KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Form 424B5
February 07, 2011

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Filed pursuant to Rule 424(b)(5)
Registration No. 333-161340

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 7, 2011

PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated August 21, 2009)

Shares

Common Stock

We are offering shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Our common stock is traded on the NASDAQ Global Select Market under the symbol "KTOS." On February 4, 2011, the last reported sale price of our common stock on the NASDAQ Global Select Market was $13.99 per share.

Investing in our common stock involves a high degree of risk. Please read "Risk Factors" beginning on page S-18 of this prospectus supplement, on page 2 of the accompanying prospectus and in the documents incorporated by reference into this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$	$
Underwriting Discounts and Commissions		
Proceeds to Kratos Defense & Security Solutions, Inc. before expenses		

Delivery of the shares of common stock is expected to be made on or about February , 2011. We have granted the underwriters an option for a period of 30 days to purchase up to an additional shares of our common stock solely to cover over-allotments, if any. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $, and our total proceeds, before expenses, will be $.

Sole Book-Running Manager

Jefferies

Co-Lead Manager

B. Riley & Co., LLC

Co-Managers

Noble Financial Capital

Oppenheimer & Co. **Markets** **Imperial Capital**

Prospectus Supplement dated February , 2011

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission ("SEC") utilizing a "shelf" registration process. This document is in two parts. The first part is the prospectus supplement, including the documents incorporated by reference, which describes the specific terms of this offering. The second part, the accompanying prospectus, including the documents incorporated by reference, provides more general information. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. We urge you to carefully read this prospectus supplement and the accompanying prospectus, and the documents incorporated by reference herein and therein, before buying any of the securities being offered under this prospectus supplement. This prospectus supplement may add or update information contained in the accompanying prospectus and the documents incorporated by reference therein. To the extent that any statement we make in this prospectus supplement is inconsistent with statements made in the accompanying prospectus or any documents incorporated by reference therein that were filed before the date of this prospectus supplement, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and such documents incorporated by reference therein.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus, or incorporated by reference herein or therein. We have not authorized anyone to provide you with different information. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement and the accompanying prospectus. You should not rely on any unauthorized information or representation. This prospectus supplement is an offer to sell only the securities offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information in this prospectus supplement and the accompanying prospectus is accurate only as of the date on the front of the applicable document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the date of delivery of this prospectus supplement or the accompanying prospectus, or any sale of a security.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus to "the Company," "we," "us," "our" and "Kratos" refer to Kratos Defense & Security Solutions, Inc., a Delaware corporation, and its consolidated subsidiaries.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary is not complete and does not contain all of the information that you should consider before investing in the securities offered by this prospectus. You should read this summary together with the entire prospectus supplement and the accompanying prospectus, including our financial statements, the notes to those financial statements and the other documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. See "Risk Factors" beginning on page S-18 of this prospectus supplement for a discussion of the risks involved in investing in our securities.

Kratos Defense & Security Solutions, Inc.

Our Business

Kratos is an innovative provider of mission-critical engineering, information technology services, strategic communications and warfighter products, solutions and services. We work primarily for the U.S. government and federal government agencies, but we also perform work for state and local agencies and commercial customers. Our principal services are related to, but are not limited to, Command, Control, Communications, Computing, Combat Systems, Intelligence, Surveillance and Reconnaissance ("C5ISR"); weapons systems lifecycle support and sustainment; military weapon range operations and technical services; missile, rocket and weapons system testing and evaluation; missile and rocket mission launch services; public safety, security and surveillance systems; modeling and simulation; unmanned aerial vehicle systems; and advanced network engineering and information technology services. We offer our customers solutions and expertise to support their mission-critical needs by leveraging our skills across our core service areas.

We derive a substantial portion of our revenue from contracts performed for federal government agencies, including the U.S. Department of Defense ("DoD"), with substantially all of our revenue currently generated from the delivery of mission-critical warfighter solutions, advanced engineering services, system integration and system sustainment services to defense and other non-DoD and civilian government agencies. We believe our stable client base, strong client relationships, broad array of contract vehicles, considerable employee base possessing government security clearances, extensive list of past performance qualifications, and significant management and operational capabilities position us for continued growth.

Prior to 2008, we were also an independent provider of outsourced engineering and network deployment services, security systems engineering and integration services and other technical services for the wireless communications industry, the U.S. government and enterprise customers. In 2006 and 2007, we undertook a transformation strategy whereby we divested our commercial wireless-related businesses and chose to pursue business with the federal government, primarily the DoD, through strategic acquisitions. On September 12, 2007, we changed our name from Wireless Facilities, Inc. to Kratos Defense & Security Solutions, Inc. Our new name reflects our revised focus as a defense contractor and security systems integrator for the federal government and for state and local agencies. In connection with our name change, we changed our NASDAQ Global Select Market trading symbol to "KTOS".

Competitive Strengths

We believe we have robust past performance qualifications in our respective business areas, including a work force that is experienced with the various programs we service and the customers we serve. We believe the following key strengths distinguish us competitively:

Significant and highly specialized experience. Through existing customer engagements and the government-focused acquisitions we have completed over the past several years, we have amassed significant and highly specialized experience in areas directly related to weapon system life-cycle extension and sustainment; missile, rocket and weapons system testing and evaluation; C5ISR;

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military range operations and technical services, and other highly differentiated services and solutions. This collective experience, or past performance qualifications, is a requirement for the majority of our contract vehicles and customer engagements. Further enhancing our specialized expertise, a majority of our over 2,800 employees have national security clearances. We believe these characteristics represent a significant competitive strength and position us to win renewal or follow-on business.

Specialized national security focus aligned with mission-critical national security priorities. Continued concerns related to the threat posed by certain foreign nations and terrorists have caused the U.S. government to identify national security as an area of functional and spending priority. Budget pressures, particularly related to DoD spending, have placed a premium on developing and fielding relatively low-cost, high-technology solutions to assist in national security missions. Our primary capabilities and areas of focus, listed below, are strongly aligned with the objectives of the U.S. government:

Intelligence, surveillance and reconnaissance

Command and control

Unmanned systems

Ballistic missile defense

Cyber security and information assurance

We believe our strategy has been confirmed through our established positions on 11 of the top 15 DoD programs in terms of total procurement and research, development, testing and evaluation spending, including the F-35 Lightning II, multiple missile defense programs, Bridge Combat Team (Future Combat Systems), multiple unmanned aerial vehicle ("UAV") programs, Blackhawk helicopter and related variants, CVN-21 Carrier Replacement, DDG-51 Aegis Destroyer, Littoral Combat Ship and others.

Strategic geographic locations and base realignment and closure. The U.S. Base Realignment and Closure Act of 2005 ("BRAC") is the congressionally authorized process the DoD has implemented to reorganize its base structure to fewer, larger bases in order to support U.S. armed forces more efficiently and effectively, increase operational readiness and facilitate new ways of doing business. As a result of the DoD's BRAC transformation, we have concentrated part of our business strategy on building a significant presence in key BRAC receiving locations where the U.S. federal government is relocating its personnel and related technical and professional services. We believe our focus on increasing our strategic presence in key BRAC receiving locations will provide us with a significant competitive advantage.

Diverse base of key contracts with low concentration. As a result of our business development focus on securing key contracts, we are a preferred contractor on numerous multi-year, government-wide acquisition contracts and multiple award contracts. Our preferred contractor status provides us with the opportunity to bid on hundreds of millions of dollars of business each year against a discrete number of other pre-qualified companies. We have a highly diverse base of contracts with no contract representing more than 5% of pro forma 2009 revenue. Our fixed-price contracts, almost all of which are production contracts, represent approximately 54% of our pro forma 2009 revenue. Our cost-plus-fee contracts and time and materials contracts represent approximately 24% and 22%, respectively, of our pro forma 2009 revenue. We believe our diverse base of key contracts and low reliance on any one contract provides us with a stable, balanced revenue stream.

In-depth understanding of client missions. We have a reputation for providing mission-critical services and solutions to our clients. Our relationships with our U.S. Army, U.S. Navy and U.S. Air Force customers generally exceed 10 years, enabling us to develop an in-depth understanding of their missions and technical needs. In addition, we have employees located at customer sites, providing us

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valuable strategic insights into our clients' ongoing and future program requirements. Our in-depth understanding of our clients' missions, in conjunction with the strategic location of our employees, enables us to offer technical solutions tailored to our clients' specific requirements and evolving mission objectives. In addition, once we are on-site with a customer, we have historically been successful in winning recompete business in the vast majority of cases.

Significant cash flow visibility driven by stable backlog. As of September 26, 2010, our pro forma total backlog was approximately $883 million, of which approximately $508 million was funded backlog. The majority of our sales are from orders issued under long-term contracts, typically three to five years in duration. Our contract backlog provides visibility into stable future revenue and cash flow over a diverse set of contracts.

Highly skilled employees and an experienced management team. We deliver our services through a skilled workforce of over 2,800 employees. Our senior managers have significant experience with U.S. federal government agencies, the U.S. military and federal government contractors. Members of our management team have experience growing businesses both organically and through acquisitions. We believe that the cumulative experience and differentiated expertise of our personnel in our core focus areas, coupled with our sizable employee base, the majority of which hold national security clearances, allow us to qualify for and bid on larger projects in a prime contracting role.

Pending Acquisition of Herley Industries, Inc.

Overview of the Acquisition

On February 7, 2011, we entered into a merger agreement to acquire Herley Industries, Inc., a Delaware corporation ("Herley"), through a tender offer by one of our indirect wholly-owned subsidiaries for all of Herley's outstanding common stock and a subsequent merger between such subsidiary and Herley. See " Terms of Acquisition and Related Financing Transactions Merger Agreement." Since the completion of the acquisition of Herley is subject to various conditions, it is not certain that we will acquire Herley within the expected timeframe or at all. Failure to complete the acquisition of Herley could adversely affect our stock price and our future business or financial results and would affect the use of proceeds from this offering. See "Risk Factors Risks Related to the Proposed Acquisition of Herley" and "Use of Proceeds".

Overview of Herley's Business

Herley is a leading provider of microwave technologies for use in command and control systems, flight instrumentation, weapons sensors, radar, communication systems, and electronic warfare systems. Herley has served the defense industry since 1965 by designing and manufacturing microwave devices for use in high-technology defense electronics applications. Herley's products represent key components in the national security efforts of the U.S., as they are employed in mission-critical electronic warfare, electronic attack, electronic warfare threat and radar simulation, command and control network, and cyber warfare/cybersecurity applications.

We believe Herley represents a premier source for RF and microwave electronics due to its end-to-end product capability across its core end markets. In addition, Herley provides significant value to its customers through its ability to create innovative, high-performance products and solutions for a broad array of applications ranging from standard, high-production components to custom, complex integrated subsystems.

Herley has developed a defensible market position through its engineering expertise and technological capabilities, long development cycle (including interaction with customers during pre-production design), high risk and cost to customer to replace its components and systems and 45+ year track record of expertise in the microwave industry. Herley has leveraged these qualities to create entrenched positions on leading defense platforms, with the majority of its revenue being derived from single-source assignments. As

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a result, Herley offers significant visibility into future revenue and profitability with its long-term status on many well-funded platforms.

Herley has established long-term relationships with its primary customers, including large defense prime contractors (including Northrop Grumman Corporation, Lockheed Martin Corporation, Raytheon Company, The Boeing Company and BAE Systems), the U.S. government (including the DoD, NASA and other U.S. government agencies) and international customers (including the Israeli and Australian militaries and suppliers to international militaries). Herley's products and systems are currently deployed on a wide range of high profile military platforms, including the F-16 Falcon, the F/A-18E/F Super Hornet, the E-2C/D Hawkeye, the EA-18G Growler, the AEGIS class surface combatants, the EA-6B Prowler, the AMRAAM (Advanced Medium-Range Air-to-Air Missile), the CALCM (Conventional Air Launch Cruise Missile), the P-8 MMA (Multi-Mission Maritime Aircraft) and UAVs, as well as high priority national security programs such as National Missile Defense and the Trident II D-5.

