industries, Inc. 1998 Stock Option Plan.				X
4.13	Herley Industries, Inc. 2000 Stock Option Plan.				X
4.14	Herley Industries, Inc. 2003 Stock Option Plan.				X
4.15	Herley Industries, Inc. Amended and Restated 2006 New Employee Stock Option Plan.				X
5.1	Opinion of Paul, Hastings, Janofsky & Walker LLP.				X
23.1	Consent of Paul, Hastings, Janofsky & Walker 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
24.1	Power of Attorney (contained on the signature pages of this Registration Statement).				X

**Item 9. Undertakings.**

(a) The undersigned Registrant hereby undertakes:

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

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

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

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

*Provided, however,* that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if 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.

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(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 of 1933, 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 8th day of April, 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 Deborah Butera his or her attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Registration Statement on Form S-8 (including post-effective amendments), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, 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>	April 8, 2011
<u>/s/ Deanna H. Lund</u> Deanna H. Lund	Executive Vice President and Chief Financial Officer <i>(Principal Financial Officer)</i>	April 7, 2011
<u>/s/ Laura L. Siegal</u> Laura L. Siegal	Vice President and Corporate Controller <i>(Principal Accounting Officer)</i>	April 7, 2011
<u>/s/ Scott I. Anderson</u> Scott I. Anderson	Director	April 7, 2011
<u>/s/ Bandel L. Carano</u> Bandel L. Carano	Director	April 7, 2011
<u>/s/ William A. Hoglund</u> William A. Hoglund	Director	April 7, 2011
<u>/s/ Scot B. Jarvis</u> Scot B. Jarvis	Director	April 7, 2011
<u>/s/ Jane E. Judd</u> Jane E. Judd	Director	April 7, 2011
<u>/s/ Samuel N. Liberatore</u> Samuel N. Liberatore	Director	April 7, 2011

**EXHIBIT INDEX**

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			<b>End Date</b>		
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HERLEY INDUSTRIES, INC.  
1996 STOCK OPTION PLAN

SECTION 1. GENERAL PROVISIONS

1.1. Name and General Purpose

The name of this plan is the Herley Industries, Inc. 1996 Stock Option Plan (hereinafter called the “Plan”). The purpose of the Plan is to enable Herley Industries, Inc. (the “Company”) and its subsidiaries and affiliates to foster and promote the interests of the Company by attracting and retaining officers and employees of the Company who contribute to the Company’s success by their ability, ingenuity and industry, to enable such officers and employees of the Company to participate in the long-term success and growth of the Company by giving them a proprietary interest in the Company and to provide incentive compensation opportunities competitive with those of competing corporations.

1.2 Definitions

- a. “Affiliate” means any person or entity controlled by or under common control with the Company, by virtue of the ownership of voting securities, by contract or otherwise.
  - b. “Board” means the Board of Directors of the Company.
  - c. “Change in Control” means a change of control of the Company, or in any person directly or indirectly controlling the Company, which shall mean:
    - (a) a change in control as such term is presently defined in Regulation 240.12b-(f) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”); or
    - (b) if any “person” (as such term is used in Section 13(d) and 14(d) of the Exchange Act) other than the Company or any “person” who on the date of this Agreement is a director or officer of the Company, becomes the “beneficial owner” (as defined in Rule 13(d)-3 under the Exchange Act) directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the voting power of the Company’s then outstanding securities; or
    - (c) if during any period of two (2) consecutive years during the term of this Plan, individuals who at the beginning of such period constitute the Board of Directors, cease for any reason to constitute at least a majority thereof.
  - d. “Code” means the Internal Revenue Code of 1986, as amended.
  - e. “Committee” means the Committee referred to in Section 1.3 of the Plan.
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- f. “Common Stock” means shares of the Common Stock, par value \$.10 per share, of the Company.
  - g. “Company” means Herley Industries, Inc., a corporation organized under the laws of the State of Delaware (or any successor corporation).
  - h. “Disinterested Person” shall have the meaning set forth in Rule 16b-3(c)(2) as promulgated by the Securities and Exchange Commission (the “Commission”); provided, that such person is also an “outside director” as set forth in Section 162(m) of the Code and the regulations promulgated thereunder.
  - i. “Fair Market Value” means the market price of the Common Stock on the National Association of Securities Dealers Automated Quotation (“NASDAQ”) system on the date of the grant or on any other date on which the Common Stock is to be valued hereunder. If no sale shall have been reported on NASDAQ on such date, Fair Market Value shall be determined by the Committee in accordance with the Treasury Regulations applicable to incentive stock options under Section 422 of the Code.
  - j. “Incentive Stock Option” means an Incentive Stock Option as described in Section 2.1 of the Plan.
  - k. “Non-Qualified Stock Option” means a Non-Qualified Stock Option as described in Section 2.1 of the Plan.
  - l. “Option” means any option to purchase Common Stock under Section 2 of the plan.
  - m. “Participant” means any officer or employee of the Company, a Subsidiary or an Affiliate who is selected by the Committee to participate in the Plan.
  - n. “Subsidiary” means any corporation in which the Company possesses directly or indirectly 50% or more of the combined voting power of all classes of stock of such corporation.
  - o. “Total Disability” means accidental bodily injury or sickness which wholly and continuously disabled an optionee. The Committee, whose decisions shall be final, shall make a determination of Total Disability.
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1.3 Administration of the Plan

The Plan shall be administered by the Committee appointed by the Board consisting of two or more members of the Board all of whom shall be Disinterested Persons. The Committee shall serve at the pleasure of the Board and shall have such powers as the Board may, from time to time, confer upon it.

Subject to this Section 1.3, the Committee shall have sole and complete authority to adopt, alter, amend or revoke such administrative rules, guidelines and practices governing the operation of the Plan as it shall, from time to time, deem advisable, and to interpret the terms and provisions of the Plan.

The Committee shall keep minutes of its meetings and of action taken by it without a meeting. 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, or acts approved in writing by all of the members of the Committee without a meeting, shall constitute the acts of the Committee.

#### 1.4 Eligibility

Stock options may be granted only to regular full-time and part-time employees of the Company or a Subsidiary or Affiliate. Subject to Section 2.3, any person who has been granted any Option may, if he is otherwise eligible, be granted an additional Option or Options. Those directors who are not regular employees are not eligible.

#### 1.5 Shares

The aggregate number of shares reserved for issuance pursuant to the Plan shall be 500,000 shares of Common Stock, or the number and kind of shares of stock or other securities which shall be substituted for such shares or to which such shares shall be adjusted as provided in Section 1.6.

Such number of shares may be set aside out of the authorized but unissued shares of Common Stock or out of issued shares of Common Stock acquired for and held in the Treasury of the Company, not reserved for any other purpose. Shares subject to, but not sold or issued under, any Option terminating or expiring for any reason prior to its exercise in full will again be available for Options thereafter granted during the balance of the term of the Plan.

#### 1.6 Adjustments Due to Stock Splits, Mergers, Consolidation, Etc.

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

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

In the event of a Change in Control, (a) all options outstanding on the date of such Change in Control shall, for a period of sixty (60) days following such Change in Control, become immediately and fully exercisable, and (b) an optionee will be permitted to surrender for cancellation within sixty (60) days after such Change in Control any option or portion of an option which was granted more than six (6) months prior to the date of such surrender, to the extent not yet exercised, and to receive a cash payment in an amount equal to the excess, if any, of the Fair Market Value (on the date of surrender) of the shares of Common Stock subject to the option or portion thereof surrendered, over the aggregate purchase price for such Shares under the option.

#### 1.7 Non-Alienation of Benefits

Except as herein specifically provided, no right or unpaid benefit under the Plan shall be subject to alienation, assignment, pledge or charge and any attempt to alienate, assign, pledge or charge the same shall be void. If any Participant or other person entitled to benefits hereunder should attempt to alienate, assign, pledge or charge any benefit hereunder, then such benefit shall, in the discretion of the Committee, cease.

#### 1.8 Withholding or Deduction for Taxes

If, at any time, the Company or any Subsidiary or Affiliate is required, under applicable laws and regulations, to withhold, or to make any deduction for any taxes, or take any other action in connection with any Option exercise, the Participant shall be required to pay to the Company or such Subsidiary or Affiliate, the amount of any taxes required to be withheld, or, in lieu thereof, at the option of the Company, the Company or such Subsidiary or Affiliate may accept a sufficient number of shares of Common Stock to cover the amount required to be withheld.

#### 1.9 Administrative Expenses

The entire expense of administering the Plan shall be borne by the Company.

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#### 1.10 General Conditions

- a. The Board or the Committee may, from time to time, amend, suspend or terminate any or all of the provisions of the Plan, provided that, without the Participant's approval, no change may be made which would prevent an Incentive Stock Option granted under the Plan from qualifying as an Incentive Stock Option under Section 422 of the Code or result in a "modification" of the Incentive Stock Option under Section 424(h) of the Code or otherwise alter or impair any right theretofore granted to any Participant; and further provided that, without the consent and approval of the holders of a majority of the outstanding shares of Common Stock of the Company present

at a meeting at which a quorum exists, neither the Board nor the Committee may make any amendment which (i) changes the class of persons eligible for options; (ii) increases (except as provided under Section 1.6 above) the total number of shares or other securities reserved for issuance under the Plan; (iii) decreases the minimum option prices stated in Section 2.2 hereof (other than to change the manner of determining Fair Market Value to conform to any then applicable provision of the Code or any regulation thereunder); (iv) extends the expiration date of the Plan, or the limit on the maximum term of Options; or (v) withdraws the administration of the Plan from a committee consisting of two or more members, each of whom is a Disinterested Person.

- b. With the consent of the Participant affected thereby, the Committee may amend or modify any outstanding Option in any manner not inconsistent with the terms of the Plan, including, without limitation, and irrespective of the provisions of Sections 2.3(c) and 2.4(b) below, to accelerate the date or dates as of which an installment of an Option becomes exercisable.
- c. Nothing contained in the Plan shall prohibit the Company or any Subsidiary or Affiliate from establishing other additional incentive compensation arrangements for employees of the Company or such Subsidiary or Affiliate.
- d. Nothing in the Plan shall be deemed to limit, in any way, the right of the Company or any Subsidiary or Affiliate to terminate a Participant's employment with the Company (or such Subsidiary or Affiliate) at any time.
- e. Any decision or action taken by the Board or the Committee arising out of or in connection with the construction, administration, interpretation and effect of the Plan shall be conclusive and binding upon all Participants and any person claiming under or through any Participant.
- f. No member of the Board or of the Committee shall be liable for any act or action, whether of commission or omission, (i) by such

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member except in circumstances involving actual bad faith, nor (ii) by any other member or by any officer, agent or employee.

#### 1.11 Compliance with Applicable Law

Notwithstanding any other provision of the Plan, the Company shall not be obligated to issue any shares of Common Stock, or grant any Option with respect thereto, unless it is advised by counsel of its selection that it may do so without violation of the applicable Federal and State laws pertaining to the issuance of securities and the Company may require any stock certificate so issued to bear a legend, may give its transfer agent instructions limiting the transfer thereof, and may take such other steps, as in its judgment are reasonably required to prevent any such violation.

#### 1.12 Effective Dates

The Plan was adopted by the Board on October 17, 1995, subject to approval by the stockholders of the Company. The Plan shall terminate on October 16, 2005.

### Section 2. OPTION GRANTS

#### 2.1 Authority of Committee

Subject to the provisions of the Plan, the Committee shall have the sole and complete authority to determine (i) the Participants to whom Options shall be granted; (ii) the number of shares to be covered by each Option; and (iii) the conditions and limitations, if any, in addition to those set forth in Sections 2 and 3 hereof, applicable to the exercise of an Option, including without limitation, the nature and duration of the restrictions, if any, to be imposed upon the sale or other disposition of shares acquired upon exercise of an Option.

Stock options granted under the Plan may be of two types: an incentive stock option ("Incentive Stock Option"); and a non-qualified stock option ("Non-Qualified Stock Option").

It is intended that the Incentive Stock Options granted hereunder shall constitute incentive stock options within the meaning of Section 422 of the Code and shall be subject to the tax treatment described in Section 422 of the Code.

Anything in the Plan to the contrary notwithstanding, no provision of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify either the Plan or, without the consent of the

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optionee, any Incentive Stock Option under Section 422 of the Code.

The Committee shall have the authority to grant Incentive Stock Options, or to grant Non-Qualified Stock Options, or to grant both types of Options. To the extent that any Option does not qualify as an Incentive Stock Option, in whole or in part, it shall constitute a separate Non-Qualified Stock Option to the extent of such disqualification.

#### 2.2 Option Exercise Price

The price of stock purchased upon the exercise of Options granted pursuant to the Plan shall be the Fair Market Value thereof at the time that the Option is granted.

If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of the stock of the Company or any parent corporation of the Company or Subsidiary and an Option granted to such employee is intended to qualify as an Incentive Stock Option within the meaning of Section 422 of the Code, the exercise price shall be no less than 110% of the Fair Market Value of the Common Stock on the date the Option is granted. The purchase price is to be paid in full in cash, certified or bank cashier's

check or, at the option of the Company, Common Stock valued at its Fair Market Value on the date of exercise, or a combination thereof, when the Option is exercised and stock certificates will be delivered only against such payment.

### 2.3 Incentive Stock Option Grants

Each Incentive Stock Option will be subject to the following provisions:

a. Term of Option

An Incentive Stock Option will be for a term of not more than ten years from the date of grant, except in the case of an employee described in the second paragraph of Section 2.2 above in which case an Incentive Stock Option will be for a term of not more than five years from the date of the grant.

b. Annual Limit

To the extent the aggregate Fair Market Value of the Common Stock (determined as of the date of grant) with respect to which any options granted hereunder are intended to be designated as Incentive Stock Options under the Plan (or any other incentive stock option plan of the Company or any Subsidiary) which may be exercisable for the first time by the optionee in any calendar year exceeds \$100,000, such options shall not be considered incentive stock options.

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c. Exercise

Subject to the power of the Committee under Section 1.10(b) above and except in the manner described below upon the death of the optionee, an Incentive Stock Option may be exercised for all of the subject shares on and after the first such anniversary of the date of the grant of such Option but in no event later than the expiration of the term of the Option.

An Incentive Stock Option shall be exercisable during the optionee's lifetime only by the optionee and shall not be exercisable by the optionee unless, at all times since the date of grant and at the time of exercise, such optionee is an employee of the Company, any parent corporation of the Company or any Subsidiary, except that, upon termination of all employment (other than by death or by Total Disability followed by death in the circumstances provided below) with the Company, any parent corporation of the Company and any Subsidiary or Affiliate, the optionee may exercise an Incentive Stock Option at any time within three months thereafter but only to the extent such Option is exercisable on the date of such termination.

If termination of employment is the result of the optionee having reached normal retirement age, option grants continue to be exercisable for five years after retirement but in no event later than the expiration of the term of the Option.

In the event of the death of an optionee (i) while an employee of the Company, any parent corporation of the Company or any Subsidiary or Affiliate, or (ii) within three months after termination of all employment with the Company, any parent corporation of the Company and any Subsidiary or Affiliate (other than for Total Disability) or (iii) within three months after termination on account of Total Disability of all employment with the Company, any parent corporation of the Company and any Subsidiary, such optionee's estate or any person who acquires the right to exercise such option by bequest or inheritance or by reason of the death of the optionee may exercise such option at any time within the period of one year from the date of death. In the case of clauses (i) and (iii) above, such Option shall be exercisable in full for all the remaining shares covered thereby, but in the case of clause (ii) such Option shall be exercisable only to the extent it was exercisable on the date of such termination.

If an optionee's employment is terminated for deliberate, willful or gross misconduct, all rights under an Option expire upon receipt by the optionee of the notice of such termination.

Notwithstanding the foregoing provisions regarding the exercise of an Option in the event of death, Total Disability or other termination of employment, in no event shall an Option be exercisable in whole or in part after the termination date provided in the Option.

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d. Transferability

An Incentive Stock Option granted under the Plan shall not be transferable otherwise than by will or by the laws of descent and distribution.

### 2.4 Non-Qualified Stock Option Grants

Each Non-Qualified Stock Option will be subject to the following provisions:

a. Term of Option

A Non-Qualified Stock Option will be for a term of not more than ten years from the date of grant.

b. Exercise

The exercise of a Non-Qualified Stock Option shall be subject to the same terms and conditions as provided under Section 2.3(c) above.

c. Transferability

A Non-Qualified Stock Option granted under the Plan shall not be transferable otherwise than by will or by the laws of descent and distribution.

## 2.5 Agreements

In consideration of any Options granted to a Participant under the Plan, each such Participant shall enter into an Option Agreement with the Company providing, consistent with the Plan, such terms as the Committee may deem advisable.

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HERLEY INDUSTRIES, INC.  
1997 Stock Option Plan

SECTION 1. GENERAL PROVISIONS

1.1. Name and General Purpose

The name of this plan is the Herley Industries, Inc. 1997 Stock Option Plan (hereinafter called the "Plan"). The purpose of the Plan is to enable Herley Industries, Inc. (the "Company") and its subsidiaries and affiliates to foster and promote the interests of the Company by attracting and retaining officers and employees of the Company who contribute to the Company's success by their ability, ingenuity and industry, to enable such officers and employees of the Company to participate in the long-term success and growth of the Company by giving them a proprietary interest in the Company and to provide incentive compensation opportunities competitive with those of competing corporations.

1.2 Definitions

a. "Affiliate" means any person or entity controlled by or under common control with the Company, by virtue of the ownership of voting securities, by contract or otherwise.

b. "Board" means the Board of Directors of the Company.

c. "Change in Control" means a change of control of the Company, or in any person directly or indirectly controlling the Company, which shall mean:

(a) a change in control as such term is presently defined in Regulation 240.12b-(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); or

(b) if any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act) other than the Company or any "person" who on the date of this Agreement is a director or

officer of the Company, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act) directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the voting power of the Company's then outstanding securities; or

(c) if during any period of two (2) consecutive years during the term of this Plan, individuals who at the beginning of such period constitute the Board of Directors, cease for any reason to constitute at least a majority thereof.

d. "Code" means the Internal Revenue Code of 1986, as amended.

e. "Committee" means the Committee referred to in Section 1.3 of the Plan.

f. "Common Stock" means shares of the Common Stock, par value \$.10 per share, of the Company.

g. "Company" means Herley Industries, Inc., a corporation organized under the laws of the State of Delaware (or any successor corporation).

h. "Fair Market Value" means the market price of the Common Stock on the National Association of Securities Dealers Automated Quotation ("NASDAQ") system on the date of the grant or on any other date on which the Common Stock is to be valued hereunder. If no sale shall have been reported on NASDAQ on such date, Fair Market Value shall be determined by the Committee in accordance with the Treasury Regulations applicable to incentive stock options under Section 422 of the Code.

i. "Incentive Stock Option" means an Incentive Stock Option as

described in Section 2.1 of the Plan.

j. "Non-Employee Director" shall have the meaning set forth in Rule 16(b) promulgated by the Securities and Exchange Commission ("Commission").

k. "Non-Qualified Stock Option" means a Non-Qualified Stock Option as described in Section 2.1 of the Plan.

l. "Option" means any option to purchase Common Stock under Section 2 of the Plan.

m. "Participant" means any officer or employee of the Company, a Subsidiary or an Affiliate who is selected by the Committee to participate in the Plan.

n. "Subsidiary" means any corporation in which the Company possesses directly or indirectly 50% or more of the combined voting power of all classes of stock of such corporation.

o. "Total Disability" means accidental bodily injury or sickness which wholly and continuously disabled an optionee. The Committee, whose decisions shall be final, shall make a determination of Total Disability.

### 1.3 Administration of the Plan

The Plan shall be administered by the Committee appointed by the Board consisting of two or more members of the Board all of who shall be Non-Employee Directors. The Committee shall serve at the pleasure of the Board and shall have such powers as the Board may, from time to time, confer upon it.

Subject to this Section 1.3, the Committee shall have sole and complete authority to adopt, alter, amend or revoke such administrative rules, guidelines and practices governing the operation of the Plan as it shall, from time to time, deem advisable, and to interpret the terms and provisions of the Plan.

The Committee shall keep minutes of its meetings and of action taken by

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it without a meeting. 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, or acts approved in writing by all of the members of the Committee without a meeting, shall constitute the acts of the Committee.

### 1.4 Eligibility

Stock options may be granted only to officers or employees of the Company or a Subsidiary or Affiliate. Subject to Section 2.3, any person who has been granted any Option may, if he is otherwise eligible, be granted an additional Option or Options.

### 1.5 Shares

The aggregate number of shares reserved for issuance pursuant to the Plan shall be 1,666,666 shares of Common Stock, or the number and kind of shares of stock or other securities which shall be substituted for such shares or to which such shares shall be adjusted as provided in Section 1.6.

Such number of shares may be set aside out of the authorized but unissued shares of Common Stock or out of issued shares of Common Stock acquired for and held in the Treasury of the Company, not reserved for any other purpose. Shares subject to, but not sold or issued under, any Option terminating or expiring for any reason prior to its exercise in full will again be available for Options thereafter granted during the balance of the term of the Plan.

### 1.6 Adjustments Due to Stock Splits, Mergers, Consolidation, Etc.

If, at any time, the Company shall take any action, whether by stock dividend, stock split, combination of shares or otherwise, which results in a proportionate increase or decrease in the number of shares of Common Stock

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theretofore issued and outstanding, the number of shares which are reserved for issuance under the Plan and the number of shares which, at such time, are subject to Options shall, to the extent deemed appropriate by the Committee, be increased or decreased in the same proportion, provided, however, that the Company shall not be obligated to issue fractional shares.

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

In the event of a Change in Control, at the option of the Board or Committee, (a) all options outstanding on the date of such Change in Control shall, for a period of sixty (60) days following such Change in Control, become immediately and fully exercisable, and (b) an optionee will be permitted to surrender for cancellation within sixty (60) days after such Change in Control any option or portion of an option which was granted more than six (6) months prior to the date of such surrender, to the extent not yet exercised, and to receive a cash payment in an amount equal to the excess, if any, of the Fair Market Value (on the date of surrender) of the shares of Common Stock subject to the option or portion thereof surrendered, over the aggregate purchase price for such Shares under the option.

### 1.7 Non-Alienation of Benefits

Except as herein specifically provided, no right or unpaid benefit under the Plan shall be subject to alienation, assignment, pledge or charge and any attempt to alienate, assign, pledge or charge the same shall

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be void. If any Participant or other person entitled to benefits hereunder should attempt to alienate, assign, pledge or charge any benefit hereunder, then such benefit shall, in the discretion of the Committee, cease.