Strategic Rationale

We believe that the proposed acquisition will provide long-term strategic and financial benefits to our stockholders, including long-term growth in revenues, earnings and returns on equity, and will offer other important benefits including:

Strong fit with our existing core competencies. Herley's business is primarily focused on providing mission-critical products for national security and weapons systems applications on which we are working, which we are supporting or with which we are familiar, including:

- Manned and unmanned aircraft
- Tactical and ballistic missiles
- Sensor and radar platforms
- Representative threat targets
- Simulation and testing
- Electronic warfare systems
- Electronic attack systems
- Command and control systems

Long-term positions on high-priority, well-funded military platforms. Herley's existing products primarily support fielded systems on established, solidly-funded programs that will be deployed by the U.S. and foreign militaries for the foreseeable future. Examples of these platforms, which support electronic attack, electronic warfare, radar/threat simulation and threat neutralization missions, include: F-16, EA-18G, AMRAAM, F-18 and Trident.

Acquisition of a scarce asset with a strong reputation in its markets. Herley represents one of the few remaining independent electronic warfare/electronic attack-focused companies. Herley experiences limited competition due to the nature of its work and benefits from high barriers to market entry from potential competitors. For these reasons and as a result of its strong intellectual property profile, Herley has created sole-source or single-source positions on the majority of its contracts.

Strong growth opportunities. Herley maintains a substantial new business pipeline with opportunities in multiple areas, including:

Next Generation Intelligence, Surveillance and Reconnaissance Airborne System

Unmanned Autonomous Air Vehicles

UAS System for Persistent ISR Data Collection

Electronic Warfare Jammers Next Generation

Electronic Attack Next Generation

Electronic Cyber Attack

Foreign Military Sales and Direct International Sales

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Ease of integration with our existing business. We expect Herley to be easily integrated into our Weapon Systems Solutions ("WSS") Division. The WSS Division houses our work on weapons and other platforms similar to Herley's business, including manned and unmanned aircraft targets, sensors and radar platforms, and tactical and ballistic missiles. All six key Herley division Presidents are expected to continue their employment with us to ensure a smooth transition and continued success.

Diversification of business. Our acquisition of Herley would allow us to add premier microwave components and systems to our existing services offerings. Herley supplies its products to many of our existing platforms, which would allow us to enhance our exposure to key programs. We believe Herley would be able to introduce new products and services on each of its and our existing platforms. In addition, we believe creating a broader solutions portfolio would create many attractive opportunities on new programs. In addition, Herley maintains a diversified revenue base as it is a direct supplier to all services of the U.S. military and a first-tier supplier to all of the primary defense contractors. In addition, Herley's products are embedded on over 120 individual platforms, with no one program comprising more than 8% of its total revenue.

Significant profitability enhancement. In recent periods, Herley's EBITDA margins have been approximately twice our EBITDA margins. The proposed acquisition would substantially enhance our profitability profile.

Opportunities to achieve significant synergies. Herley will be integrated directly into our WSS Division. Upon completion of the acquisition, management expects that each Herley division and facility will report directly to the President of our WSS Division, resulting in cost efficiencies. In addition, upon completion of the acquisition, Herley will no longer require expenses related to operating as a publicly traded company, including directors' compensation, related insurance, audit fees and fees and expenses related to public filings. We expect the removal of these costs will eliminate approximately $5 million annually in operating expenses from Herley, of which approximately $2 million on an annualized basis will be eliminated starting in the first quarter following completion of the acquisition of Herley and $3 million on an annualized basis will be eliminated during the remainder of the 12-month period following completion of the acquisition.

Terms of Acquisition and Related Financing Transactions

Merger Agreement

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

The consummation of the Offer is subject to customary closing conditions, including, among other things, the expiration of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and, subject to the terms of the Merger Agreement, any other applicable competition laws and the valid tender of shares of Herley Common Stock representing at least a majority of the total outstanding shares of Herley Common Stock, calculated on a fully diluted basis, and other offer conditions set forth in Annex A to the Merger Agreement.

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

The closing of the Merger is subject to, among other conditions, the adoption of the Merger Agreement by holders of a majority of the outstanding shares of Herley Common Stock, if required by applicable law. However, the Merger Agreement also provides that, subject to certain conditions and limitations, Merger Sub will have an irrevocable option (the "Top-Up Option"), exercisable after the completion of the Offer, to acquire a number of shares of Herley Common Stock equal to the lesser of (i) the lowest number of shares that, when added to the number of shares of Herley Common Stock owned by us or Merger Sub at the time of the exercise of the Top-Up Option, will constitute one share more than 90% of the number of shares of Herley Common Stock that will be outstanding after giving effect to the exercise of the Top-Up Option, at a price per share equal to the Offer Price, and (ii) the aggregate number of shares held as treasury shares by Herley and the number of additional shares that Herley is authorized to issue under its certificate of incorporation. The Top-Up Option is intended to expedite the timing of the completion of the Merger by permitting the Merger to occur without a meeting of the Herley stockholders pursuant to the "short-form merger" provisions of the Delaware General Corporation Law.

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

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

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, a copy of which is attached hereto as Annex A.

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Financing Transactions

We estimate our cash requirements in connection with the acquisition of Herley to be approximately $318 million. On February 7, 2011, in connection with the Offer, we entered into a commitment letter (the "Commitment Letter") with Jefferies Group, Inc., Key Capital Corporation and OPY Credit Corp. (collectively, the "Committing Parties"), pursuant to which the Committing Parties have committed to provide debt financing of up to an aggregate of $307.5 million for the Offer. The amount of the commitment is subject to reduction by the amount of net proceeds that we raise in this offering; provided that the maximum amount of such reduction shall not exceed $40 million. The commitment of the Committing Parties under the Commitment Letter is subject to customary conditions, including the absence of any material adverse effect on the financial condition of Herley or our ability to consummate the transactions described in the Commitment Letter. We intend to commence a private offering to eligible purchasers, subject to market and other conditions, of up to $325 million in aggregate principal amount of senior secured notes due 2017 (the "New Notes"). This prospectus supplement does not constitute an offer to sell or the solicitation of an offer to buy the New Notes and shall not constitute an offer, solicitation or sale in any jurisdiction in which such offering, solicitation or sale would be unlawful.

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

We expect to use the net proceeds from this offering together with the net proceeds from the issuance and sale of the New Notes (and to the extent the Notes are not issued and sold, the debt financing to be provided by the Committing Parties, subject to the satisfaction of the conditions of the Commitment Letter) to fund the purchase of the Herley Common Stock in connection with the acquisition of Herley and for other general corporate purposes. If the acquisition of Herley is not completed, we will use the net proceeds from this offering for general corporate purposes. See "Use of Proceeds".

Recent Developments

Although our consolidated financial statements for the three months ended December 26, 2010 are not yet complete, the following information reflects our estimates of those results based on currently available information.

We currently expect revenues for the three months ended December 26, 2010 to be in the range of $120 million to $122 million.

We currently expect operating income for the three months ended December 26, 2010 to be in the range of $6.3 million to $6.8 million.

We currently expect depreciation and amortization expense for the three months ended December 26, 2010 to be approximately $4.1 million.

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We currently expect stock-based compensation expense for the three months ended December 26, 2010 to be approximately $0.5 million.

We currently expect merger and acquisition expenses for the three months ended December 26, 2010 to be approximately $1.6 million.

Our final financial results for the year ended December 26, 2010 may vary from our expectations as our quarterly financial statement close process is not complete and additional developments and adjustments may arise between now and the time the financial results for this period are finalized. We currently expect to publish our final audited results for the year ended December 26, 2010 on or about March 1, 2011.

Our Corporate Information

We were initially incorporated in the state of New York in 1994, commenced operations in 1995 and were reincorporated in Delaware in 1998. On September 12, 2007, we changed our name from Wireless Facilities, Inc. to Kratos Defense & Security Solutions, Inc. Our executive offices are located at 4820 Eastgate Mall, San Diego, California 92121, and our telephone number is (858) 812-7300. We maintain an Internet website at *www.kratosdefense.com*. Information contained in or accessible through our website does not constitute part of this prospectus supplement or the accompanying prospectus.

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The Offering

Common stock offered by us	shares of common stock (or shares of common stock if the underwriters exercise their option to purchase additional shares in full).
Common stock outstanding after this offering	shares of common stock (or shares of common stock if the underwriters exercise their option to purchase additional shares in full).
Over-allotment option	shares of common stock
Use of proceeds	We expect the net proceeds from this offering will be approximately $ million (or $ million if the underwriters exercise their option to purchase additional shares in full) after deducting underwriting discounts and commissions, as described in "Underwriting," and estimated offering expenses payable by us. We intend to use the net proceeds from this offering to fund the cash consideration payable to the Herley stockholders in connection with our proposed acquisition thereof. In the event that the acquisition of Herley is not consummated, we intend to use the net proceeds from this offering for general corporate purposes, including the acquisition of or investment in other businesses, services and technologies that are complementary to our own and other general corporate expenses. Pending such uses, we intend to invest the net proceeds in short-term, investment grade securities. See "Use of Proceeds" on page S-36 of this prospectus supplement.
NASDAQ Global Select Market symbol	"KTOS"
Risk factors	This investment involves a high degree of risk. See "Risk Factors" beginning on page S-18 of this prospectus supplement for a discussion of factors you should carefully consider before deciding to invest in our common stock.

The number of shares of our common stock to be outstanding immediately after the closing of this offering is based on 18,676,195 shares of common stock outstanding as of January 21, 2011 and excludes, as of that date:

1,349,368 shares of common stock issuable upon the exercise of outstanding stock options at a weighted average exercise price of $25.34 per share;

1,294,175 shares of common stock available for future grant under our 1999 Employee Stock Purchase Plan and 2005 Equity Incentive Plan (together, the "Plans");

1,094,715 shares of common stock issuable upon the vesting and settlement of restricted stock units;

100,000 shares of common stock which may be issued upon conversion of 10,000 shares of Series B Preferred Shares; and

any shares issuable upon the exercise of the Assumed Options.

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Summary Consolidated Historical Financial Data of Kratos

The following table sets forth a summary of our consolidated historical financial data as of the dates and for each of the periods indicated. The consolidated historical financial data for the years ended December 31, 2007, December 28, 2008 and December 27, 2009 and as of December 28, 2008 and December 27, 2009 is derived from our audited consolidated financial statements, which are incorporated by reference into this prospectus supplement. The consolidated historical financial data as of December 31, 2007 has been derived from our audited consolidated financial statements not included or incorporated by reference herein. The consolidated historical financial data as of and for the nine months ended September 27, 2009 and September 26, 2010 is derived from our unaudited condensed consolidated financial statements, which are incorporated by reference into this prospectus supplement. The historical results presented below are not necessarily indicative of results that can be expected for any future period and should be read in conjunction with the sections entitled "Use of Proceeds," and "Unaudited Pro Forma Condensed Combined Financial Statements" included elsewhere in this prospectus supplement, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 27, 2009 and our audited and unaudited consolidated financial statements incorporated by reference herein. See "Where You Can Find Additional Information."