### 1.8 Withholding or Deduction for Taxes

If, at any time, the Company or any Subsidiary or Affiliate is required, under applicable laws and regulations, to withhold, or to make any deduction for any taxes, or take any other action in connection with any Option exercise, the Participant shall be required to pay to the Company or such Subsidiary or Affiliate, the amount of any taxes required to be withheld, or, in lieu thereof, at the option of the Company, the Company or such Subsidiary or Affiliate may accept a sufficient number of shares of Common Stock to cover the amount required to be withheld.

### 1.9 Administrative Expenses

The entire expense of administering the Plan shall be borne by the Company.

#### 1.10 General Conditions

a. The Board or the Committee may, from time to time, amend, suspend or terminate any or all of the provisions of the Plan, provided that, without the Participant's approval, no change may be made which would prevent an Incentive Stock Option granted under the Plan from qualifying as an Incentive Stock Option under Section 422 of the Code or result in a "modification" of the Incentive Stock Option under Section 424(h) of the Code or otherwise alter or impair any right theretofore granted to any Participant ; and further provided that, without the consent and approval of the holders of a majority of the outstanding shares of Common Stock of the Company present at a meeting at which a quorum exists,

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neither the Board nor the Committee may make any amendment which (i) changes the class of persons eligible for options; (ii) increases (except as provided under Section 1.6 above) the total number of shares or other securities reserved for issuance under the Plan; (iii) decreases the minimum option prices stated in Section 2.2 hereof (other than to change the manner of determining Fair Market Value to conform to any then applicable provision of the Code or any regulation thereunder); (iv) extends the expiration date of the Plan, or the limit on the maximum term of Options; or (v) withdraws the administration of the Plan from a committee consisting of two or more members, each of whom is a non-employee director.

b. With the consent of the Participant affected thereby, the Committee may amend or modify any outstanding Option in any manner not inconsistent with the terms of the Plan, including, without limitation, and irrespective of the provisions of Sections 2.3(c) and 2.4(b) below, to accelerate the date or dates as of which an installment of an Option becomes exercisable.

c. Nothing contained in the Plan shall prohibit the Company or any Subsidiary or Affiliate from establishing other additional incentive compensation arrangements for employees of the Company or such Subsidiary or Affiliate.

d. Nothing in the Plan shall be deemed to limit, in any way, the right of the Company or any Subsidiary or Affiliate to terminate a Participant's employment with the Company (or such Subsidiary or Affiliate) at any time.

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e. Any decision or action taken by the Board or the Committee arising out of or in connection with the construction, administration, interpretation and effect of the Plan shall be conclusive and binding upon all Participants and any person claiming under or through any Participant.

f. No member of the Board or of the Committee shall be liable for any act or action, whether of commission or omission, (i) by such member except in circumstances involving actual bad faith, nor (ii) by any other member or by any officer, agent or employee.

#### 1.11 Compliance with Applicable Law

Notwithstanding any other provision of the Plan, the Company shall not be obligated to issue any shares of Common Stock, or grant any Option with respect thereto, unless it is advised by counsel of its selection that it may do so without violation of the applicable Federal and State laws pertaining to the issuance of securities and the Company may require any stock certificate so issued to bear a legend, may give its transfer agent instructions limiting the transfer thereof, and may take such other steps, as in its judgment are reasonably required to prevent any such violation.

#### 1.12 Effective Dates

The Plan was adopted by the Board on May 1, 1997. The Plan shall terminate on April 30, 2007.

### Section 2. OPTION GRANTS

#### 2.1 Authority of Committee

Subject to the provisions of the Plan, the Committee shall have the sole and complete authority to determine (i) the Participants to whom Options shall be granted; (ii) the number of shares to be covered by each Option; and (iii) the conditions and limitations, if any, in addition to those set forth in

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Sections 2 and 3 hereof, applicable to the exercise of an Option, including without limitation, the nature and duration of the restrictions, if any, to be imposed upon the sale or other disposition of shares acquired upon exercise of an Option.

Stock options granted under the Plan may be of two types: an incentive stock option ("Incentive Stock Option"); and a non-qualified stock option ("Non-Qualified Stock Option").

It is intended that the Incentive Stock Options granted hereunder shall constitute incentive stock options within the meaning of Section 422 of the Code and shall be subject to the tax treatment described in Section 422 of the Code.

Anything in the Plan to the contrary notwithstanding, no provision of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify either the Plan or, without the consent of the optionee, any Incentive Stock Option under Section 422 of the Code.

The Committee shall have the authority to grant Incentive Stock Options, or to grant Non-Qualified Stock Options, or to grant both types of Options. To the extent that any Option does not qualify as an Incentive Stock Option, in whole or in part, it shall constitute a separate Non-Qualified Stock Option to the

extent of such disqualification.

## 2.2 Option Exercise Price

The price of stock purchased upon the exercise of Options granted pursuant to the Plan shall be the Fair Market Value thereof at the time that the Option is granted.

If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined

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voting power of all classes of the stock of the Company or any parent corporation of the Company or Subsidiary and an Option granted to such employee is intended to qualify as an Incentive Stock Option within the meaning of Section 422 of the Code, the exercise price shall be no less than 110% of the Fair Market Value of the Common Stock on the date the Option is granted. The purchase price is to be paid in full in cash, certified or bank cashier's check or, at the option of the Company, Common Stock valued at its Fair Market Value on the date of exercise, or a combination thereof, when the Option is exercised and stock certificates will be delivered only against such payment.

## 2.3 Incentive Stock Option Grants

Each Incentive Stock Option will be subject to the following provisions:

### a. Term of Option

An Incentive Stock Option will be for a term of not more than ten years from the date of grant, except in the case of an employee described in the second paragraph of Section 2.2 above in which case an Incentive Stock Option will be for a term of not more than five years from the date of the grant.

### b. Annual Limit

To the extent the aggregate Fair Market Value of the Common Stock (determined as of the date of grant) with respect to which any options granted hereunder are intended to be designated as Incentive Stock Options under the Plan (or any other incentive stock option plan of the Company or any Subsidiary) which may be exercisable for the first time by the optionee in any calendar year exceeds \$100,000, such options shall not be considered incentive stock options.

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### c. Exercise

Subject to the power of the Committee under Section 1.10(b) above and except in the manner described below upon the death of the optionee, an Incentive Stock Option may be exercised only in installments as follows: up to one-half of the subject shares on and after the first anniversary of the date of grant, up to all of the subject shares on and after the second such anniversary of the date of the grant of such Option but in no event later than the expiration of the term of the Option.

An Incentive Stock Option shall be exercisable during the optionee's lifetime only by the optionee and shall not be exercisable by the optionee unless, at all times since the date of grant and at the time of exercise, such optionee is an employee of the Company, any parent corporation of the Company or any Subsidiary, except that, upon termination of all employment (other than by death, Total Disability, or by Total Disability followed by death in the circumstances provided below) with the Company, any parent corporation of the Company and any Subsidiary or Affiliate, the optionee may exercise an Incentive Stock Option at any time within three months thereafter but only to the extent such Option is exercisable on the date of such termination.

Upon termination of all employment by Total Disability, the Optionee may exercise such options at any time within one year thereafter, but only to the extent such option is exercisable on the date of such termination.

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In the event of the death of an optionee (i) while an employee of the Company, any parent corporation of the Company or any Subsidiary or Affiliate, or (ii) within three months after termination of all employment with the Company, any parent corporation of the Company and any Subsidiary or Affiliate (other than for Total Disability) or (iii) within one year after termination on account of Total Disability of all employment with the Company, any parent corporation of the Company and any Subsidiary or Affiliate, such optionee's estate or any person who acquires the right to exercise such option by bequest or inheritance or by reason of the death of the optionee may exercise such optionee's Option at any time within the period of three years from the date of death. In the case of clauses (i) and (iii) above, such Option shall be exercisable in full for all the remaining shares covered thereby, but in the case of clause (ii) such Option shall be exercisable only to the extent it was exercisable on the date of such termination.

Notwithstanding the foregoing provisions regarding the exercise of an Option in the event of death, Total Disability or other termination of employment, in no event shall an Option be exercisable in whole or in part after the termination date provided in the Option.

### d. Transferability

An Incentive Stock Option granted under the Plan shall not be transferable otherwise than by will or by the laws of descent and distribution.

## 2.4 Non-Qualified Stock Option Grants

Each Non-Qualified Stock Option will be subject to the following provisions:

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a. Term of Option

A Non-Qualified Stock Option will be for a term of not more than ten years from the date of grant.

b. Exercise

The exercise of a Non-Qualified Stock Option shall be subject to the same terms and conditions as provided under Section 2.3(c) above except that (i) upon termination of all employment by Total Disability, the Optionee may exercise such options at any time within three years thereafter and (ii) in the event of the death of an Optionee within three years after termination on account of Total Disability of all employment with the Company, or any subsidiary or affiliate, such Optionee's estate or any person who acquires the right to exercise such option by bequest or inheritance or by reason of the death of the Optionee may exercise such Optionee's option at any time within a period of three years from the date of death.

c. Transferability

A Non-Qualified Stock Option granted under the Plan shall not be transferable otherwise than by will or by the laws of descent and distribution, except as may be permitted by the Board or the Committee.

## 2.5 Agreements

In consideration of any Options granted to a Participant under the Plan, each such Participant shall enter into an Option Agreement with the Company providing, consistent with the Plan, such terms as the Committee may deem advisable.

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HERLEY INDUSTRIES, INC.  
1998 Stock Option Plan

SECTION 1. GENERAL PROVISIONS

1.1. Name and General Purpose

The name of this plan is the Herley Industries, Inc. 1998 Stock Option Plan (hereinafter called the "Plan"). The purpose of the Plan is to enable Herley Industries, Inc. (the "Company") and its subsidiaries and affiliates to foster and promote the interests of the Company by attracting and retaining officers and employees of the Company who contribute to the Company's success by their ability, ingenuity and industry, to enable such officers and employees of the Company to participate in the long-term success and growth of the Company by giving them a proprietary interest in the Company and to provide incentive compensation opportunities competitive with those of competing corporations.

1.2 Definitions

- a. "Affiliate" means any person or entity controlled by or under common control with the Company, by virtue of the ownership of voting securities, by contract or otherwise.
- b. "Board" means the Board of Directors of the Company.
- c. "Change in Control" means a change of control of the Company, or in any person directly or indirectly controlling the Company, which shall mean:
- (a) a change in control as such term is presently defined in Regulation 240.12b-(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); or
- (b) if any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act) other than the Company or any
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- "person" who on the date of this Agreement is a director or officer of the Company, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act) directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the voting power of the Company's then outstanding securities; or
- (c) if during any period of two (2) consecutive years during the term of this Plan, individuals who at the beginning of such period constitute the Board of Directors, cease for any reason to constitute at least a majority thereof.
- d. "Code" means the Internal Revenue Code of 1986, as amended.
- e. "Committee" means the Committee referred to in Section 1.3 of the Plan.
- f. "Common Stock" means shares of the Common Stock, par value \$.10 per share, of the Company.
- g. "Company" means Herley Industries, Inc., a corporation organized under the laws of the State of Delaware (or any successor corporation).
- h. "Fair Market Value" means the market price of the Common Stock on the National Association of Securities Dealers Automated Quotation ("NASDAQ") system on the date of the grant or on any other date on which the Common Stock is to be valued hereunder. If no sale shall have been reported on NASDAQ on such date, Fair Market Value shall be determined by the Committee in accordance with the Treasury Regulations applicable to incentive stock options under Section 422 of the Code.
- i. "Incentive Stock Option" means an Incentive Stock Option as described in Section 2.1 of the Plan.
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- j. "Non-Employee Director" shall have the meaning set forth in Rule 16(b) promulgated by the Securities and Exchange Commission ("Commission").
- k. "Non-Qualified Stock Option" means a Non-Qualified Stock Option as described in Section 2.1 of the Plan.
- l. "Option" means any option to purchase Common Stock under Section 2 of the Plan.
- m. "Participant" means any officer or employee of the Company, a Subsidiary or an Affiliate who is selected by the Committee to participate in the Plan.
- n. "Subsidiary" means any corporation in which the Company possesses directly or indirectly 50% or more of the combined voting power of all classes of stock of such corporation.
- o. "Total Disability" means accidental bodily injury or sickness which wholly and continuously disabled an optionee. The Committee, whose decisions shall be final, shall make a determination of Total Disability.

1.3 Administration of the Plan

The Plan shall be administered by the Committee appointed by the Board consisting of two or more members of the Board all of who shall be Non-Employee Directors. The Committee shall serve at the pleasure of the Board and shall have such powers as the Board may, from time to time, confer upon it.

Subject to this Section 1.3, the Committee shall have sole and complete authority to adopt, alter, amend or revoke such administrative rules, guidelines and practices governing the operation of the Plan as it shall, from time to time, deem advisable, and to interpret the terms and provisions of the Plan.

The Committee shall keep minutes of its meetings and of action taken by it without a meeting. A majority of the Committee shall constitute a quorum, and

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the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all of the members of the Committee without a meeting, shall constitute the acts of the Committee.

#### 1.4 Eligibility

Stock options may be granted only to officers or employees of the Company or a Subsidiary or Affiliate. Subject to Section 2.3, any person who has been granted any Option may, if he is otherwise eligible, be granted an additional Option or Options.

#### 1.5 Shares

The aggregate number of shares reserved for issuance pursuant to the Plan shall be 1,500,000 shares of Common Stock, or the number and kind of shares of stock or other securities which shall be substituted for such shares or to which such shares shall be adjusted as provided in Section 1.6.

Such number of shares may be set aside out of the authorized but unissued shares of Common Stock or out of issued shares of Common Stock acquired for and held in the Treasury of the Company, not reserved for any other purpose. Shares subject to, but not sold or issued under, any Option terminating or expiring for any reason prior to its exercise in full will again be available for Options thereafter granted during the balance of the term of the Plan.

#### 1.6 Adjustments Due to Stock Splits, Mergers, Consolidation, Etc.

If, at any time, the Company shall take any action, whether by stock dividend, stock split, combination of shares or otherwise, which results in a proportionate increase or decrease in the number of shares of Common Stock theretofore issued and outstanding, the number of shares which are reserved for

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issuance under the Plan and the number of shares which, at such time, are subject to Options shall, to the extent deemed appropriate by the Committee, be increased or decreased in the same proportion, provided, however, that the Company shall not be obligated to issue fractional shares.

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

In the event of a Change in Control, at the option of the Board or Committee, (a) all options outstanding on the date of such Change in Control shall, for a period of sixty (60) days following such Change in Control, become immediately and fully exercisable, and (b) an optionee will be permitted to surrender for cancellation within sixty (60) days after such Change in Control any option or portion of an option which was granted more than six (6) months prior to the date of such surrender, to the extent not yet exercised, and to receive a cash payment in an amount equal to the excess, if any, of the Fair Market Value (on the date of surrender) of the shares of Common Stock subject to the option or portion thereof surrendered, over the aggregate purchase price for such Shares under the option.

#### 1.7 Non-Alienation of Benefits

Except as herein specifically provided, no right or unpaid benefit under the Plan shall be subject to alienation, assignment, pledge or charge and any attempt to alienate, assign, pledge or charge the same shall

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be void. If any Participant or other person entitled to benefits hereunder should attempt to alienate, assign, pledge or charge any benefit hereunder, then such benefit shall, in the discretion of the Committee, cease.

#### 1.8 Withholding or Deduction for Taxes

If, at any time, the Company or any Subsidiary or Affiliate is required, under applicable laws and regulations, to withhold, or to make any deduction for any taxes, or take any other action in connection with any Option exercise, the Participant shall be required to pay to the Company or such Subsidiary or Affiliate, the amount of any taxes required to be withheld, or, in lieu thereof, at the option of the Company, the Company or such Subsidiary or Affiliate may accept a sufficient number of shares of Common Stock to cover the amount required to be withheld.

#### 1.9 Administrative Expenses

The entire expense of administering the Plan shall be borne by the Company.

## 1.10 General Conditions

a. The Board or the Committee may, from time to time, amend, suspend or terminate any or all of the provisions of the Plan, provided that, without the Participant's approval, no change may be made which would prevent an Incentive Stock Option granted under the Plan from qualifying as an Incentive Stock Option under Section 422 of the Code or result in a "modification" of the Incentive Stock Option under Section 424(h) of the Code or otherwise alter or impair any right theretofore granted to any Participant; and further provided that, without the consent and approval of the holders of a majority of the outstanding shares of Common Stock of the Company present at a meeting at which a quorum exists, neither the Board nor the Committee may make any amendment which

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(i) changes the class of persons eligible for options; (ii) increases (except as provided under Section 1.6 above) the total number of shares or other securities reserved for issuance under the Plan; (iii) decreases the minimum option prices stated in Section 2.2 hereof (other than to change the manner of determining Fair Market Value to conform to any then applicable provision of the Code or any regulation thereunder); (iv) extends the expiration date of the Plan, or the limit on the maximum term of Options; or (v) withdraws the administration of the Plan from a committee consisting of two or more members, each of whom is a non-employee director.

b. With the consent of the Participant affected thereby, the Committee may amend or modify any outstanding Option in any manner not inconsistent with the terms of the Plan, including, without limitation, and irrespective of the provisions of Sections 2.3(c) and 2.4(b) below, to accelerate the date or dates as of which an installment of an Option becomes exercisable.

c. Nothing contained in the Plan shall prohibit the Company or any Subsidiary or Affiliate from establishing other additional incentive compensation arrangements for employees of the Company or such Subsidiary or Affiliate.

d. Nothing in the Plan shall be deemed to limit, in any way, the right of the Company or any Subsidiary or Affiliate to terminate a Participant's employment with the Company (or such Subsidiary or Affiliate) at any time.

e. Any decision or action taken by the Board or the Committee

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arising out of or in connection with the construction, administration, interpretation and effect of the Plan shall be conclusive and binding upon all Participants and any person claiming under or through any Participant.

f. No member of the Board or of the Committee shall be liable for any act or action, whether of commission or omission, (i) by such member except in circumstances involving actual bad faith, nor (ii) by any other member or by any officer, agent or employee.

## 1.11 Compliance with Applicable Law

Notwithstanding any other provision of the Plan, the Company shall not be obligated to issue any shares of Common Stock, or grant any Option with respect thereto, unless it is advised by counsel of its selection that it may do so without violation of the applicable Federal and State laws pertaining to the issuance of securities and the Company may require any stock certificate so issued to bear a legend, may give its transfer agent instructions limiting the transfer thereof, and may take such other steps, as in its judgment are reasonably required to prevent any such violation.

## 1.12 Effective Dates

The Plan was adopted by the Board on June 17, 1998. The Plan shall terminate on June 16, 2008.

## Section 2. OPTION GRANTS

### 2.1 Authority of Committee

Subject to the provisions of the Plan, the Committee shall have the sole and complete authority to determine (i) the Participants to whom Options shall be granted; (ii) the number of shares to be covered by each Option; and (iii) the conditions and limitations, if any, in addition to those set forth in Sections 2 and 3 hereof, applicable to the exercise of an Option, including

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without limitation, the nature and duration of the restrictions, if any, to be imposed upon the sale or other disposition of shares acquired upon exercise of an Option.

Stock options granted under the Plan may be of two types: an incentive stock option ("Incentive Stock Option"); and a non-qualified stock option ("Non-Qualified Stock Option").

It is intended that the Incentive Stock Options granted hereunder shall constitute incentive stock options within the meaning of Section 422 of the Code and shall be subject to the tax treatment described in Section 422 of the Code.

Anything in the Plan to the contrary notwithstanding, no provision of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify either the Plan or, without the consent of the optionee, any Incentive Stock Option under Section 422 of the Code.

The Committee shall have the authority to grant Incentive Stock Options, or to grant Non-Qualified Stock Options, or to grant both types of Options. To the extent that any Option does not qualify as an Incentive Stock Option, in whole or in part, it shall constitute a separate Non-Qualified Stock Option to the extent of such disqualification.

## 2.2 Option Exercise Price

The price of stock purchased upon the exercise of Options granted pursuant to the Plan shall be the Fair Market Value thereof at the time that the Option is granted.

If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined

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voting power of all classes of the stock of the Company or any parent corporation of the Company or Subsidiary and an Option granted to such employee is intended to qualify as an Incentive Stock Option within the meaning of Section 422 of the Code, the exercise price shall be no less than 110% of the Fair Market Value of the Common Stock on the date the Option is granted. The purchase price is to be paid in full in cash, certified or bank cashier's check or, at the option of the Company, Common Stock valued at its Fair Market Value on the date of exercise, or a combination thereof, when the Option is exercised and stock certificates will be delivered only against such payment.

## 2.3 Incentive Stock Option Grants

Each Incentive Stock Option will be subject to the following provisions:

### a. Term of Option

An Incentive Stock Option will be for a term of not more than ten years from the date of grant, except in the case of an employee described in the second paragraph of Section 2.2 above in which case an Incentive Stock Option will be for a term of not more than five years from the date of the grant.

### b. Annual Limit

To the extent the aggregate Fair Market Value of the Common Stock (determined as of the date of grant) with respect to which any options granted hereunder are intended to be designated as Incentive Stock Options under the Plan (or any other incentive stock option plan of the Company or any Subsidiary) which may be exercisable for the first time by the optionee in any calendar year exceeds \$100,000, such options shall not be considered incentive stock options.

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### c. Exercise

Subject to the power of the Committee under Section 1.10(b) above and except in the manner described below upon the death of the optionee, an Incentive Stock Option may be exercised only in installments as follows: up to one-half of the subject shares on and after the first anniversary of the date of grant, up to all of the subject shares on and after the second such anniversary of the date of the grant of such Option but in no event later than the expiration of the term of the Option.

An Incentive Stock Option shall be exercisable during the optionee's lifetime only by the optionee and shall not be exercisable by the optionee unless, at all times since the date of grant and at the time of exercise, such optionee is an employee of the Company, any parent corporation of the Company or any Subsidiary, except that, upon termination of all employment (other than by death, Total Disability, or by Total Disability followed by death in the circumstances provided below) with the Company, any parent corporation of the Company and any Subsidiary or Affiliate, the optionee may exercise an Incentive Stock Option at any time within three months thereafter but only to the extent such Option is exercisable on the date of such termination.

Upon termination of all employment by Total Disability, the Optionee may exercise such options at any time within one year thereafter, but only to the extent such option is exercisable on the date of such termination.