	Fiscal Year Ended			Nine Months Ended	
	December 31, 2007	December 28, 2008	December 27, 2009	September 27, 2009	September 26, 2010
	(in millions except share and per share data)				
Statement of Operations Data:					
Revenue	$ 180.7	$ 286.2	$ 334.5	$ 259.3	$ 287.7
Cost of revenue	151.0	228.0	265.2	207.0	224.0
Gross profit	29.7	58.2	69.3	52.3	63.7
Selling, general and administrative expenses	36.6	48.9	52.8	40.3	45.5
Research and development expenses		0.9	1.8	1.3	1.6
Recovery of unauthorized issuance of stock options, stock option investigation and related fees, litigation settlement and other	16.7	(4.2)	0.4	(0.2)	(1.4)
Impairment of goodwill		105.8	41.3	41.3	
Merger and acquisition expenses					1.5
Other (income) expense, net	1.1	1.5	(0.1)	0.2	(0.8)
Interest expense, net	1.2	10.0	10.4	7.7	15.8
	(25.9)	(104.7)	(37.3)	(38.3)	1.5

Income (loss) before income taxes					
Tax (benefit) provision	1.3	(0.7)	1.0	0.5	(12.5)
Income (loss) from continuing operations before extraordinary items	(27.2)	(104.0)	(38.3)	(38.8)	14.0
Income (loss) from continuing operations per common share:					
Basic	$ (3.67)	$ (11.18)	$ (2.76)	$ (2.94)	$ 0.87
Diluted	$ (3.67)	$ (11.18)	$ (2.76)	$ (2.94)	$ 0.85
Income (loss) from discontinued operations per common share:					
Basic	$ (1.84)	$ (0.77)	$ (0.23)	$ (0.23)	$ 0.01
Diluted	$ (1.84)	$ (0.77)	$ (0.23)	$ (0.23)	$ 0.01
Net income (loss) per common share:					
Basic	$ (5.51)	$ (11.95)	$ (2.99)	$ (3.17)	$ 0.88
Diluted	$ (5.51)	$ (11.95)	$ (2.99)	$ (3.17)	$ 0.86
Weighted average common shares outstanding:					
Basic	7.4	9.3	13.9	13.2	16.0
Diluted	7.4	9.3	13.9	13.2	16.4

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	Fiscal Year Ended			Nine Months Ended	
	December 31, 2007	December 28, 2008	December 27, 2009	September 27, 2009	September 26, 2010
	(in millions except share and per share data)				
Balance Sheet Data (at period end) :					
Cash and cash equivalents	$ 8.9	$ 3.7	$ 9.9	$ 10.9	$ 51.3
Property and equipment, net	6.7	6.4	4.3	4.8	24.2
Total assets	335.3	312.4	241.6	245.8	484.9
Total debt	76.7	83.0	56.3	58.4	226.2
Total stockholders' equity	167.2	146.9	124.9	123.8	142.3
Other Data:					
EBITDA	$ (20.4)	$ (87.4)	$ (18.6)	$ (24.3)	$ 26.0
Adjusted EBITDA	$ (2.9)	$ 17.0	$ 24.7	$ 18.7	$ 26.8

As presented in the table below, Adjusted EBITDA is a non-GAAP financial measure defined as GAAP income (loss) from continuing operations plus, interest expense, net, provision (benefit) for income taxes, depreciation and amortization, stock-based compensation expense, impairment of goodwill, stock option investigation and related fees and certain recovery and settlement amounts, and other (income) expense related to interest rate swap agreements.

Adjusted EBITDA as calculated by us may be calculated differently than EBITDA for other companies. We have provided Adjusted EBITDA because we believe it is a commonly used measure of financial performance in comparable companies and is provided to help investors evaluate companies on a consistent basis, as well as to enhance an understanding of our operating results. Our management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating our operating performance and capital resources and cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures as reported by us may not be comparable to similarly titled amounts reported by other companies. Adjusted EBITDA should not be construed as either an alternative to net income or as an indicator of our operating performance or an alternative to cash flow as a measure of liquidity.

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The following table reconciles our net income to EBITDA and EBITDA to Adjusted EBITDA for the periods presented:

	Fiscal Year Ended			Nine Months Ended	
	December 31, 2007	December 28, 2008	December 27, 2009	September 27, 2009	September 26, 2010
	(in millions)				
Income (loss) from continuing operations	$ (27.2)	$ (104.0)	$ (38.3)	$ (38.8)	$ 14.0
Interest expense, net	1.2	10.0	10.4	7.7	15.8
Provision (benefit) for income taxes	1.3	(0.7)	1.0	0.5	(12.5)
Depreciation and amortization	4.3	7.3	8.3	6.3	8.7
EBITDA	$ (20.4)	$ (87.4)	$ (18.6)	$ (24.3)	$ 26.0
Stock-based compensation expense(a)	0.8	1.1	1.7	1.1	1.4
Impairment of goodwill(b)		105.8	41.3	41.3	
Stock option investigation and related fees, recovery of unauthorized issuance of stock options, litigation settlement and other(c)	16.7	(4.2)	0.4	0.4	0.1
Other (income) expense related to interest rate swap agreements(d)		1.7	(0.1)	0.2	(0.7)
Adjusted EBITDA	$ (2.9)	$ 17.0	$ 24.7	$ 18.7	$ 26.8

(a)

Stock-based compensation expense represents non-cash compensation charges related to the issuance of stock options to certain employees and directors.

(b)

Non-cash charge related to the impairment of goodwill.

(c)

Costs which are primarily comprised of non-recurring expenses associated with our historical stock option investigation, 2004 and 2007 securities and derivative litigation, recovery of those costs and acquisition expenses.

(d)

Non-cash mark-to-market charge for interest rate swap agreements.

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Summary Consolidated Historical Financial Data of Herley

The following table sets forth a summary of Herley's consolidated historical financial data as of the dates and for each of the periods indicated. The consolidated historical financial data as of and for the years ended August 3, 2008, August 2, 2009 and August 1, 2010 is derived from Herley's audited consolidated financial statements set forth in Annex B of this prospectus supplement. The consolidated historical financial data for and as of the three months ended November 1, 2009 and October 31, 2010 is derived from Herley's unaudited condensed consolidated financial statements set forth in Annex B of this prospectus supplement. The historical results presented below are not necessarily indicative of results that can be expected for any future period and should be read in conjunction with Herley's audited consolidated financial statements included herein.

	Fiscal Year Ended			Three Months Ended	
	August 3, 2008	August 2, 2009	August 1, 2010	November 1, 2009	October 31, 2010
	(in millions except share and per share data)				
Statement of Operations Data:					
Net sales	$ 136.1	$ 160.1	$ 188.1	$ 47.7	$ 48.9
Cost and expenses:					
Cost of products sold	107.8	132.6	134.3	34.4	33.2
Selling and administrative expenses	28.3	28.9	31.4	7.7	9.3
Impairment of goodwill and other intangible assets		44.2			
Litigation costs, net of recovery settlement	5.5	1.8	0.8	0.5	0.8
Litigation settlements	15.5		11.0		
Employment contract settlement costs		10.6	0.9		
Operating income (loss)	(21.2)	(58.0)	9.7	5.1	5.6
Income (loss) from continuing operations	(10.7)	(40.7)	7.0	3.6	3.5
Income (loss) from discontinued operations	0.3	(0.5)			
Net income (loss)	$ (10.3)	$ (41.2)	$ 7.0	$ 3.6	$ 3.5
Earnings (loss) per common share Basic:					
Income (loss) from continuing operations	$ (0.78)	$ (3.00)	$ 0.51	$ 0.26	$ 0.25
Income (loss) from discontinued operations	0.02	(0.03)			
Net income (loss)	$ (0.76)	$ (3.03)	$ 0.51	$ 0.26	$ 0.25
Earnings (loss) per common share Diluted:					
Income (loss) from continuing operations	$ (0.78)	$ (3.00)	$ 0.50	$ 0.26	$ 0.25
Income (loss) from discontinued operations	0.02	(0.03)			
Net income (loss)	$ (0.76)	$ (3.03)	$ 0.50	$ 0.26	$ 0.25
Weighted average common shares outstanding					
Basic	13.7	13.6	13.8	13.7	13.8
Diluted	13.7	13.6	14.1	13.9	14.1
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 14.3	$ 14.8	$ 25.7	$ 13.8	$ 18.2
Property and equipment, net	30.5	32.9	32.4	32.9	32.1
Total assets	259.4	228.3	226.6	223.4	222.9

Total debt	8.5	13.8	12.2	20.2	11.8
Total stockholders' equity	193.4	152.0	159.0	155.3	162.8

As presented in the table below, Adjusted EBITDA is a non-GAAP financial measure defined as GAAP net income (loss) from continuing operations plus interest expense, net, provision (benefit) for income taxes, depreciation and amortization, stock-based compensation expense, litigation costs and settlements, and impact of anticipated reduction of duplicative costs.

Adjusted EBITDA as calculated by us may be calculated differently than EBITDA for other companies. We have provided Adjusted EBITDA because we believe it is a commonly used measure of financial performance in comparable companies and is provided to help investors evaluate companies on a consistent

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basis, as well as to enhance an understanding of our operating results. Management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating operating performance and capital resources and cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures as reported by us may not be comparable to similarly titled amounts reported by other companies. Adjusted EBITDA should not be construed as either an alternative to net income or as an indicator of our operating performance or an alternative to cash flow as a measure of liquidity.

The following table reconciles Herley's net income to EBITDA and EBITDA to Adjusted EBITDA for the period presented:

	Three Months Ended October 31, 2010 (in millions)
Net income from continuing operations	$ 3.5
Interest expense, net	
Provision for income taxes	2.1
Depreciation and amortization	1.7
EBITDA	$ 7.3
Stock-based compensation expense[(a)]	0.3
Litigation costs and settlements[(b)]	1.9
Impact of anticipated reduction of duplicative costs[(c)]	1.2
Adjusted EBITDA	$ 10.7

(a) Stock-based compensation expense represents non-cash compensation charges related to the issuance of stock options to certain employees and directors.

(b) Fees and estimated settlement costs associated with litigation.

(c) Expenses related to public company and personnel costs that are duplicative and expected to be eliminated.

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Summary Unaudited Pro Forma Condensed Combined Consolidated Financial and Operating Information

The following table sets forth summary unaudited pro forma condensed combined consolidated financial information of Kratos. The summary unaudited pro forma condensed combined financial data is intended to show how the acquisition of Herley might have affected historical financial statements of Kratos if such acquisition had been completed at an earlier time and was prepared based on the historical financial results reported by Kratos and Herley. The following should be read in connection with the audited and unaudited consolidated financial statements of Herley, set forth in Annex B of this prospectus supplement, and our audited and unaudited consolidated financial statements which are incorporated by reference into this prospectus supplement. See "Where You Can Find Additional Information" beginning on page S-61.

The summary unaudited pro forma condensed combined financial statements were prepared in accordance with the regulations of the SEC. The pro forma adjustments reflecting the completion of the acquisition of Herley are based upon the acquisition method of accounting in accordance with GAAP, and upon the assumptions set forth in the notes to the unaudited pro forma condensed combined financial statements.

During 2010, Kratos acquired Gichner Holdings, Inc. ("Gichner") and Henry Bros. Electronics. Inc. ("HBE"). The acquisition of each of Gichner and HBE was completed on May 19, 2010 and December 15, 2010, respectively.

The summary unaudited pro forma condensed combined balance sheet as of September 26, 2010 combines the historical consolidated balance sheets of Kratos as of September 26, 2010, HBE as of September 30, 2010, and Herley as of October 31, 2010.

The summary unaudited pro forma condensed combined statements of operations for the nine months ended September 26, 2010 combine the historical consolidated statements of operations of Kratos, Herley and HBE for their respective nine months ended September 26, 2010, October 31, 2010 and September 30, 2010, and of Gichner for the three months ended March 31, 2010. The summary unaudited pro forma condensed combined statements of operations for the year ended December 27, 2009 combine the historical consolidated statements of operations of Kratos, Gichner and HBE for their respective years ended December 27, 2009, December 31, 2009 and December 31, 2009, and of Herley for the 12-month period ended January 31, 2010. The operating results for the 12-month period ended January 31, 2010 for Herley were derived from the quarterly operating results and annual operating results of Herley.

The unaudited pro forma condensed combined financial information also gives effect to this offering and the related debt financing.

The summary unaudited pro forma condensed combined consolidated financial information is provided for illustrative purposes only and does not purport to represent what Kratos' actual consolidated results of operations or the consolidated financial position would have been had the transactions occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

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	Pro Forma Year Ended December 27, 2009	Pro Forma Nine Months Ended September 26, 2010
	(in millions, except share and per share data)	
Statement of Operations Data:		
Revenue	$ 715.8	$ 527.2
Operating income (loss) from continuing operations	(75.2)	23.5
Loss from continuing operations	(127.8)	(2.3)
Basic loss from continuing operations per common share:	$ (6.59)	$ (0.11)
Diluted loss from continuing operations per common share	$ (6.59)	$ (0.11)
Weighted average common shares outstanding:		
Basic	19.4	21.5
Diluted	19.4	21.5
Balance Sheet Data (at period end):		
Cash and cash equivalents		$ 27.0
Total assets		908.0
Total debt		481.3
Total liabilities		723.0
Total stockholders' equity		185.0
Other Data:		
EBITDA	$ (44.5)	$ 45.2
Adjusted EBITDA	65.7	66.0

As presented in the table below, Adjusted EBITDA is a non-GAAP financial measure defined as GAAP loss from continuing operations plus interest expense, net, provision (benefit) for income taxes, depreciation and amortization, stock-based compensation expense, impairment of goodwill, stock option investigation and related fees, other (income) expense related to interest rate swap agreements, acquisition costs and management fees, impact of anticipated reduction of duplicative costs, litigation costs and settlements, employment termination and settlement costs, and other.