In the event of the death of an optionee (i) while an employee

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of the Company, any parent corporation of the Company or any Subsidiary or Affiliate, or (ii) within three months after termination of all employment with the Company, any parent corporation of the Company and any Subsidiary or Affiliate (other than for Total Disability) or (iii) within one year after termination on account of Total Disability of all employment with the Company, any parent corporation of the Company and any Subsidiary or Affiliate, such optionee's estate or any person who acquires the right to exercise such option by bequest or inheritance or by reason of the death of the optionee may exercise such optionee's Option at any time within the period of three years from the date of death. In the case of clauses (i) and (iii) above, such Option shall be exercisable in full for all the remaining shares covered thereby, but in the case of clause (ii) such Option shall be exercisable only to the extent it was exercisable on the date of such termination.

Notwithstanding the foregoing provisions regarding the exercise of an Option in the event of death, Total Disability or other termination of employment, in no event shall an Option be exercisable in whole or in part after the termination date provided in the Option.

### d. Transferability

An Incentive Stock Option granted under the Plan shall not be transferable otherwise than by will or by the laws of descent and distribution.

## 2.4 Non-Qualified Stock Option Grants

Each Non-Qualified Stock Option will be subject to the following provisions:

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a. Term of Option

A Non-Qualified Stock Option will be for a term of not more than ten years from the date of grant.

b. Exercise

The exercise of a Non-Qualified Stock Option shall be subject to the same terms and conditions as provided under Section 2.3(c) above except that (i) upon termination of all employment by Total Disability, the Optionee may exercise such options at any time within three years thereafter and (ii) in the event of the death of an Optionee within three years after termination on account of Total Disability of all employment with the Company, or any subsidiary or affiliate, such Optionee's estate or any person who acquires the right to exercise such option by bequest or inheritance or by reason of the death of the Optionee may exercise such Optionee's option at any time within a period of three years from the date of death.

c. Transferability

A Non-Qualified Stock Option granted under the Plan shall not be transferable otherwise than by will or by the laws of descent and distribution, except as may be permitted by the Board or the Committee.

## 2.5 Agreements

In consideration of any Options granted to a Participant under the Plan, each such Participant shall enter into an Option Agreement with the Company providing, consistent with the Plan, such terms as the Committee may deem advisable.

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HERLEY INDUSTRIES, INC.  
2000 Stock Option Plan

SECTION 1. GENERAL PROVISIONS

1.1 Name and General Purpose

The name of this plan is the Herley Industries, Inc. 2000 Stock Option Plan (hereinafter called the "Plan"). The Plan is intended to be a broadly-based incentive plan which enables Herley Industries, Inc. (the "Company") and its subsidiaries and affiliates to foster and promote the interests of the Company by attracting and retaining directors, officers and employees of, and consultants to, the Company who contribute to the Company's success by their ability, ingenuity and industry, to enable such directors, officers, employees and consultants to participate in the long-term success and growth of the Company by giving them a proprietary interest in the Company and to provide incentive compensation opportunities competitive with those of competing corporations.

1.2 Definitions

a. "Affiliate" means any person or entity controlled by or under common control with the Company, by virtue of the ownership of voting securities, by contract or otherwise.

b. "Board" means the Board of Directors of the Company.

c. "Change in Control" means a change of control of the Company, or in any person directly or indirectly controlling the Company, which shall mean:

(a) a change in control as such term is presently defined in Regulation 240.12b-(2) under the Securities Exchange Act of 1934, as

amended (the "Exchange Act"); or

(b) if any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act) other than the Company or any "person" who on the date of this Agreement is a director or officer of the Company, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act) directly or indirectly, of securities of the Company – representing twenty percent (20%) or more of the voting power of the Company's then outstanding securities; or

(c) if during any period of two (2) consecutive years during the term of this Plan, individuals who at the beginning of such period constitute the Board of Directors, cease for any reason to constitute at least a majority thereof.

d. "Committee" means the Committee referred to in Section 1.3 of the Plan.

e. "Common Stock" means shares of the Common Stock, par value \$.10 per share, of the Company.

f. "Company" means Herley Industries, Inc., a corporation organized under the laws of the State of Delaware (or any successor corporation).

g. "Fair Market Value" means the market price of the Common Stock on the National Association of Securities Dealers Automated Quotation ("NASDAQ") system on the date of the grant or on any other date on which the Common Stock is to be valued hereunder. If no sale shall have been reported on the NASDAQ on such date, Fair Market Value shall be determined by the Committee.

h. "Non-Employee Director" shall have the meaning set forth in Rule 16(b) promulgated by the Securities and Exchange Commission ("Commission").

i. "Option" means any option to purchase Common Stock under Section 2 of the Plan.

j. "Option Agreement" means the option agreement described in Section 2.4 of the Plan.

k. "Participant" means any director, officer, employee or consultant of the Company, a Subsidiary or an Affiliate who is selected by the Committee to participate in the Plan.

l. "Subsidiary" means any corporation in which the Company possesses directly or indirectly 50% or more of the combined voting power of all classes of stock of such corporation.

m. "Total Disability" means accidental bodily injury or sickness which wholly and continuously disabled an optionee. The Committee, whose decisions shall be final, shall make a determination of Total Disability.

1.3 Administration of the Plan

The Plan shall be administered by the Board or by the Committee appointed by the Board consisting of two or more members of the Board all of whom shall be Non-Employee Directors. The Committee shall serve at the pleasure of the Board and shall have such powers as the Board may, from time to time, confer upon it.

Subject to this Section 1.3, the Committee shall have sole and complete authority to adopt, alter, amend or revoke such administrative rules, guidelines and practices governing the operation of the Plan as it shall, from time to time, deem advisable, and to interpret the terms and provisions of the Plan.

The Committee shall keep minutes of its meetings and of action taken by it without a meeting. 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, or acts approved in writing by all of the members of the Committee without a meeting, shall constitute the acts of the Committee.

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#### 1.4 Eligibility

Stock Options may be granted only to directors, officers, employees or consultants of the Company or a Subsidiary or Affiliate. All employees are eligible to receive Stock Options under the Plan. Any person who has been granted any Option may, if he is otherwise eligible, be granted an additional Option or Options.

#### 1.5 Shares

The aggregate number of shares reserved for issuance pursuant to the Plan shall be 1,000,000 shares of Common Stock, or the number and kind of shares of stock or other securities which shall be substituted for such shares or to which such shares shall be adjusted as provided in Section 1.6.

Such number of shares may be set aside out of the authorized but unissued shares of Common Stock or out of issued shares of Common Stock acquired for and held in the Treasury of the Company, not reserved for any other purpose. Shares subject to, but not sold or issued under, any Option terminating or expiring for any reason prior to its exercise in full will again be available for Options thereafter granted during the balance of the term of the Plan.

#### 1.6 Adjustments Due to Stock Splits, Mergers, Consolidation, Etc.

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

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

In the event of a Change in Control, at the option of the Board or Committee, (a) all Options outstanding on the date of such Change in Control shall become immediately and fully exercisable, and (b) an optionee will be permitted to surrender for cancellation within sixty (60) days after such Change in Control any Option or portion of an Option which was granted more than six (6) months prior to the date of such surrender, to the extent not yet exercised, and to receive a cash payment in an amount equal to the excess, if any, of the Fair Market Value (on the date of surrender) of the shares of Common Stock subject to the Option or portion thereof surrendered, over the aggregate purchase price for such Shares under the Option.

#### 1.7 Non-Alienation of Benefits

Except as herein specifically provided, no right or unpaid benefit under the Plan shall be subject to alienation, assignment, pledge or charge and any attempt to alienate, assign, pledge or charge the same shall be void. If any Participant or other person entitled to benefits hereunder should attempt to alienate, assign, pledge or charge any benefit hereunder, then such benefit shall, in the discretion of the Committee, cease.

#### 1.8 Withholding or Deduction for Taxes

If, at any time, the Company or any Subsidiary or Affiliate is required, under applicable laws and regulations, to withhold, or to make any deduction for

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any taxes, or take any other action in connection with any Option exercise, the Participant shall be required to pay to the Company or such Subsidiary or Affiliate, the amount of any taxes required to be withheld, or, in lieu thereof, at the option of the Company, the Company or such Subsidiary or Affiliate may accept a sufficient number of shares of Common Stock to cover the amount required to be withheld.

#### 1.9 Administrative Expenses

The entire expense of administering the Plan shall be borne by the Company.

#### 1.10 General Conditions

a. The Board or the Committee may, from time to time, amend, suspend or terminate any or all of the provisions of the Plan, provided that, without the Participant's approval, no change may be made which would alter or impair any right theretofore granted to any Participant.

b. With the consent of the Participant affected thereby, the Committee may amend or modify any outstanding Option in any manner not inconsistent with the terms of the Plan, including, without limitation, and irrespective of the provisions of Section 2.3(c) below, to accelerate the date or dates as of which an installment of an Option becomes exercisable; provided, that the Committee shall not have the right to reprice any outstanding Options.

c. Nothing contained in the Plan shall prohibit the Company or any Subsidiary or Affiliate from establishing other additional incentive compensation arrangements for employees of the Company or such Subsidiary or Affiliate.

d. Nothing in the Plan shall be deemed to limit, in any way, the right of

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the Company or any Subsidiary or Affiliate to terminate a Participant's employment or service with the Company (or such Subsidiary or Affiliate) at any time.

e. Any decision or action taken by the Board or the Committee arising out of or in connection with the construction, administration, interpretation and effect of the Plan shall be conclusive and binding upon all Participants and any person claiming under or through any Participant.

f. No member of the Board or of the Committee shall be liable for any act or action, whether of commission or omission, (i) by such member except in circumstances involving actual bad faith, nor (ii) by any other member or by any officer, agent or employee.

#### 1.11 Compliance with Applicable Law

Notwithstanding any other provision of the Plan, the Company shall not be obligated to issue any shares of Common Stock, or grant any Option with respect thereto, unless it is advised by counsel of its selection that it may do so without violation of the applicable Federal and State laws pertaining to the issuance of securities and the Company may require any stock certificate so issued to bear a legend, may give its transfer agent instructions limiting the transfer thereof, and may take such other steps, as in its judgment are reasonably required to prevent any such violation.

#### 1.12 Effective Dates

The Plan was adopted by the Board on September 7, 2000. The Plan shall terminate on September 6, 2010.

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### Section 2. OPTION GRANTS

#### 2.1 Authority of Committee

Subject to the provisions of the Plan, the Committee shall have the sole and complete authority to determine (i) the Participants to whom Options shall be granted; (ii) the number of shares to be covered by each Option; and (iii) the conditions and limitations, if any, in addition to those set forth in Sections 2 and 3 hereof, applicable to the exercise of an Option, including without limitation, the nature and duration of the restrictions, if any, to be imposed upon the sale or other disposition of shares acquired upon exercise of an Option.

Stock Options granted under the Plan shall be non-qualified stock options.

The Committee shall have the authority to grant Options.

#### 2.2 Option Exercise Price

The exercise price set forth in the Option Agreement at the time of grant shall not be less than the Fair Market Value of the Common Stock at the time that the Option is granted.

The purchase price is to be paid in full in cash, certified or bank cashier's check or, at the option of the Company, Common Stock valued at its Fair Market Value on the date of exercise, or a combination thereof, when the Option is exercised and stock certificates will be delivered only against such payment.