Adjusted EBITDA as calculated by us may be calculated differently than EBITDA for other companies. We have provided Adjusted EBITDA because we believe it is a commonly used measure of financial performance in comparable companies and is provided to help investors evaluate companies on a consistent basis, as well as to enhance an understanding of our operating results. Our management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating our operating performance and capital resources and cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures as reported by us may not be comparable to similarly titled amounts reported by other companies. Adjusted EBITDA should not be construed as either an alternative to net income or as an indicator of our operating performance or an alternative to cash flow as a measure of liquidity.

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The following tables reconcile our pro forma net loss to EBITDA and EBITDA to adjusted EBITDA to reflect the acquisition of Herley for the periods presented:

	Pro Forma Year Ended December 27, 2009	Pro Forma Nine Months Ended September 26, 2010
	(in millions)	
Loss from continuing operations	$ (127.8)	$ (2.3)
Interest expense, net	50.7	38.0
Provision (benefit) for income taxes	2.0	(11.5)
Depreciation and amortization	30.6	21.0
EBITDA	$ (44.5)	$ 45.2
Stock-based compensation expense[(a)]	1.9	1.5
Impairment of goodwill[(b)]	85.5	
Stock option investigation and related fees[(c)]	(0.2)	(1.4)
Other (income) expense related to interest rate swap agreements[(d)]	(0.1)	(0.7)
Acquisition costs and management fees[(e)]	0.5	2.2
Impact of anticipated reduction of duplicative costs[(f)]	6.8	5.0
Litigation costs and settlements[(g)]	0.9	13.3
Employment termination and settlement costs[(h)]	11.5	
Other[(i)]	3.4	0.9
Adjusted EBITDA	$ 65.7	$ 66.0

(a) Stock-based compensation expense represents non-cash compensation charges related to the issuance of stock options to certain employees and directors.

(b) Non-cash charge related to the impairment of goodwill.

(c) Recovery of costs from our insurance carriers which are associated with our historical stock option investigation.

(d)

Non-cash mark-to-market charge for interest rate swap agreements.

(e)

Fees related to acquisition expenses and management fees.

(f)

Expenses related to public company and personnel costs that are duplicative and expected to be eliminated.

(g)

Fees and settlement costs associated with class action and derivative litigation.

(h)

Costs incurred due to employment agreements and the termination of employees.

(i)

Primarily relates to an advanced payment made to a vendor that failed to perform work, to freight charges that were subsequently disputed and adjustments to the liability for unused office space.

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RISK FACTORS

An investment in our common stock involves a substantial risk of loss. You should carefully consider these risk factors, together with all of the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, as modified and superseded pursuant to Rule 412 under the Securities Act, before you decide to invest in our common stock. The occurrence of any of the following risks could harm our business. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations. You should also refer to the other information contained in this prospectus supplement and the accompanying prospectus or incorporated by reference herein or therein, including our financial statements and the notes to those statements and the information set forth under the heading "Cautionary Note Regarding Forward-Looking Statements."

Risks Related to the Proposed Acquisition of Herley

The proposed acquisition of Herley may not be completed within the expected timeframe, or at all, and the failure to complete such acquisition could adversely affect our stock price and our future business and financial results.

On February 7, 2011, we entered into the Merger Agreement with Herley. The Merger Agreement is an executory contract subject to numerous closing conditions beyond our control, and there is no guarantee that these conditions will be satisfied in a timely manner or at all. If any of the conditions to the proposed Merger are not satisfied (or waived by the other party), we may not complete the Merger or realize the anticipated benefits thereof. Disputes regarding interpretations of the Merger Agreement could also delay or prevent the closing. In addition, the market price of our common stock may reflect various market assumptions as to whether and when the proposed Merger will occur. Consequently, the failure to complete the Merger within the expected timeframe, or at all, could result in a significant change in the market price of our common stock.

The offering of common stock pursuant to this prospectus supplement is not conditioned on the completion of the proposed Merger.

The offering of common stock pursuant to this prospectus supplement is not conditioned on completion of the proposed Merger. Although certain information contained in this prospectus supplement generally assumes the completion of the Merger, we cannot assure you that the Merger will be consummated on the terms described in this prospectus supplement or at all. If we do not complete the proposed Merger, we will retain broad discretion to use the net proceeds from this offering of common stock for general corporate purposes, including the acquisition of or investment in other businesses, services and technologies that are complementary to our own and other general corporate expenses.

We may experience difficulties in integrating Herley's business and realizing the expected benefits of the proposed Merger.

Our ability to achieve the benefits we anticipate from the proposed Merger will depend in large part upon whether we are able to integrate Herley's business into our business in an efficient and effective manner. Because the businesses of Herley and Kratos differ, we may not be able to integrate Herley's business smoothly or successfully and the process may take longer than expected. The integration of certain operations, including Herley's international operations, and the differences in operational culture following the Merger will require the dedication of significant management resources, which may distract management's attention from day-to-day business operations. If we are unable to successfully integrate the operations of Herley's business into our business, we may be unable to realize the revenue growth, synergies

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and other anticipated benefits we expect to achieve as a result of the proposed Merger and our business and results of operations could be adversely affected.

The announcement and pendency of the proposed Merger may cause disruptions in Herley's business, which could have an adverse effect on our business, financial condition or results of operations following completion of the Merger.

The announcement and pendency of the proposed Merger could cause disruptions in the business of Herley. Specifically:

- current and prospective employees of Herley may experience uncertainty about their future roles with Kratos, which might adversely affect the ability of Herley to retain key personnel and attract new personnel;

- current and prospective customers of Herley may experience uncertainty about the ability of Herley to meet their needs, which might cause customers to seek other suppliers for the products and services provided by Herley; and

- management's attention may be focused on the Merger, which may divert management's attention from the core business of Herley and other opportunities that could have been beneficial to Herley.

This could have an adverse effect on the business, financial condition or results of operations of Herley prior to the completion of the Merger and on us following the completion of the Merger. These disruptions to Herley's business could be exacerbated by a delay in the completion of the Merger.

The historical and unaudited pro forma financial information included elsewhere in this prospectus supplement may not be representative of our results as a combined company after the Merger, and accordingly, you have limited financial information on which to evaluate the combined company and your investment decision.

We and Herley have no prior history as a combined entity and our operations have not previously been managed on a combined basis. The pro forma financial information, which was prepared in accordance with Article 11 of the SEC's Regulation S-X, is presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have actually occurred had the Merger been completed at or as of the dates indicated, nor is it indicative of the future operating results or financial position of the combined company. The pro forma financial information does not reflect future nonrecurring charges resulting from the Merger. The Unaudited Pro Forma Condensed Combined Financial Data does not reflect future events that may occur after the Merger, including the potential realization of operating cost savings (synergies) or restructuring activities or other costs related to the planned integration of Herley, and does not consider potential impacts of current market conditions on revenues, expense efficiencies or asset dispositions. The pro forma financial information presented in this prospectus supplement is based in part on certain assumptions regarding the Merger that we believe are reasonable under the circumstances. We cannot assure you that our assumptions will prove to be accurate over time.

Herley may have liabilities that are not known, probable or estimable at this time.

As a result of the Merger, Herley will become our subsidiary and we will effectively assume all of its liabilities, whether or not asserted. There could be unasserted claims or assessments that we failed or were unable to discover or identify in the course of performing due diligence investigations of Herley. In addition, there may be liabilities that are neither probable nor estimable at this time which may become probable and estimable in the future. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business. We may learn additional information about Herley that adversely affects us, such as unknown, unasserted or contingent liabilities and issues relating to compliance with applicable laws.

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The Merger may not be accretive and may cause dilution to the combined company's earnings per share, which may negatively impact the price of the common stock of the combined company following the completion of the Merger.

We currently anticipate that the Merger will be accretive to the earnings per share ("EPS") of the combined company during the first full calendar year after the Merger is completed. This expectation is based on preliminary estimates and estimated purchase price valuations of amortizable purchased intangibles and assumes certain synergies expected to be realized by the combined company during such time, including the elimination of Herley's expenses related to operating as a publicly traded company. Such estimates and assumptions could materially change due to additional transaction-related costs, any changes in the final purchase price valuation of amortizable purchased intangibles, the failure to realize any or all of the benefits expected in the Merger or other factors beyond our control or the control of Herley. All of these factors could delay, decrease or eliminate the expected accretive effect of the Merger and cause resulting dilution to the combined company's EPS or to the price of the common stock of the combined company.

Risks Related to Our Business Currently and Following the Proposed Acquisition of Herley

Our business could be adversely affected by changes in the contracting or fiscal policies of the U.S. federal government and governmental entities.

We derive a significant portion of our revenue from contracts with the U.S. federal government and government agencies and subcontracts under federal government prime contracts, and the success of our business and growth of our business will continue to depend on our successful procurement of government contracts either directly or through prime contractors. Current projections of the DoD indicate that government spending is expected to decrease beginning in 2011. Any such reductions or other government budgetary constraints and any changes in government contracting policies could directly affect our financial performance. Among the factors that could adversely affect our business are:

- changes in fiscal policies or decreases in available government funding, including budgetary constraints affecting federal government spending generally, or specific departments or agencies in particular;
- the adoption of new laws or regulations or changes to existing laws or regulations;
- changes in political or social attitudes with respect to security and defense issues;
- changes in federal government programs or requirements, including the increased use of small business providers;
- increases in the federal government initiatives related to in-sourcing;
- changes in or delays related to government restrictions on the export of defense articles and services;
- potential delays or changes in the government appropriations process; and
- delays in the payment of our invoices by government payment offices.

These and other factors could cause governments and government agencies, or prime contractors that use us as a subcontractor, to reduce their purchases under existing contracts, to exercise their rights to terminate contracts at-will or to abstain from exercising options to renew contracts, any of which could have an adverse effect on our business, financial condition and results of operations. Many of our government customers are subject to stringent budgetary constraints. The award of additional contracts from government agencies could be adversely affected by spending reductions or budget cutbacks at these agencies.

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Our credit facility contains restrictive covenants that could limit our ability to operate our business and, if not satisfied, could result in the acceleration of any amounts then due under the credit facility.

The agreement governing our credit facility subjects us to various financial and other covenants with which we must comply. These covenants require that we maintain a minimum fixed charge coverage ratio and include restrictions on our ability to:

- incur additional debt;
- create or incur liens;
- bid on or perform work due to limits on the amount of performance bonds that may be secured by letters of credit;
- pay dividends or make other equity distributions to our stockholders;
- make investments and effect certain acquisitions;
- sell assets;
- issue or become liable on a guarantee;
- create or acquire new subsidiaries; and
- effect a merger or consolidation, or sell all or substantially all of our assets.

Upon the occurrence of any event of default under our credit facility, our lenders could elect to declare all amounts then outstanding on our credit facility, together with accrued interest, to be immediately due and payable. If our lenders were to accelerate payment of these amounts, we may not have sufficient assets to repay them in full. In addition, if we fail to comply with these financial and other covenants, or are otherwise unable to make scheduled debt payments or comply with the other provisions of our debt instruments, our lenders may be permitted under certain circumstances to deny future access to liquidity, seize control of substantially all of our assets and exercise other remedies provided for in those agreements and under applicable law.

We may need additional capital to fund the growth of our business, and financing may not be available on favorable terms or at all.

We currently anticipate that our available capital resources, including our credit facility and operating cash flow, will be sufficient to meet our expected working capital and capital expenditure requirements for at least the next 12 months. However, such resources may not be sufficient to fund the long-term growth of our business. If we determine that it is necessary to raise additional funds, either through an expansion or refinancing of our credit facility or through public or private debt or equity financings, additional financing may not be available on terms favorable to us, or at all. Disruptions in the capital and credit markets may continue indefinitely or intensify, which could adversely affect our ability to access these markets. Limitations on our borrowing base contained in our credit facility may limit our access to capital, and we could fall out of compliance with financial and other covenants contained in our credit facility which, if not waived, would restrict our access to capital and could require us to pay down our existing debt under the credit facility. Our lenders may not agree to extend additional or continuing credit under our credit facility or waive restrictions on our access to capital. If we were to conduct a public or private offering of securities, any new offering would be likely to dilute our stockholders' equity ownership. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of available opportunities, develop new products or otherwise respond to competitive pressures and

our business, operating results or financial condition could be materially adversely affected.