#### 2.3 Option Grants

Each Option will be subject to the following provisions:

##### a. Term of Option

An Option will be for a term of not more than ten years from the date of grant.

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##### b. Exercise

###### (i) By an Employee:

Unless otherwise provided by the Committee and except in the manner described below upon the death of the optionee, an Option may be exercised only in installments as follows: up to one-half of the subject shares on and after the first anniversary of the date of grant, up to all of the

subject shares on and after the second such anniversary of the date of the grant of such Option but in no event later than the expiration of the term of the Option.

An Option shall be exercisable during the optionee's lifetime only by the optionee and shall not be exercisable by the optionee unless, at all times since the date of grant and at the time of exercise, such optionee is an employee of or providing services to the Company, any parent corporation of the Company or any Subsidiary or Affiliate, except that, upon termination of all such employment or provision of services (other than by death, Total Disability, or by Total Disability followed by death in the circumstances provided below), the optionee may exercise an Option at any time within three months thereafter but only to the extent such Option is exercisable on the date of such termination.

Upon termination of all such employment by Total Disability, the optionee may exercise such Options at any time within one year thereafter, but only to the extent such Option is exercisable on the date of such termination.

In the event of the death of an optionee (i) while an employee of or providing services to the Company, any parent corporation of the Company or any Subsidiary or Affiliate, or (ii) within three months after termination of all such employment or provision of

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services (other than for Total Disability) or (iii) within one year after termination on account of Total Disability of all such employment or provision of services, such optionee's estate or any person who acquires the right to exercise such option by bequest or inheritance or by reason of the death of the optionee may exercise such optionee's Option at any time within the period of three years from the date of death. In the case of clauses (i) and (iii) above, such Option shall be exercisable in full for all the remaining shares covered thereby, but in the case of clause (ii) such Option shall be exercisable only to the extent it was exercisable on the date of such termination of employment or service.

(ii) By Persons other than Employees:

If the optionee is not an employee of the Company or the parent corporation of the Company or any Subsidiary or Affiliate, the vesting of such optionee's right to exercise his Options shall be established and determined by the Committee in the Option Agreement covering the Options granted to such optionee. Notwithstanding the foregoing provisions regarding the exercise of an Option in the event of death, Total Disability, other termination of employment or provision of services or otherwise, in no event shall an Option be exercisable in whole or in part after the termination date provided in the Option Agreement.

c. Transferability.

An Option granted under the Plan shall not be transferable

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otherwise than by will or by the laws of descent and distribution, except as may be permitted by the Board or the Committee.

2.4 Agreements

In consideration of any Options granted to a Participant under the Plan, each such Participant shall enter into an Option Agreement with the Company providing, consistent with the Plan, such terms as the Committee may deem advisable.

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## HERLEY INDUSTRIES, INC.

## 2003 Stock Option Plan

## SECTION 1. GENERAL PROVISION

## 1.1 Name and General Purpose

The name of this plan is the Herley Industries, Inc. 2003 Stock Option Plan (hereinafter called the "Plan"). The Plan is intended to be a broadly-based incentive plan which enables Herley Industries, Inc. (the "Company") and its subsidiaries and affiliates to foster and promote the interests of the Company by attracting and retaining directors, officers and employees of, and consultants to, the Company who contribute to the Company's success by their ability, ingenuity and industry, to enable such directors, officers, employees and consultants to participate in the long-term success and growth of the Company by giving them a proprietary interest in the Company and to provide incentive compensation opportunities competitive with those of competing corporations.

## 1.2 Definitions

a. "Affiliate" means any person or entity controlled by or under common control with the Company, by virtue of the ownership of voting securities, by contract or otherwise.

b. "Board" means the Board of Directors of the Company.

c. "Change in Control" means a change of control of the Company, or in any person directly or indirectly controlling the Company, which shall mean:

(a) a change in control as such term is presently defined in Regulation 240.12b-2) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); or

(b) if any "person" (as such term is used in Section 13(d) and

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14(d) of the Exchange Act) other than the Company or any "person" who on the date of this Agreement is a director or officer of the Company, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act) directly or indirectly, of securities of the Company — representing twenty percent (20%) or more of the voting power of the Company's then outstanding securities; or

(c) if during any period of two (2) consecutive years during the term of this Plan, individuals who at the beginning of such period constitute the Board of Directors, cease for any reason to constitute at least a majority thereof.

d. "Committee" means the Committee referred to in Section 1.3 of the Plan.

e. "Common Stock" means shares of the Common Stock, par value \$.10 per share, of the Company.

f. "Company" means Herley Industries, Inc., a corporation organized under the laws of the State of Delaware (or any successor corporation).

g. "Fair Market Value" means the market price of the Common Stock on the National Association of Securities Dealers Automated Quotation ("NASDAQ") system on the date of the grant or on any other date on which the Common Stock is to be valued hereunder. If no sale shall have been reported on the NASDAQ on such date, Fair Market Value shall be determined by the Committee.

h. "Non-Employee Director" shall have the meaning set forth in Rule 16(b) promulgated by the Securities and Exchange Commission ("Commission").

i. "Option" means any option to purchase Common Stock under Section 2 of the Plan.

j. "Option Agreement" means the option agreement described in Section 2.4 of the Plan.

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k. "Participant" means any director, officer, employee or consultant of the Company, a Subsidiary or an Affiliate who is selected by the Committee to participate in the Plan.

l. "Subsidiary" means any corporation in which the Company possesses directly or indirectly 50% or more of the combined voting power of all classes of stock of such corporation.

m. "Total Disability" means accidental bodily injury or sickness which wholly and continuously disabled an optionee. The Committee, whose decisions shall be final, shall make a determination of Total Disability.

## 1.3 Administration of the Plan

The Plan shall be administered by the Board or by the Committee appointed by the Board consisting of two or more members of the Board all of whom shall be Non-Employee Directors. The Committee shall serve at the pleasure of the Board and shall have such powers as the Board may, from time to time, confer upon it.

Subject to this Section 1.3, the Committee shall have sole and complete authority to adopt, alter, amend or revoke such administrative rules, guidelines and practices governing the operation of the Plan as it shall, from time to time, deem advisable, and to interpret the terms and provisions of the Plan.

The Committee shall keep minutes of its meetings and of action taken by it without a meeting. 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, or acts approved in writing by all of the members of the Committee without a meeting, shall constitute the acts of the Committee.

#### 1.4 Eligibility

Options may be granted only to directors, officers, employees or consultants of the Company or a Subsidiary or Affiliate. All employees are eligible to receive Options under the Plan. Any person who has been granted any

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Option may, if he is otherwise eligible, be granted an additional Option or Options.

#### 1.5 Shares

The aggregate number of shares reserved for issuance pursuant to the Plan shall be 1,000,000 shares of Common Stock, or the number and kind of shares of stock or other securities which shall be substituted for such shares or to which such shares shall be adjusted as provided in Section 1.6.

Such number of shares may be set aside out of the authorized but unissued shares of Common Stock or out of issued shares of Common Stock acquired for and held in the Treasury of the Company, not reserved for any other purpose. Shares subject to, but not sold or issued under, any Option terminating or expiring for any reason prior to its exercise in full will again be available for Options thereafter granted during the balance of the term of the Plan.

#### 1.6 Adjustments Due to Stock Splits, Mergers, Consolidation, Etc.

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

Likewise, in the event of any change in the outstanding shares of Common Stock by reason of any recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other corporate change, the Committee shall make such substitution or adjustments, if any, as it deems to be appropriate, as to the number or kind of shares of Common Stock or other securities which are

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reserved for issuance under the Plan and the number of shares or other securities which, at such time are subject to Options.

In the event of a Change in Control, at the option of the Board or Committee, (a) all Options outstanding on the date of such Change in Control shall become immediately and fully exercisable, and (b) an optionee will be permitted to surrender for cancellation within sixty (60) days after such Change in Control any Option or portion of an Option which was granted more than six (6) months prior to the date of such surrender, to the extent not yet exercised, and to receive a cash payment in an amount equal to the excess, if any, of the Fair Market Value (on the date of surrender) of the shares of Common Stock subject to the Option or portion thereof surrendered, over the aggregate purchase price for such Shares under the Option.

#### 1.7 Non Alienation of Benefits

Except as herein specifically provided, no right or unpaid benefit under the Plan shall be subject to alienation, assignment, pledge or charge and any attempt to alienate, assign, pledge or charge the same shall be void. If any Participant or other person entitled to benefits hereunder should attempt to alienate, assign, pledge or charge any benefit hereunder, then such benefit shall, in the discretion of the Committee, cease.

#### 1.8 Withholding or Deduction for Taxes

If, at any time, the Company or any Subsidiary or Affiliate is required, under applicable laws and regulations, to withhold, or to make any deduction for any taxes, or take any other action in connection with any Option exercise, the Participant shall be required to pay to the Company or such Subsidiary or Affiliate, the amount of any taxes required to be withheld, or, in lieu thereof, at the option of the Company, the Company or such Subsidiary or Affiliate may accept a sufficient number of shares of Common Stock to cover the amount required to be withheld.

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#### 1.9 Administrative Expenses

The entire expense of administering the Plan shall be borne by the Company.

#### 1.10 General Conditions

a. The Board or the Committee may, from time to time, amend, suspend or terminate any or all of the provisions of the Plan, provided that, without the Participant's approval, no change may be made which would alter or impair any right theretofore granted to any Participant.

b. With the consent of the Participant affected thereby, the Committee may amend or modify any outstanding Option in any manner not inconsistent with the terms of the Plan, including, without limitation, and irrespective of the provisions of Section 2.3(c) below, to accelerate the date or dates as of which an installment of an Option becomes exercisable; provided, that the Committee shall not have the right to reprice any outstanding Options.

c. Nothing contained in the Plan shall prohibit the Company or any Subsidiary or Affiliate from establishing other additional incentive compensation arrangements for employees of the Company or such Subsidiary or Affiliate.

d. Nothing in the Plan shall be deemed to limit, in any way, the right of the Company or any Subsidiary or Affiliate to terminate a Participant's employment or service with the Company (or such Subsidiary or Affiliate) at any time.

e. Any decision or action taken by the Board or the Committee arising out of or in connection with the construction, administration, interpretation and effect of the Plan shall be conclusive and binding upon all Participants and any person claiming under or through any Participant.

f. No member of the Board or of the Committee shall be liable for any act or action, whether of commission or omission, (i) by such member except

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in circumstances involving actual bad faith, nor (ii) by any other member or by any officer, agent or employee.

#### 1.11 Compliance with Applicable Law

Notwithstanding any other provision of the Plan, the Company shall not be obligated to issue any shares of Common Stock, or grant any Option with respect thereto, unless it is advised by counsel of its selection that it may do so without violation of the applicable Federal and State laws pertaining to the issuance of securities and the Company may require any stock certificate so issued to bear a legend, may give its transfer agent instructions limiting the transfer thereof, and may take such other steps, as in its judgment are reasonably required to prevent any such violation.

#### 1.12 Effective Dates

The Plan was adopted by the Board on March 19, 2003. The Plan shall terminate on March 18, 2013.