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Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

Federal and state income tax laws impose restrictions on the utilization of net operating loss ("NOL") and tax credit carryforwards in the event that an "ownership change" occurs for tax purposes, as defined by Section 382 of the Internal Revenue Code of 1986, as amended. In general, an ownership change occurs when shareholders owning 5% or more of a "loss corporation" (a corporation entitled to use NOL or other loss carryovers) have increased their ownership of stock in such corporation by more than 50 percentage points during any 3-year period. The annual base Section 382 limitation is calculated by multiplying the loss corporation's value at the time of the ownership change by the greater of the long-term tax-exempt rate determined by the Internal Revenue Service in the month of the ownership change or the two preceding months. In March 2010 an "ownership change" occurred which will limit the utilization of the loss carryforwards. As a result, our annual utilization of NOL carryforwards will be limited to $28.1 million for five years and $11.6 million per year thereafter. For the quarter ended September 26, 2010, there was no impact of such limitations on the income tax provision since the amount of taxable income did not exceed the annual limitation amount. In addition, future equity offerings or acquisitions that have equity as a component of the purchase price could also result in an "ownership change". If and when any other "ownership change" occurs, utilization of the NOL or other tax attributes may be further limited.

We derive a substantial amount of our revenues from the sale of our solutions either directly or indirectly to U.S. government entities pursuant to government contracts, which differ materially from standard commercial contracts, involve competitive bidding and may be subject to cancellation or delay without penalty, any of which may produce volatility in our revenues and earnings.

Government contracts frequently include provisions that are not standard in private commercial transactions, and are subject to laws and regulations that give the federal government rights and remedies not typically found in commercial contracts, including provisions permitting the federal government to:

terminate our existing contracts;

reduce potential future income from our existing contracts;

modify some of the terms and conditions in our existing contracts;

suspend or permanently prohibit us from doing business with the federal government or with any specific government agency;

impose fines and penalties;

subject us to criminal prosecution;

suspend work under existing multiple year contracts and related task orders if the necessary funds are not appropriated by Congress;

decline to exercise an option to extend an existing multiple year contract; and

claim rights in technologies and systems invented, developed or produced by us.

In addition, government contracts are frequently awarded only after formal competitive bidding processes, which have been and may continue to be protracted and typically impose provisions that permit cancellation in the event that necessary funds are unavailable to the public agency. Competitive procurements impose substantial costs and managerial time and effort in order to prepare bids and proposals for contracts that may not be awarded to us. In many cases, unsuccessful bidders for government agency contracts are provided the opportunity to formally protest

certain contract awards through various agencies, administrative and judicial channels. The protest process may substantially delay a successful bidder's contract performance, result in cancellation of the contract award entirely and distract management. We may not be awarded contracts for which we bid, and substantial delays or cancellation of purchases may follow our successful bids as a result of such protests.

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Certain of our government contracts also contain "organizational conflict of interest" clauses that could limit our ability to compete for certain related follow-on contracts. For example, when we work on the design of a particular solution, we may be precluded from competing for the contract to install that solution. While we actively monitor our contracts to avoid these conflicts, we cannot guarantee that we will be able to avoid all organizational conflict of interest issues.

We may not receive the full amounts estimated under the contracts in our backlog, which could reduce our revenue in future periods below the levels anticipated and which makes backlog an uncertain indicator of future operating results.

As of September 26, 2010, our backlog was approximately $660 million, of which $285 was funded. On a pro forma basis, as of such date, our backlog was approximately $883 million, of which $508 million was funded. Funded backlog is estimated future revenue under government contracts and task orders for which funding has been appropriated by Congress and authorized for expenditure by the applicable agency, plus our estimate of the future revenue we expect to realize from our commercial contracts that are under firm orders. Although funded backlog represents only business which is considered to be firm, cancellations or scope adjustments may still occur. The remaining $375 million of our total backlog as of September 26, 2010 is unfunded. Unfunded backlog reflects our estimate of future revenue under awarded government contracts and task orders for which either funding has not yet been appropriated or expenditure has not yet been authorized. Unfunded backlog does not include estimates of revenue from government wide acquisition contracts ("GWAC") or General Services Administration ("GSA") schedules beyond awarded or funded task orders, but does include estimates of revenue beyond awarded or funded task orders for other types of indefinite quantity contracts. The amount of unfunded backlog is not exact or guaranteed and is based upon, among other things, management's experience under such contracts and similar contracts, the particular clients, the type of work and budgetary expectations. Our management may not accurately assess these factors or estimate the revenue we will realize from these contracts, and our unfunded and total backlog may not reflect the actual revenue ultimately received from these contracts.

Backlog is typically subject to large variations from quarter to quarter and comparisons of backlog from period to period are not necessarily indicative of future revenues. The contracts comprising our backlog may not result in actual revenue in any particular period or at all, and the actual revenue from such contracts may differ from our backlog estimates. The timing of receipt of revenues, if any, on projects included in backlog could change because many factors affect the scheduling of projects. Cancellation of or adjustments to contracts may occur. Additionally, all U.S. government contracts included in backlog, whether or not funded, may be terminated at the convenience of the U.S. government. The failure to realize all amounts in our backlog could adversely affect our revenues and gross margins. As a result, our funded and total backlog as of any particular date may not be an accurate indicator of our future earnings.

We face intense competition from many competitors that have greater resources than we do, which could result in price reductions, reduced profitability or loss of market share.

We operate in highly competitive markets and generally encounter intense competition to win contracts from many other firms, including mid-tier federal contractors with specialized capabilities and large defense and IT services providers. Competition in our markets may increase as a result of a number of factors, such as the entrance of new or larger competitors, including those formed through alliances or consolidation. These competitors may have greater financial, technical, marketing and public relations resources, larger client bases and greater brand or name recognition than we do. These competitors could, among other things:

- divert sales from us by winning very large-scale government contracts, a risk that is enhanced by the recent trend in government procurement practices to bundle services into larger contracts;
- force us to charge lower prices; or
- adversely affect our relationships with current clients, including our ability to continue to win competitively awarded engagements in which we are the incumbent.

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If we lose business to our competitors or are forced to lower our prices, our revenue and our operating profits could decline. In addition, we may face competition from our subcontractors who, from time-to-time, seek to obtain prime contractor status on contracts for which they currently serve as a subcontractor to us. If one or more of our current subcontractors are awarded prime contractor status on such contracts in the future, it could divert sales from us or could force us to charge lower prices, which could cause our margins to suffer.

Recent acquisitions and potential future acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value and strain our resources.

On May 19, 2010, we acquired 100% of the voting equity interests of Gichner headquartered in Dallastown, Pennsylvania, pursuant to the Stock Purchase Agreement, dated as of April 12, 2010, by and between the Kratos and the stockholders of Gichner. On November 15, 2010, we acquired HBE pursuant to an Agreement and Plan of Merger, dated October 5, 2010, by and among Kratos, Hammer Acquisition Inc., a Delaware corporation and a wholly-owned subsidiary of Kratos ("Hammer Merger Sub"), and HBE, whereby Hammer Merger Sub merged with and into HBE, and HBE continued as the surviving corporation and as our wholly-owned subsidiary.

We continually evaluate opportunities to acquire new businesses as part of our ongoing strategy and we may in the future acquire additional businesses that we believe could complement or expand our business or increase our customer base. Integrating the operations of acquired businesses successfully or otherwise realizing any of the anticipated benefits of acquisitions, including anticipated cost savings and additional revenue opportunities, involves a number of potential challenges. The failure to meet these integration challenges could seriously harm our financial condition and results of operations. Realizing the benefits of acquisitions depends in part on the integration of information technology ("IT") operations and personnel. These integration activities are complex and time-consuming and we may encounter unexpected difficulties or incur unexpected costs, including:

- our inability to achieve the operating synergies anticipated in the acquisitions;
- diversion of management attention from ongoing business concerns to integration matters;
- difficulties in consolidating and rationalizing IT platforms and administrative infrastructures;
- complexities associated with managing the geographic separation of the combined businesses and consolidating multiple physical locations where management may determine consolidation is desirable;
- difficulties in integrating personnel from different corporate cultures while maintaining focus on providing consistent, high quality customer service;
- difficulties or delays in transitioning federal government contracts pursuant to federal acquisition regulations;
- challenges in demonstrating to customers of Kratos and to customers of the acquired businesses that the acquisition will not result in adverse changes in customer service standards or business focus;
- possible cash flow interruption or loss of revenue as a result of change of ownership transitional matters; and
- inability to generate sufficient revenue to offset acquisition costs.

Acquired businesses may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition. In particular, to the extent that prior owners of any acquired businesses or properties failed to comply with or otherwise violated applicable laws or regulations, or failed to fulfill their contractual obligations to the federal government or other clients, we, as the successor owner, may be

financially responsible for these violations and failures and may suffer reputational harm or otherwise be adversely affected. Acquisitions also frequently result in the recording of goodwill and other intangible assets which are subject to potential impairment in the future that could harm our financial results. In addition, if we finance acquisitions by issuing convertible debt or equity securities, our existing stockholders

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may be diluted, which could affect the market price of our stock. Acquisitions and/or the related equity financings could also impact our ability to utilize our NOL carryforwards. As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such acquisitions, and we may incur costs in excess of what we anticipate. Acquisitions frequently involve benefits related to integration of operations. The failure to successfully integrate the operations or otherwise to realize any of the anticipated benefits of the acquisition could seriously harm our results of operations.

If we are unable to manage our growth, our business and financial results could suffer.

Sustaining our growth has placed significant demands on our management, as well as on our administrative, operational and financial resources. For us to continue to manage our growth, we must continue to improve our operational, financial and management information systems and expand, motivate and manage our workforce. If we are unable to manage our growth while maintaining our quality of service and profit margins, or if new systems that we implement to assist in managing our growth do not produce the expected benefits, our business, prospects, financial condition or operating results could be adversely affected.

Additionally, our future financial results depend in part on our ability to profitably manage our growth on a combined basis with the businesses we acquire. Management will need to maintain existing customers and attract new customers, recruit, retain and effectively manage employees, as well as expand operations and integrate customer support and financial control systems. If the integration-related expenses and capital expenditure requirements are greater than anticipated or if we are unable to manage our growth profitably after business acquisitions, our financial condition and results of operations may suffer.

Our financial results may vary significantly from quarter to quarter.

We expect our revenue and operating results to vary from quarter to quarter. Reductions in revenue in a particular quarter could lead to lower profitability in that quarter because a relatively large amount of our expenses are fixed in the short-term. We may incur significant operating expenses during the start-up and early stages of large contracts and may not be able to recognize corresponding revenue in that same quarter. We may also incur additional expenses when contracts are terminated or expire and are not renewed.

In addition, payments due to us from federal government agencies may be delayed due to billing cycles or as a result of failures of government budgets to gain congressional and administration approval in a timely manner. The U.S. federal government's fiscal year ends September 30. If a federal budget for the next federal fiscal year has not been approved by that date in each year, our clients may have to suspend engagements that we are working on until a budget has been approved. Any such suspensions may reduce our revenue in the fourth quarter of the federal fiscal year or the first quarter of the subsequent federal fiscal year. The U.S. federal government's fiscal year end can also trigger increased purchase requests from clients for equipment and materials. Any increased purchase requests we receive as a result of the U.S. federal government's fiscal year end would serve to increase our third or fourth quarter revenue, but will generally decrease profit margins for that quarter, as these activities generally are not as profitable as our typical offerings.

Additional factors that may cause our financial results to fluctuate from quarter to quarter include those addressed elsewhere in these Risk Factors and the following, among others:

- the terms of customer contracts that affect the timing of revenue recognition;
- variability in demand for our services and solutions;
- commencement, completion or termination of contracts during any particular quarter;
- timing of award or performance incentive fee notices;
- timing of significant bid and proposal costs;

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variable purchasing patterns under GSA Schedule 70 contracts, GWACs, blanket purchase agreements and other indefinite delivery/indefinite quantity contracts;

restrictions on and delays related to the export of defense articles and services;

costs related to government inquiries;

strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs and joint ventures;

strategic investments or changes in business strategy;

changes in the extent to which we use subcontractors;

seasonal fluctuations in our staff utilization rates;

changes in our effective tax rate including changes in our judgment as to the necessity of the valuation allowance recorded against our deferred tax assets; and

the length of sales cycles.