### Section 2. OPTION GRANTS

#### 2.1 Authority of Committee

Subject to the provisions of the Plan, the Committee shall have the sole and complete authority to determine (i) the Participants to whom Options shall be granted; (ii) the number of shares to be covered by each Option; and (iii) the conditions and limitations, if any, in addition to those set forth in Sections 2 and 3 hereof, applicable to the exercise of an Option, including without limitation, the nature and duration of the restrictions, if any, to be imposed upon the sale or other disposition of shares acquired upon exercise of an Option.

Options granted under the Plan shall be non\_qualified stock options.

The Committee shall have the authority to grant Options.

#### 2.2 Option Exercise Price

The exercise price set forth in the Option Agreement at the time of grant

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shall not be less than the Fair Market Value of the Common Stock at the time that the Option is granted.

The purchase price is to be paid in full in cash, certified or bank cashier's check or, at the option of the Company, Common Stock valued at its Fair Market Value on the date of exercise, or a combination thereof, when the Option is exercised and stock certificates will be delivered only against such payment.

#### 2.3 Option Grants

Each Option will be subject to the following provisions:

##### a. Term of Option

An Option will be for a term of not more than ten years from the date of grant.

##### b. Exercise

###### (i) By an Employee:

Unless otherwise provided by the Committee and except in the manner described below upon the death of the optionee, an Option may be exercised only in installments as follows: up to one\_half of the subject shares on and after the first anniversary of the date of grant, up to all of the subject shares on and after the second such anniversary of the date of the grant of such Option but in no event later than the expiration of the term of the Option.

An Option shall be exercisable during the optionee's lifetime only by the optionee and shall not be exercisable by the optionee unless, at all times since the date of grant and at the time of exercise, such optionee is an employee of or providing services to the Company, any parent corporation of

the Company or any Subsidiary or Affiliate, except that, upon termination of all

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such employment or provision of services (other than by death, Total Disability, or by Total Disability followed by death in the circumstances provided below), the optionee may exercise an Option at any time within three months thereafter but only to the extent such Option is exercisable on the date of such termination.

Upon termination of all such employment by Total Disability, the optionee may exercise such Options at any time within one year thereafter, but only to the extent such Option is exercisable on the date of such termination.

In the event of the death of an optionee (i) while an employee of or providing services to the Company, any parent corporation of the Company or any Subsidiary or Affiliate, or (ii) within three months after termination of all such employment or provision of services (other than for Total Disability) or (iii) within one year after termination on account of Total Disability of all such employment or provision of services, such optionee's estate or any person who acquires the right to exercise such option by bequest or inheritance or by reason of the death of the optionee may exercise such optionee's Option at any time within the period of three years from the date of death. In the case of clauses (i) and (iii) above, such Option shall be exercisable in full for all the remaining shares covered thereby, but in the case of clause (ii) such Option shall be exercisable only to the extent it was exercisable on the date of such termination of employment or service.

(ii) By Persons other than Employees:

If the optionee is not an employee of the Company or the

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parent corporation of the Company or any Subsidiary or Affiliate, the vesting of such optionee's right to exercise his Options shall be established and determined by the Committee in the Option Agreement covering the Options granted to such optionee.

Notwithstanding the foregoing provisions regarding the exercise of an Option in the event of death, Total Disability, other termination of employment or provision of services or otherwise, in no event shall an Option be exercisable in whole or in part after the termination date provided in the Option Agreement.

#### c. Transferability

An Option granted under the Plan shall not be transferable otherwise than by will or by the laws of descent and distribution, except as may be permitted by the Board or the Committee.

#### 2.4 Agreements

In consideration of any Options granted to a Participant under the Plan, each such Participant shall enter into an Option Agreement with the Company providing, consistent with the Plan, such terms as the Committee may deem advisable.

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AMENDMENT AND RESTATEMENT OF  
2006 NEW EMPLOYEE STOCK OPTION PLAN OF  
HERLEY INDUSTRIES, INC.

BACKGROUND

On August 1, 2006, the Board of Directors (“Board”) of Herley Industries, Inc., a Delaware corporation (the “Company”), adopted the 2006 New Employee Stock Option Plan (the “Plan”); and

On June 8, 2007, the Board approved an amendment to the Plan increasing the number of shares reserved for issuance under the Plan from 250,000 to 500,000; and

On July 22, 2009, the Board approved a further amendment to the Plan increasing from 500,000 to 600,000 the number of shares reserved for issuance under the Plan, and providing for the direct issuance of restricted shares to participants in the Plan.

NOW, THEREFORE, in consideration of the Premises, the Company hereby amends and restates the Plan in its entirety to give effect to the amendments referred to above and to make additional conforming changes as follows:

HERLEY INDUSTRIES, INC.

2006 New Employee Stock Option Plan  
(as amended through July 22, 2009)

SECTION 1. GENERAL PROVISION

1.1 Name and General Purpose

The name of this plan is the Herley Industries, Inc. 2006 New Employee Stock Option Plan (hereinafter called the “Plan”). The Plan is intended to be a broadly-based incentive plan which enables Herley Industries, Inc. (the “Company”) and its subsidiaries and affiliates to foster and promote the interests of the Company by attracting new employees to the Company who will

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contribute to the Company’s success by their ability, ingenuity and industry, to enable such employees to participate in the long-term success and growth of the Company by giving them a proprietary interest in the Company and to provide incentive compensation opportunities competitive with those of competing corporations.

1.2 Definitions

a. “Affiliate” means any person or entity controlled by or under common control with the Company, by virtue of the ownership of voting securities, by contract or otherwise.

b. “Board” means the Board of Directors of the Company.

c. “Change in Control” means a change of control of the Company, or in any person directly or indirectly controlling the Company, which shall mean:

(a) a change in control as such term is presently defined in Regulation 240.12b-(2) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”); or

(b) if any “person” (as such term is used in Section 13(d) and 14(d) of the Exchange Act) other than the Company or any “person” who on the date of this Agreement is a director or officer of the Company, becomes the “beneficial owner” (as defined in Rule 13(d)-3 under the Exchange Act) directly or indirectly, of securities of the Company representing more than fifty (50%) or more of the voting power of the Company’s then outstanding securities; or

(c) if during any period of two (2) consecutive years during the term of this Plan, individuals who at the beginning of such period constitute the Board of Directors, cease for any reason to constitute at least a majority thereof.

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d. “Committee” means the Committee referred to in Section 1.4 of the Plan.

e. “Common Stock” means shares of the Common Stock, par value \$.10 per share, of the Company.

f. “Company” means Herley Industries, Inc., a corporation organized under the laws of the State of Delaware (or any successor corporation).

g. “Fair Market Value” means the market price of the Common Stock on the National Association of Securities Dealers Automated Quotation (“NASDAQ”) system on the date of the grant or on any other date on which the Common Stock is to be valued hereunder. If no sale shall have been reported on the NASDAQ on such date, Fair Market Value shall be determined by the Committee.

h. “New Employee” means a person who has not been an employee of the Company or any subsidiary within 24 months of the date of determination.

- i. “Non-Employee Director” shall have the meaning set forth in Rule 16(b) (3) promulgated by the Securities and Exchange Commission (“Commission”).
  - j. “Option” means any option to purchase Common Stock under Section 2 of the Plan.
  - k. “Option Agreement” means the option agreement described in Section 2.4 of the Plan.
  - l. “Optionee Participant” means any new employee of the Company, a Subsidiary or an Affiliate whose options are issued in connection with his or her employment and who is selected by the Committee to participate in the Plan.
  - m. “Participant” means any Option Participant or Shares Participant.
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- n. “Restricted Shares” and “Restricted Period” shall have meanings set forth in Section 3 of the Plan.
- o. “Share Participant” means any new employee of the Company, a Subsidiary or an Affiliate who received Restricted Shares in connection with his or her employment and who is selected by the Committee or Board to participate in the Plan.
- p. “Subsidiary” means any corporation in which the Company possesses directly or indirectly 50% or more of the combined voting power of all classes of stock of such corporation.
- q. “Total Disability” means accidental bodily injury or sickness which wholly and continuously disables a Participant. The Committee or Board, whose decisions shall be final, shall make a determination of Total Disability.

### 1.3 Structure of The Plan

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

- (i) the Option Grant Program under which eligible persons (“Optionee Participants”) may, at the discretion of the Board, be granted options to purchase shares of common stock; and
- (ii) the Restricted Shares Issuance Program under which eligible persons (“Share Participants”) may, at the discretion of the Board, be issued shares of common stock subject to the restrictions set forth in Section 3.2 of the Plan (“Restricted Shares”).

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

The Board or Committee shall have full authority to determine, (i) with respect to the grants made under the Option Grant Program, which eligible persons are to receive the option grants, the time or times when each option is

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to become exercisable, the vesting schedule and events (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding, and (ii) with respect to stock issuances made under the Restricted Shares Issuance Program, which eligible persons are to receive such stock issuances, the time or times when those issuances are to be made, the number of shares to be issued to each Participant, and the vesting schedule and events (if any) applicable to the issued shares.

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

### 1.4 Administration of the Plan

The Plan shall be administered by the Board or by the Committee appointed by the Board consisting of two or more members of the Board all of whom shall be Non-Employee Directors. The Committee shall serve at the pleasure of the Board and shall have such powers as the Board may, from time to time, confer upon it.

Subject to this Section 1.4, the Committee or Board, as the case may be, shall have sole and complete authority to adopt, alter, amend or revoke such administrative rules, guidelines and practices governing the operation of the Plan as it shall, from time to time, deem advisable, and to interpret the terms and provisions of the Plan.

The Committee or Board, as the case may be, shall keep minutes of its meetings and of action taken by it without a meeting. A majority of the Committee or Board shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all of the members of the Committee or Board without a meeting, shall constitute the acts of the Committee.

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### 1.5 Eligibility

Options and Restricted Shares may be granted only to new employees of the Company or a Subsidiary or Affiliate whose options are issued in connection with his or her employment as a new employee.

## 1.6 Shares

The aggregate number of shares reserved for issuance pursuant to the Plan shall be 600,000 shares of Common Stock, or the number and kind of shares of stock or other securities which shall be substituted for such shares or to which such shares shall be adjusted as provided in Section 1.6.

Such number of shares may be set aside out of the authorized but unissued shares of Common Stock or out of issued shares of Common Stock acquired for and held in the Treasury of the Company, not reserved for any other purpose. Shares subject to, but not sold or issued under, any Option terminating or expiring for any reason prior to its exercise in full will again be available for Options thereafter granted during the balance of the term of the Plan.

## 1.7 Adjustments Due to Stock Splits, Mergers, Consolidation, Etc.

If, at any time, the Company shall take any action, whether by stock dividend, stock split, combination of shares or otherwise, which results in a proportionate increase or decrease in the number of shares of Common Stock theretofore issued and outstanding, the number of shares which are reserved for issuance under the Plan and the number of shares which, at such time, are subject to Options and with respect to grants of Restricted Shares, in the number and kind of Shares covered thereby, shall, to the extent deemed appropriate by the Committee or Board, as the case may be, be increased or decreased in the same proportion, provided, however, that the Company shall not be obligated to issue fractional shares.

Likewise, in the event of any change in the outstanding shares of Common

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Stock by reason of any recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other corporate change, the Committee or Board shall make such substitution or adjustments, if any, as it deems to be appropriate, as to the number or kind of shares of Common Stock or other securities which are reserved for issuance under the Plan and the number of shares or other securities which, at such time are subject to Options and with respect to grants of Restricted Shares, in the number and kind of Shares covered thereby.

In the event of a Change in Control (a) all Options outstanding on the date of such Change in Control shall become immediately and fully exercisable, and (b) an optionee will be permitted to surrender for cancellation within sixty (60) days after such Change in Control any Option or portion of an Option which was granted more than six (6) months prior to the date of such surrender, to the extent not yet exercised, and to receive a cash payment in an amount equal to the excess, if any, of the Fair Market Value (on the date of surrender) of the shares of Common Stock subject to the Option or portion thereof surrendered, over the aggregate purchase price for such Shares under the Option; and (c) all Restricted Shares shall become immediately vested.

## 1.8 Non-Alienation of Benefits

Except as herein specifically provided, no right or unpaid benefit under the Plan shall be subject to alienation, assignment, pledge or charge and any attempt to alienate, assign, pledge or charge the same shall be void. If any Participant or other person entitled to benefits hereunder should attempt to alienate, assign, pledge or charge any benefit hereunder, then such benefit shall, in the discretion of the Committee, cease.

## 1.9 Withholding or Deduction for Taxes

If, at any time, the Company or any Subsidiary or Affiliate is required, under applicable laws and regulations, to withhold, or to make any deduction for any taxes, or take any other action in connection with any Option exercise, the Participant shall be required to pay to the Company or such Subsidiary or Affiliate, the amount of any taxes required to be withheld, or, in lieu thereof, at the option of the Company, the Company or such Subsidiary or Affiliate may accept a sufficient number of shares of Common Stock to cover the amount required to be withheld.

## 1.10 Administrative Expenses

The entire expense of administering the Plan shall be borne by the Company.

## 1.11 General Conditions

a. The Board or the Committee may, from time to time, amend, suspend or terminate any or all of the provisions of the Plan, provided that, without the Participant's approval, no change may be made which would alter or impair any right theretofore granted to any Participant.

b. With the consent of the Participant affected thereby, the Committee or Board may amend or modify any outstanding Option or Restricted Shares theretofore granted in any manner not inconsistent with the terms of the Plan, including, without limitation, and irrespective of the provisions of Section 2.3(c) below, to accelerate the date or dates as of which an installment of an Option becomes exercisable or to accelerate the termination of a Restricted Period; provided, that the Committee or Board shall not have the right to reprice any outstanding Options.

c. Nothing contained in the Plan shall prohibit the Company or any Subsidiary or Affiliate from establishing other additional incentive

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compensation arrangements for employees of the Company or such Subsidiary or Affiliate.

d. Nothing in the Plan shall be deemed to limit, in any way, the right of the Company or any Subsidiary or Affiliate to terminate a Participant's employment or service with the Company (or such Subsidiary or Affiliate) at any time.

e. Any decision or action taken by the Board or the Committee arising out of or in connection with the construction, administration, interpretation and effect of the Plan shall be conclusive and binding upon all Participants and any person claiming under or through any Participant.

f. No member of the Board or of the Committee shall be liable for any act or action, whether of commission or omission, (i) by such member except in circumstances involving actual bad faith, nor (ii) by any other member or by any officer, agent or employee.

#### 1.12 Compliance with Applicable Law

Notwithstanding any other provision of the Plan, the Company shall not be obligated to issue any shares of Common Stock upon the exercise of an option or the vesting of Restricted Shares granted under the Plan, or grant any Option with respect thereto, unless it is advised by counsel of its selection that it may do so without violation of the applicable Federal and State laws pertaining to the issuance of securities and the Company may require any stock certificate so issued to bear a legend, may give its transfer agent instructions limiting the transfer thereof, and may take such other steps, as in its judgment are reasonably required to prevent any such violation.

#### 1.13 Effective Dates

The Plan was adopted by the Board on August 1, 2006. The Plan shall terminate on July 31, 2016.

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## SECTION 2. OPTION GRANTS

### 2.1 Authority of Committee

Subject to the provisions of the Plan, the Committee or Board, as the case may be, shall have the sole and complete authority to determine (i) the Participants to whom Options shall be granted; (ii) the number of shares to be covered by each Option; and (iii) the conditions and limitations, if any, in addition to those set forth in Sections 2 and 3 hereof, applicable to the exercise of an Option, including without limitation, the nature and duration of the restrictions, if any, to be imposed upon the sale or other disposition of shares acquired upon exercise of an Option.

Options granted under the Plan shall be non-qualified stock options.

The Committee or Board, as the case may be, shall have the authority to grant Options.

### 2.2 Option Exercise Price

The exercise price set forth in the Option Agreement at the time of grant shall not be less than the Fair Market Value of the Common Stock at the time that the Option is granted.

The purchase price is to be paid in full in cash, certified or bank cashier's check or, at the option of the Company, Common Stock valued at its Fair Market Value on the date of exercise, or a combination thereof, when the Option is exercised and stock certificates will be delivered only against such payment.

### 2.3 Option Grants

Each Option will be subject to the following provisions:

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#### a. Term of Option

An Option will be for a term of not more than ten years from the date of grant.

#### b. Exercise

(i) By an Employee:

Unless otherwise provided by the Committee and except in the manner described below upon the death of the optionee, an Option may be exercised only in installments as follows:

- Up to 33-1/3% on and after the first anniversary of the of the date of the grant of such Option;
- Up to 66-2/3% on and after the second anniversary of the date of grant of the date of the grant of such Option;
- Up to all of the subject shares on and after the third anniversary of the date of grant of the date of the grant of such Option, but in no event later than the expiration of the term of the Option.

An Option shall be exercisable during the optionee's lifetime only by the optionee and shall not be exercisable by the optionee unless, at all times since the date of grant and at the time of exercise, such optionee is an employee of or providing services to the Company, any parent corporation of the Company or any Subsidiary or Affiliate, except that, upon termination of all such employment or provision of services (other than by death, Total Disability, or by Total Disability followed by death in the circumstances provided below), the optionee may exercise an Option at any time within three months thereafter but only to the extent such Option is exercisable on the date of such termination.

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Upon termination of such employment by Total Disability, all outstanding options shall immediately vest and the optionee may exercise such Options at any time within one year thereafter.

In the event of the death of an optionee (i) while an employee of or providing services to the Company, any parent corporation of the Company or any Subsidiary or Affiliate, or (ii) within three months after termination of all such employment or provision of services (other than for Total Disability) or (iii) within one year after termination on account of Total Disability of all such employment or provision of services, such optionee's estate or any person who acquires the right to exercise such option by bequest or inheritance or by reason of the death of the optionee may exercise such optionee's Option at any time within the period of three years from the date of death. Such Option shall be exercisable in full for all the remaining shares covered thereby.

(ii) By Persons other than Employees:

If the optionee is not an employee of the Company or the parent corporation of the Company or any Subsidiary or Affiliate, the vesting of such optionee's right to exercise his Options shall be established and determined by the Committee or Board in the Option Agreement covering the Options granted to such optionee.

Notwithstanding the foregoing provisions regarding the exercise of an Option in the event of death, Total Disability, other termination of employment or provision of services or otherwise, in no event shall an Option be exercisable in whole or in part after the termination date provided in the Option Agreement.

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c. Transferability

An Option granted under the Plan shall not be transferable otherwise than by will or by the laws of descent and distribution, except as may be permitted by the Board or the Committee.

2.4 Agreements

In consideration of any Options granted to a Participant under the Plan, each such Participant shall enter into an Option Agreement with the Company providing, consistent with the Plan, such terms as the Committee may deem advisable.

SECTION 3. TERMS AND CONDITIONS OF GRANTS OF RESTRICTED SHARES.

3.1 General

With respect to each grant of Restricted Shares under the Plan, the Committee or Board, as the case may be, in its sole discretion, shall determine the period during which the restrictions set forth in Section 3.2 shall apply to such Restricted Shares (the "Restricted Period"). Unless otherwise determined by the Committee, the Restricted Period shall not be less than 36 nor more than 60 consecutive months commencing with the first day of the month in which the Restricted Shares are granted. Subject to the provisions of Section 3.3, a grant of Restricted Shares shall be effective for the Restricted Period and may not be revoked.

3.2 Restrictions

At the time of grant of Restricted Shares to a Participant, a certificate representing the number of shares of Common Stock granted shall be registered in his name and issued to the Participant. The Participant shall have the entire

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beneficial ownership interest in, and all rights and privileges of a stockholder as to, such Restricted Shares, including the right to receive dividends and the right to vote such Restricted Shares, subject to the following restrictions: (i) no unvested Restricted Shares may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period; and (ii) vested Restricted Shares may only be sold, transferred or otherwise disposed of in compliance with applicable securities laws. In the event of a Change in Control, all restrictions set forth above in this Section as to previously granted Restricted Shares shall lapse.

3.3 Termination of Employment

(i) Total Disability or Death. If a Participant ceases to be an employee prior to the end of a Restricted Period by reason of Total Disability, death, all Restricted Shares granted to such Participant shall immediately vest in Participant or in his beneficiary or estate, as the case may be, and all restrictions applicable to such shares shall lapse.

(ii) All Other Terminations. If a Participant ceases to be an employee prior to the end of a Restricted Period for any reason other than death, Total Disability or Change of Control, the Participant shall immediately forfeit all Restricted Shares then subject to the restrictions of Section 3.2 hereof in accordance with the provisions thereof, except that the Committee or Board may, if it finds that the circumstances in the particular case so warrant, allow such Participant to retain any or all of the Restricted Shares then subject to the restrictions of Section 3.2 and all restrictions applicable to such retained shares shall lapse.

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3.4 Vesting of Restricted Shares

At the end of the Restricted Period or at such earlier time as provided for in Section 3.3 hereof or as the Committee or Board may determine, all restrictions applicable to the Restricted Shares shall lapse, except that such shares may only be sold, transferred or otherwise disposed of in compliance with applicable securities laws.

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## [PAUL HASTINGS LETTERHEAD]

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

April 8, 2011

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 effect registration under the Securities Act of 1933, as amended (the "Securities Act"), of 755,038 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, to be issued upon the vesting and exercise of outstanding options under the following stock option plans of Herley Industries, Inc.: (i) 1996 Stock Option Plan, (ii) 1997 Stock Option Plan, (iii) 1998 Stock Option Plan, (iv) 2000 Stock Option Plan, (v) 2003 Stock Option Plan, and (vi) Amended and Restated 2006 New Employee Stock Option Plan (collectively, the "Herley 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 Registration Statement;
  - (ii) the Amended and Restated Certificate of Incorporation of the Company, certified April 7, 2011 by the Secretary of State of the State of Delaware;
  - (iii) the Second Amended and Restated Bylaws of the Company;
  - (iv) the Herley Plans;
  - (v) 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 April 7, 2011 (the "Good Standing Certificate");
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- (vi) the Agreement and Plan of Merger, dated February 7, 2011 (the "Merger Agreement"), by and among the Company, Lanza Acquisition Co., a Delaware corporation and indirect wholly owned subsidiary of the Company, and Herley Industries, Inc., a Delaware corporation; and
  - (vii) the resolutions adopted by the Company's board of directors on January 31, 2011, February 7, 2011 and March 10, 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 Herley Plans and the award agreements thereunder (including the receipt by the Company of the full consideration therefor), will be validly issued, fully paid and nonassessable.

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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.

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 Herley Plans and the 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 Janofsky & Walker 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  
April 7, 2011

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**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, Politzner & Mattia LLP

April 7, 2011  
Edison, New Jersey

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**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) 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  
April 7, 2011

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