Significant fluctuations in our operating results for a particular quarter could cause us to fall out of compliance with the financial covenants contained in our credit facility, which if not waived by the lender, could restrict our access to capital and cause us to take extreme measures to pay down our debt under the credit facility. In addition, fluctuations in our financial results could cause our stock price to decline.

If we fail to establish and maintain important relationships with government entities and agencies and other government contractors, our ability to bid successfully for new business may be adversely affected.

To develop new business opportunities, we primarily rely on establishing and maintaining relationships with various government entities and agencies. We may be unable to successfully maintain our relationships with government entities and agencies, and any failure to do so could materially adversely affect our ability to compete successfully for new business. In addition, we often act as a subcontractor or in "teaming" arrangements in which we and other contractors bid together on particular contracts or programs for the federal government or government agencies. As a subcontractor or team member, we often lack control over fulfillment of a contract, and poor performance on the contract could tarnish our reputation, even when we perform as required. We expect to continue to depend on relationships with other contractors for a portion of our revenue in the foreseeable future. Moreover, our revenue and operating results could be materially adversely affected if any prime contractor or teammate chooses to offer a client services of the type that we provide or if any prime contractor or teammate teams with other companies to independently provide those services.

Our margins and operating results may suffer if we experience unfavorable changes in the proportion of cost-plus-fee or fixed-price contracts in our total contract mix.

Although fixed-price contracts entail a greater risk of a reduced profit or financial loss on a contract compared to other types of contracts we enter into, fixed-price contracts typically provide higher profit opportunities because we may be able to benefit from cost savings. In contrast, cost-plus-fee contracts are subject to statutory limits on profit margins, and generally are the least profitable of our contract types. Our federal government customers typically determine what type of contract we enter into. Cost-plus-fee and fixed-price contracts in our federal business accounted for approximately 24% and 57%, respectively, of our federal business revenues for the three months ended September 26, 2010 and approximately 28% and 47%, respectively, of our federal business revenues for the nine months ended September 26, 2010. To the extent that

we enter into more cost-plus-fee or less fixed-price contracts in proportion to our total contract mix in the future, our margins and operating results may suffer.

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Our cash flow and profitability could be reduced if expenditures are incurred prior to the final receipt of a contract.

We provide various professional services and sometimes procure equipment and materials on behalf of our federal government customers under various contractual arrangements. From time to time, in order to ensure that we satisfy our customers' delivery requirements and schedules, we may elect to initiate procurement in advance of receiving final authorization from the government customer or a prime contractor. If our government or prime contractor customers' requirements should change or if the government or the prime contractor should direct the anticipated procurement to a contractor other than us or if the equipment or materials become obsolete or require modification before we are under contract for the procurement, our investment in the equipment or materials might be at risk if we cannot efficiently resell them. This could reduce anticipated earnings or result in a loss, negatively affecting our cash flow and profitability.

Loss of our GSA contracts or GWACs would impair our ability to attract new business.

We are a prime contractor under several GSA contracts and GWAC vehicles. We believe that our ability to provide services under these contracts will continue to be important to our business because of the multiple opportunities for new engagements that each contract provides. If we were to lose our position as prime contractor on one or more of these contracts, we could lose substantial revenues and our operating results could suffer. GSA contracts and other GWACs typically have a one or two-year initial term with multiple options exercisable at the government client's discretion to extend the contract for one or more years. We cannot be assured that our government clients will continue to exercise the options remaining on our current contracts, nor can we be assured that our future clients will exercise options on any contracts we may receive in the future.

Failure to properly manage projects may result in additional costs or claims.

Our engagements often involve large-scale, highly complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the relationship with our customers, and to effectively manage the project and deploy appropriate resources, including third-party contractors, and our own personnel, in a timely manner. Any defects or errors or failure to meet clients' expectations could result in claims for substantial damages against us. Our contracts generally limit our liability for damages that arise from negligent acts, error, mistakes or omissions in rendering services to our clients. However, we cannot be sure that these contractual provisions will protect us from liability for damages in the event we are sued. In addition, in certain instances, we guarantee customers that we will complete a project by a scheduled date. If the project experiences a performance problem, we may not be able to recover the additional costs we will incur, which could exceed revenues realized from a project. Finally, if we underestimate the resources or time we need to complete a project with capped or fixed fees, our operating results could be seriously harmed.

The loss of any member of our senior management could impair our relationships with federal government clients and disrupt the management of our business.

We believe that the success of our business and our ability to operate profitably depends on the continued contributions of the members of our senior management. We rely on our senior management to generate business and execute programs successfully. In addition, the relationships and reputation that many members of our senior management team have established and maintain with federal government personnel contribute to our ability to maintain strong client relationships and to identify new business opportunities. We do not have any employment agreements providing for a specific term of employment with any member of our senior management. The loss of any member of our senior management could impair our ability to identify and secure new contracts, maintain good client relations and otherwise manage our business.

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If we fail to attract and retain skilled employees or employees with the necessary security clearances, we might not be able to perform under our contracts or win new business.

The growth of our business and revenue depends in large part upon our ability to attract and retain sufficient numbers of highly qualified individuals who have advanced information technology and/or engineering skills. These employees are in great demand and are likely to remain a limited resource in the foreseeable future. Certain federal government contracts require us, and some of our employees, to maintain security clearances. Obtaining and maintaining security clearances for employees involves a lengthy process, and it is difficult to identify, recruit and retain employees who already hold security clearances. In addition, some of our contracts contain provisions requiring us to staff an engagement with personnel that the client considers key to our successful performance under the contract. In the event we are unable to provide these key personnel or acceptable substitutions, the client may terminate the contract and we may lose revenue.

If we are unable to recruit and retain a sufficient number of qualified employees, our ability to maintain and grow our business could be limited. In a tight labor market, our direct labor costs could increase or we may be required to engage large numbers of subcontractor personnel, which could cause our profit margins to suffer. Conversely, if we maintain or increase our staffing levels in anticipation of one or more projects and the projects are delayed, reduced or terminated, we may underutilize the additional personnel, which would increase our general and administrative expenses, reduce our earnings and possibly harm our results of operations.

If our subcontractors fail to perform their contractual obligations, our performance and reputation as a prime contractor and our ability to obtain future business could suffer.

As a prime contractor, we often rely upon other companies as subcontractors to perform work we are obligated to perform for our clients. As we secure more work under our GWAC vehicles, we expect to require an increasing level of support from subcontractors that provide complementary and supplementary services to our offerings. Depending on labor market conditions, we may not be able to identify, hire and retain sufficient numbers of qualified employees to perform the task orders we expect to win. In such cases, we will need to rely on subcontracts with unrelated companies. Moreover, even in favorable labor market conditions, we anticipate entering into more subcontracts in the future as we expand our work under our GWACs. We are responsible for the work performed by our subcontractors, even though in some cases we have limited involvement in that work.

If one or more of our subcontractors fail to satisfactorily perform the agreed-upon services on a timely basis or violate federal government contracting policies, laws or regulations, our ability to perform our obligations as a prime contractor or meet our clients' expectations may be compromised. In extreme cases, performance or other deficiencies on the part of our subcontractors could result in a client terminating our contract for default. A termination for default could expose us to liability, including liability for the agency's costs of procurement, could damage our reputation and could hurt our ability to compete for future contracts.

Our contracts and administrative processes and systems are subject to audits and cost adjustments by the federal government, which could reduce our revenue, disrupt our business or otherwise adversely affect our results of operations.

Federal government agencies, including the Defense Contract Audit Agency ("DCAA"), routinely audit and investigate government contracts and government contractors' administrative processes and systems. These agencies review our performance on contracts, pricing practices, cost structure and compliance with applicable laws, regulations and standards. They also review the adequacy of our compliance with government standards for its accounting and management of internal control systems, including: control environment and overall accounting system, general information technology system, budget and planning system, purchasing system, material management and accounting system, compensation system, labor

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system, indirect and other direct costs system, billing system and estimating system used for pricing on government contracts. Both contractors and the U.S. government agencies conducting these audits and reviews have come under increased scrutiny. The current audits and reviews have become more rigorous and the standards to which contractors are being held are being more strictly interpreted, increasing the likelihood of an audit or review resulting in an adverse outcome.

While we have submitted all applicable incurred cost claims, the actual indirect cost audits by the DCAA have not been completed for fiscal 2005 and subsequent fiscal years. Although we have recorded contract revenues subsequent to fiscal 2004 based upon costs that we believe will be approved upon final audit or review, we do not know the outcome of any ongoing or future audits or reviews and, if future adjustments exceed our estimates, our profitability would be adversely affected.

Our failure to comply with complex procurement laws and regulations could cause us to lose business and subject us to a variety of penalties.

We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts, which affect how we do business with our clients, prime contractors, subcontractors and vendors and may impose added costs on us. Our role as a contractor to agencies and departments of the U.S. government results in our being routinely subject to investigations and reviews relating to compliance with various laws and regulations, including those associated with organizational conflicts of interest. These investigations may be conducted without our knowledge. Adverse findings in these investigations or reviews can lead to criminal, civil or administrative proceedings and we could face civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or debarment from doing business with federal government agencies. In addition, we could suffer serious harm to our reputation and competitive position if allegations of impropriety were made against us, whether or not true. If our reputation or relationship with federal government agencies were impaired, or if the federal government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our revenue and operating profit would decline.

If we experience systems or service failure, our reputation could be harmed and our clients could assert claims against us for damages or refunds.

We create, implement and maintain IT solutions that are often critical to our clients' operations. We have experienced, and may in the future experience, some systems and service failures, schedule or delivery delays and other problems in connection with our work. If we experience these problems, we may:

lose revenue due to adverse client reaction;

be required to provide additional services to a client at no charge;

receive negative publicity, which could damage our reputation and adversely affect our ability to attract or retain clients; and

suffer claims for substantial damages.

In addition to any costs resulting from product or service warranties, contract performance or required corrective action, these failures may result in increased costs or loss of revenue if clients postpone subsequently scheduled work or cancel, or fail to renew, contracts.

While many of our contracts limit our liability for consequential damages that may arise from negligence in rendering services to our clients, we cannot ensure that these contractual provisions will be legally sufficient to protect us if we are sued. In addition, our errors and omissions and product liability insurance coverage may not be adequate, may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims, or the insurer may disclaim coverage as to some types of future claims. The successful assertion of any large claim against us could seriously harm our business. Even if not successful, these claims could result in significant legal and other costs, may be a distraction to our management and may harm our reputation.

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Security breaches in sensitive federal government systems could result in the loss of clients and negative publicity.

Many of the systems we develop, install and maintain involve managing and protecting information involved in intelligence, national security and other sensitive or classified federal government functions. A security breach in one of these systems could cause serious harm to our business, damage our reputation and prevent us from being eligible for further work on sensitive or classified systems for federal government clients. We could incur losses from such a security breach that could exceed the policy limits under our errors and omissions and product liability insurance. Damage to our reputation or limitations on our eligibility for additional work resulting from a security breach in one of the systems we develop, install and maintain could materially reduce our revenue.

Our employees may engage in misconduct or other improper activities, which could cause us to lose contracts.

We are exposed to the risk that employee fraud or other misconduct could occur. Misconduct by employees could include intentional failures to comply with federal government procurement regulations, engaging in unauthorized activities or falsifying time records. Employee misconduct could also involve the improper use of our clients' sensitive or classified information, which could result in regulatory sanctions against us and serious harm to our reputation and could result in a loss of contracts and a reduction in revenues. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in controlling unknown or unmanaged risks or losses, which could cause us to lose contracts or cause a reduction in revenues. In addition, alleged or actual employee misconduct could result in investigations or prosecutions of employees engaged in the subject activities, which could result in unanticipated consequences or expenses and management distraction for us regardless of whether we are alleged to have any responsibility.

Our business is dependent upon our ability to keep pace with the latest technological changes.

The market for our services is characterized by rapid change and technological improvements. Failure to respond in a timely and cost-effective way to these technological developments would result in serious harm to our business and operating results. We have derived, and we expect to continue to derive, a substantial portion of our revenues from providing innovative engineering services and technical solutions that are based upon today's leading technologies and that are capable of adapting to future technologies. As a result, our success will depend, in part, on our ability to develop and market service offerings that respond in a timely manner to the technological advances of our customers, evolving industry standards and changing client preferences.

We may be harmed by intellectual property infringement claims and our failure to protect our intellectual property could enable competitors to market products and services with similar features.

We may become subject to claims from our employees or third parties who assert that software and other forms of intellectual property that we use in delivering services and solutions to our clients infringe upon intellectual property rights of such employees or third parties. Our employees develop some of the software and other forms of intellectual property that we use to provide our services and solutions to our clients, but we also license technology from other vendors. If our employees, vendors, or other third parties assert claims that we or our clients are infringing on their intellectual property rights, we could incur substantial costs to defend those claims. If any of these infringement claims are ultimately successful, we could be required to cease selling or using products or services that incorporate the challenged software or technology, obtain a license or additional licenses from our employees, vendors, or other third parties, or redesign our products and services that rely on the challenged software or technology.

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We attempt to protect our trade secrets by entering into confidentiality and intellectual property assignment agreements with third parties, our employees and consultants. However, these agreements can be breached and, if they are, there may not be an adequate remedy available to us. In addition, others may independently discover our trade secrets and proprietary information and in such cases we could not assert any trade secret rights against such party. Enforcing a claim that a party illegally obtained and is using our trade secret is difficult, expensive and time consuming, and the outcome is unpredictable. If we are unable to protect our intellectual property, our competitors could market services or products similar to our services and products, which could reduce demand for our offerings. Any litigation to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others could result in substantial costs and diversion of resources, with no assurance of success.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our operating results could be misstated, our reputation may be harmed and the trading price of our stock could be negatively affected. Our management has concluded that there are no material weaknesses in our internal controls over financial reporting as of December 27, 2009. However, there can be no assurance that our controls over financial processes and reporting will be effective in the future or that additional material weaknesses or significant deficiencies in our internal controls will not be discovered in the future. Any failure to remediate any future material weaknesses or implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements or other public disclosures. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock. In addition, from time to time we acquire businesses which could have limited infrastructure and systems of internal controls.

We have incurred and may continue to incur goodwill impairment charges in our reporting entities which could harm our profitability.

A significant portion of our net assets come from goodwill and other intangible assets. In accordance with *Financial Accounting Standards Board Accounting Standards Code Topic 350 Intangibles Goodwill and Other* ("Topic 350") we periodically review the carrying values of our goodwill to determine whether such carrying values exceed the fair market value. Our acquired companies are subject to annual review for goodwill impairment. If impairment testing indicates that the carrying value of a reporting unit exceeds its fair value, the goodwill of the reporting unit is deemed impaired. Accordingly, an impairment charge would be recognized for that reporting unit in the period identified.

In 2008, as a result of our annual review, we recorded a goodwill impairment charge of $105.8 million related to our Kratos Government Solutions ("KGS") segment, to reflect the declining market and economic conditions through December 28, 2008. In the beginning of 2009, we performed another impairment test for goodwill in accordance with Topic 350 as of February 28, 2009. The test indicated that the book value for the KGS segment exceeded the fair values of the businesses and resulted in our recording a charge totaling $41.3 million in that segment for the impairment of goodwill. The impairment charge was primarily driven by adverse equity market conditions that caused a decrease in current market multiples and our average stock price as of February 28, 2009, compared with the test performed as of December 28, 2008. Future reviews could result in further impairment charges, which could have a significant effect on our financial results.

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The commercial business arena in which we operate has relatively low barriers to entry and increased competition could result in margin erosion, which would make profitability even more difficult to sustain.

Other than the technical skills required in our commercial business, the barriers to entry in this area are relatively low. We do not have any intellectual property rights in this segment of our business to protect our methods, and business start-up costs do not pose a significant barrier to entry. The success of our commercial business is dependent upon our employees, customer relations and the successful performance of our services. If we face increased competition as a result of new entrants in our markets, we could experience reduced operating margins and loss of market share and brand recognition.

We significantly increased our leverage in connection with the financing of recent acquisitions.

We incurred approximately $225.0 million of indebtedness in the form of 10% Senior Secured Notes (the "Original Notes") in connection with our financing of our acquisition of Gichner. On August 11, 2010, we completed an exchange offer for the Original Notes pursuant to a registration rights agreement entered into in connection with the issuance of the Original Notes (such exchanged notes referred to elsewhere in this prospectus supplement as the "Existing Notes"). As a result of this indebtedness, our interest payment obligations have increased. The degree to which we are leveraged could have adverse effects on our business, including the following:

- it may make it difficult for us to satisfy our obligations under the Existing Notes, and our other indebtedness and contractual and commercial commitments;
- it may require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- it may limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- it may restrict us from making strategic acquisitions or exploiting business opportunities;
- it may place us at a competitive disadvantage compared to our competitors that have less debt;
- it may limit our ability to borrow additional funds;
- it may prevent us from raising the funds necessary to repurchase the Existing Notes tendered to us if there is a change of control, which would constitute a default under the indentures governing the Existing Notes and under our credit facility; and
- it may decrease our ability to compete effectively or operate successfully under adverse economic and industry conditions.

If new debt is incurred, these risks may intensify. Our ability to meet our debt service obligations will depend upon our future performance, which may be subject to the financial, business and other factors affecting our operations, many of which are beyond our control.

Any increase in our debt service obligations, including in connection with our proposed acquisition of Herley, may adversely affect our cash flow.

We expect our cash requirements in connection with our proposed acquisition of Herley to be approximately $318 million. On a pro forma basis, after giving effect to our acquisition of HBE on December 15, 2010 and our proposed acquisition of Herley, we would have had total long-term debt of $480.1 million as of September 26, 2010, assuming that we raise $40 million in this offering and $265 million of new indebtedness to fund the proposed acquisition of Herley. We currently intend to raise approximately $325 million through debt financing in order to fund the proposed acquisition of Herley, with any excess used for other general corporate purposes (although any such additional amount is not reflected

in the pro forma financial data included elsewhere in this prospectus). A higher level of indebtedness increases the risk that we may default on our debt obligations. We may not be able to generate sufficient cash flow to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to

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pay or refinance such debt. If we are unable to generate sufficient cash flow to pay the interest on our debt, we may have to delay or curtail our operations.

Our ability to generate cash flow from operations and to make scheduled payments on our indebtedness will depend on our future financial performance. Our future financial performance will be affected by a range of economic, competitive and business factors that we cannot control. A significant reduction in operating cash flow resulting from changes in economic conditions, increased competition or other events beyond our control could increase the need for additional or alternative sources of liquidity and could have a material adverse effect on our business, financial condition, results of operations, prospects and our ability to service our debt and other obligations. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking additional equity capital. We cannot assure that any of these alternative strategies could be effected on satisfactory terms, if at all, or that they would yield sufficient funds to make required payments on our indebtedness.

If for any reason we are unable to meet our debt service and repayment obligations, we would be in default under the terms of the agreements governing our debt, which would allow our creditors at that time to declare certain outstanding indebtedness to be due and payable, which would in turn trigger cross-acceleration or cross-default rights between the relevant agreements. In addition, our lenders could compel us to apply all of our available cash to repay our borrowings or they could prevent us from making payments on our indebtedness. If the amounts outstanding under any outstanding indebtedness were to be accelerated, we cannot assure that our assets would be sufficient to repay in full the money owed to the lenders or to our other debt holders.

We are subject to environmental laws and potential exposure to environmental liabilities. This may affect our ability to develop, sell or rent our property or to borrow money where such property is required to be used as collateral.

As a result of the acquisition of Gichner, we will use hazardous materials common to the industry in which Gichner operates. We are required to follow federal, state and local environmental laws and regulations regarding the handling, storage and disposal of these materials, including the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and the Toxic Substances Control Act. We could be subject to fines, suspensions of production, alteration of our manufacturing processes or interruption or cessation of our operations if we fail to comply with present or future laws or regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing processes. These regulations could require us to acquire expensive remediation equipment or to incur significant other expenses to comply with environmental regulations. Our failure to control the handling, use, storage or disposal of, or adequately restrict the discharge of, hazardous substances could subject us to liabilities and production delays, which could cause us to miss our customers' delivery schedules, thereby reducing our sales for a given period. We may also have to pay regulatory fines, penalties or other costs (including remediation costs), which could materially reduce our profits and adversely affect our financial condition. Permits are required for our operations, and these permits are subject to renewal, modification and, in some cases, revocation.

In addition, under environmental laws, ordinances or regulations, a current or previous owner or operator of property may be liable for the costs of removal or remediation of some kinds of petroleum products or other hazardous substances on, under, or in its property, adjacent or nearby property, or offsite disposal locations, without regard to whether the owner or operator knew of, or caused, the presence of the contaminants, and regardless of whether the practices that resulted in the contamination were legal at the time they occurred. We have incurred, and we may incur in the future, liabilities under CERCLA and other environmental cleanup laws at our current or former facilities, adjacent or nearby properties or offsite disposal locations. The costs associated with future cleanup activities that we may be required to conduct or finance may be

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material. The presence of, or failure to remediate properly, petroleum products or other hazardous substances may adversely affect the ability to sell or rent the property or to borrow funds using the property as collateral. Additionally, we may become subject to claims by third parties based on damages, including personal injury and property damage, and costs resulting from the disposal or release of hazardous substances into the environment.

Litigation may distract us from operating our business.

Litigation that may be brought by or against us could cause us to incur significant expenditures and distract our management from the operation of our business. Furthermore, there can be no assurance that we would prevail in such litigation or resolve such litigation on terms favorable to us, which may adversely affect our financial results and operations.

Risks Related to Investments in our Securities

We may allocate the net proceeds from this offering in ways that you and other stockholders may not approve.

We intend to use the net proceeds from this offering to fund the cash consideration payable to the stockholders of Herley in connection with our proposed acquisition thereof. In the event that the Merger is not consummated, we intend to use the net proceeds from this offering for general corporate purposes, including the acquisition of or investment in other businesses, services and technologies that are complementary to our own. In general, our management will have broad discretion in the application of the net proceeds from this offering and could spend the net proceeds in ways that do not necessarily improve our operating results or enhance the value of our common stock.

Our stock price may be volatile, and your investment could suffer a decline in value.

The stock market in general and the stock prices of government services companies in particular, have experienced volatility that has often been unrelated to or disproportionate to the operating performance of those companies. These broad market fluctuations may negatively affect the market price of our common stock. From December 27, 2009 to December 26, 2010, our closing stock price ranged from $9.46 to $14.93. You may not be able to resell your shares at or above the price you paid for them due to fluctuations in the market price of our common stock.

Factors which could have a significant impact on the market price of our common stock include, but are not limited to, the following:

- quarterly variations in operating results;
- announcements of new services by us or our competitors;
- the gain or loss of significant customers;
- changes in analysts' earnings estimates;
- rumors or dissemination of false information;
- pricing pressures;
- short selling of our common stock;

impact of litigation and government inquiries;

general conditions in the market;

political and/or military events associated with current worldwide conflicts; and

events affecting other companies that investors deem comparable to us.

These and other external factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. Volatility in the market price of our

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common stock could also subject us to securities class action litigation. We and certain of our current and former officers and directors have been named defendants in class action and derivative lawsuits. These matters and any other securities class action litigation and derivative lawsuits in which we may be involved could result in substantial costs to us and a diversion of our management's attention and resources, which could materially harm our financial condition and results of operations.

Our charter documents and Delaware law may deter potential acquirers and may depress our stock price.

Certain provisions of our charter documents and Delaware law, as well as certain agreements we have with our executives, could make it substantially more difficult for a third party to acquire control of us. These include:

- authorizing the board of directors to issue preferred stock;
- prohibiting cumulative voting in the election of directors;
- prohibiting stockholder action by written consent;
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at meetings of our stockholders;
- Section 203 of the Delaware General Corporation Law, which prohibits us from engaging in a business combination with an interested stockholder unless specific conditions are met; and
- agreements with a number of our executives that entitle them to payments in certain circumstances following a change in control.

We also have a stockholder rights plan which may discourage certain types of transactions involving an actual or potential change in control and may limit our stockholders' ability to approve transactions that they deem to be in their best interests. As a result, these provisions may depress our stock price.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements may include, but are not limited to, statements relating to our future financial performance, the growth of the market for our services, expansion plans and opportunities and statements regarding our intended uses of the proceeds of the securities offered hereby. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms or other comparable terminology. The statements we make regarding the following subject matters are forward-looking by their nature:

- the proposed acquisition of Herley, including the amount of synergies that we expect to realize and the timing of their realization;

our expectation that the acquisition of Herley will be accretive to our earnings;

our estimates of the preliminary purchase price valuations of amortizable purchased intangibles related to the acquisition of Herley;

our estimates of fourth quarter results for the quarter and year ended December 26, 2010; and

the unaudited pro forma financial information set forth herein.

The forward-looking statements contained in this prospectus supplement reflect our current views about future events, are based on assumptions, and are subject to known and unknown risks and uncertainties. Many important factors could cause actual results or achievements to differ materially from any future results or achievements expressed in or implied by our forward-looking statements, including the factors

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listed below. Many of the factors that will determine future events or achievements are beyond our ability to control or predict. Certain of these are important factors that could cause actual results or achievements to differ materially from the results or achievements reflected in our forward-looking statements, including, but not limited to:

- our high level of indebtedness;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in the indenture that governs the Original Notes and the Existing Notes, our credit facility and other debt agreements;
- general economic conditions and inflation, interest rate movements and access to capital;
- changes or cutbacks in spending or the appropriation of funding by the U.S. federal government;
- changes in the scope or timing of our projects;
- our ability to realize the benefits of our acquisitions, including our ability to achieve anticipated opportunities and operating synergies, and accretion to reported earnings estimated to result from acquisitions in the time frame expected by management or at all;
- our revenue projections; and
- the effect of competition.

The forward-looking statements contained in this prospectus supplement reflect our views and assumptions only as of the date of this prospectus supplement. You should not place undue reliance on forward-looking statements. Except as required by law, we assume no responsibility for updating any forward-looking statements nor do we intend to do so. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. The risks included in this section are not exhaustive. Additional factors that could cause actual results to differ materially from those described in the forward-looking statements are set forth in the section entitled "Risk Factors" beginning on page S-18.

USE OF PROCEEDS

We expect the net proceeds from this offering to be approximately $ million (or $ million if the underwriters exercise their option to purchase additional shares in full), after deducting underwriting discounts and commissions, as described in "Underwriting," and estimated offering expenses payable by us. We intend to use the net proceeds from this offering to fund the cash consideration payable to the stockholders of Herley in connection with our proposed acquisition thereof. In the event that the acquisition is not consummated, we intend to use the net proceeds from this offering for general corporate purposes, including the acquisition of or investment in other businesses, services and technologies that are complementary to our own and other general corporate expenses.

As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses of the proceeds from this offering. Accordingly, we will retain broad discretion over the use of such proceeds. Pending the use of the net proceeds from this offering as described above, we intend to invest the net proceeds in short-term, investment-grade securities.

DILUTION

Our net tangible book deficit on September 26, 2010 was approximately $114.9 million, or approximately $7.18 per share of common stock. Net tangible deficit per share is determined by dividing our net tangible book deficit, which consists of tangible assets less total liabilities, by the number of shares of common stock outstanding on that date. Without taking into account any other changes in the net tangible book deficit after September 26, 2010, other than to give effect to our receipt of (i) approximately $24.7 million in connection with the offering of 2,530,000 shares of our common stock pursuant to the prospectus supplement filed with the SEC on October 7, 2010, and (ii) the estimated net proceeds from the sale of shares of our common stock at an offering price of $ per share, less the underwriting fees

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and our estimated offering expenses, our net tangible book deficit as of September 26, 2010, after giving effect to the items above, would have been approximately $ million, or $ per share. This represents an immediate decrease in the net tangible book deficit of $ per share to existing stockholders and an immediate dilution of $ per share to new investors. The following table illustrates this per share dilution:

Offering price per share of common stock	$	
Net tangible book deficit per share as of September 26, 2010	$	7.18
Decrease in net tangible book deficit per share attributable to the issuance of shares on October 12, 2010	$	2.33
Decrease in net tangible book deficit per share attributable to the offering	$	
Pro forma net tangible book deficit per share as of September 27, 2009, after giving effect to the October 12, 2010 issuance of shares and the offering	$	
Dilution per share to new investors in the offering	$	

We established the price for the sale of shares in this offering following negotiations with the underwriters based on an agreed discount of approximately to the prevailing market price of our common stock.

The above table is based on 18,555,661 shares of common stock outstanding, comprised of 16,025,661 shares of common stock outstanding as of September 26, 2010 and the 2,530,000 shares of common stock issued on October 7, 2010, and excludes, as of September 26, 2010:

- 1,214,314 shares of common stock issuable upon the exercise of outstanding stock options with a weighted average exercise price of $28.14 per share;
- 1,701,529 shares of common stock available for future grant under the Plans;
- 749,847 shares of common stock issuable upon the vesting and settlement of restricted stock units; and
- 100,000 shares of common stock which may be issued upon conversion of 10,000 shares of Series B Preferred Shares.

To the extent that any of these options are exercised, restricted stock units are settled, new options or restricted stock units are issued under our equity incentive plans or we issue additional shares of common stock in the future or assume outstanding options in connection with future acquisitions, including in connection with our proposed acquisition of Herley, there will be further dilution to new investors.

As a percentage of ownership, following the offering (based on 18,555,661 shares of common stock outstanding, comprised of 16,025,661 shares of common stock outstanding as of September 26, 2010 and the 2,530,000 shares of common stock issued on October 7, 2010, and assuming our existing stockholders do not purchase any shares in this offering):

- the number of shares of our common stock held by existing stockholders would decrease from 100% to % of the total number of shares of our common stock outstanding after this offering; and
- the number of shares of our common stock held by new investors would be approximately % of the total number of shares of our common stock outstanding after this offering.

Additionally, if the underwriters exercise their option to purchase additional shares in full, as described below in the section entitled "Underwriting," the following will occur:

the number of shares of our common stock held by existing stockholders would decrease to % of the total number of shares of our common stock outstanding after this offering; and

the number of shares of our common stock held by new investors would increase to approximately % of the total number of shares of our common stock outstanding after this offering.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA

The following unaudited pro forma condensed combined financial data is intended to show how the acquisition of Herley, Gichner and HBE might have affected historical financial statements of Kratos if such acquisitions had been completed at an earlier time and was prepared based on the historical financial results reported by Kratos, Herley, Gichner and HBE. The following should be read in connection with the audited and unaudited consolidated financial statements of Herley, set forth in Annex B of this prospectus supplement, and the audited and unaudited consolidated financial statements of Kratos, which are incorporated by reference into this prospectus supplement. See "Where You Can Find Additional Information" beginning on page S-61.

The unaudited pro forma condensed combined financial statements were prepared in accordance with the regulations of the SEC. The pro forma adjustments reflecting the completion of the acquisition of Herley are based upon the acquisition method of accounting in accordance with U.S. generally accepted accounting principles ("GAAP"), and upon the assumptions set forth in the notes to the unaudited pro forma condensed combined financial statements.

During 2010, Kratos acquired Gichner and HBE. The acquisition of each of Gichner and HBE was completed on May 19, 2010 and December 15, 2010, respectively.

The unaudited pro forma condensed combined balance sheet as of September 26, 2010 combines the historical consolidated balance sheets of Kratos as of September 26, 2010, HBE as of September 30, 2010, and Herley as of October 31, 2010.

The unaudited pro forma condensed combined statements of operations for the nine months ended September 26, 2010 combine the historical consolidated statements of operations of Kratos, Herley and HBE for their respective nine months ended September 26, 2010, October 31, 2010 and September 30, 2010, and of Gichner for the three months ended March 31, 2010. The unaudited pro forma condensed combined statements of operations for the year ended December 27, 2009 combine the historical consolidated statements of operations of Kratos, Gichner and HBE for their respective years ended December 27, 2009, December 31, 2009 and December 31, 2009, and of Herley for the 12-month period ended January 31, 2010. The operating results for the 12-month period ended January 31, 2010 for Herley were derived from the quarterly operating results and annual operating results of Herley.

The unaudited pro forma condensed combined financial information also gives effect to this offering and the related debt financing.

The historical consolidated financial data has been adjusted to give effect to pro forma events that are (i) directly attributable to the acquisition of each of Gichner, HBE and Herley, (ii) factually supportable, and (iii) with respect to the statement of operations, expected to have a continuing impact on the combined results. The pro forma adjustments are preliminary and based on management's estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the acquisitions and certain other adjustments. The unaudited pro forma condensed combined financial statements do not reflect revenue opportunities, synergies or cost savings that the Company expects to realize after the acquisitions. No assurance can be given with respect to the estimated revenue opportunities and operating cost savings that are expected to be realized as a result of the acquisitions. The unaudited pro forma condensed combined financial statements also do not reflect non-recurring charges related to integration activities or exit costs that may be incurred by Kratos, Gichner or HBE in connection with the acquisitions thereof. There were no material transactions between Kratos, HBE and Gichner during the periods presented in the unaudited pro forma condensed combined financial statements that would need to be eliminated.

The unaudited pro forma condensed combined financial data is presented for illustrative purposes only and is not necessarily indicative of the financial condition or results of operations of future periods or the

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financial condition or results of operations that actually would have been realized had the entities been combined during the periods presented. The unaudited pro forma condensed combined financial statements do not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition of Herley. These financial statements also do not include any integration costs, synergies or estimated future transaction costs, except for fixed contractual transaction costs, that the companies may incur as a result of the acquisition of Herley. In addition, as explained in more detail in the accompanying notes to the unaudited pro forma condensed combined financial statements, the preliminary acquisition-date fair value of the identifiable assets acquired and liabilities assumed reflected in the unaudited pro forma condensed combined financial statements is subject to adjustment and may vary significantly from the actual amounts that will be recorded upon completion of the acquisition of Herley.

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KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Unaudited Pro Forma Condensed Combined Balance Sheet
(in millions, except par value and number of shares)

	Kratos Historical September 26, 2010	Herley Historical October 31, 2010	HBE Historical September 30, 2010	Preliminary Pro Forma Adjustments*	Pro Forma Combined
Assets					
Current assets:					
Cash and cash equivalents	$ 51.3	$ 18.2	$ 2.0	$ (44.5)(a)	$ 27.0
Restricted cash	8.7	0.7			9.4
Accounts receivable, net	92.6	41.1	28.0		161.7
Inventory	25.7	51.9	1.8		79.4
Income taxes receivable	2.3	0.4	0.3		3.0
Prepaid expenses	10.1	2.3	0.2		12.6
Other current assets	4.9	17.4	1.4	(4.9)(b)(c)	18.8
Total current assets	195.6	132.0	33.7	(49.4)	311.9
Property and equipment, net	24.2	32.1	2.0		58.3
Goodwill	187.2	43.7	4.8	81.8 (c)(d)	317.5
Intangibles, net	70.0	7.9	0.9	104.3 (e)	183.1
Other assets	7.9	7.2	0.3	21.8 (b)(c)	37.2
Total assets	$ 484.9	$ 222.9	$ 41.7	$ 158.5	$ 908.0
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 30.9	$ 10.6	$ 8.7	$	$ 50.2
Accrued expenses	18.9	3.0	2.9		24.8
Accrued compensation	22.2	6.4	1.7		30.3
Billings in excess of costs and earnings on uncompleted contracts	18.1	1.2	2.8		22.1
Current portion of long-term debt		1.3		(1.3)(f)	
Other current liabilities	13.0	17.7	1.8	1.0 (c)(g)(h)	33.5
Total current liabilities	103.1	40.2	17.9	(0.3)	160.9
Long-term debt, net of current portion	225.0	10.4	5.1	239.6 (f)(i)	480.1
Other long-term liabilities	14.5	9.4	0.7	57.4 (g)(h)	82.0
Total liabilities	342.6	60.0	23.7	296.7	723.0
Commitments and contingencies					
Stockholders' equity:					

Preferred stock, 5,000,000 shares authorized Series B Convertible Preferred Stock, $.001 par value, 10,000 shares outstanding at December 27, 2009 and September 26, 2010 (liquidation preference $5.0 million at September 26, 2009)					
Common stock, $.001 par value, 195,000,000 shares authorized; 15,784,591 and 16,025,661 shares issued and outstanding at December 27, 2009 and September 26, 2010, respectively		1.4		(1.4)(j)	
Additional paid-in capital	526.3	103.4	19.4	(56.1)(k)	593.0
Retained earnings and accumulated deficit	(384.0)	58.1	(1.4)	(80.7)(l)	(408.0)
Total stockholders' equity	142.3	162.9	18.0	(138.2)	185.0
Total liabilities and stockholders' equity	$ 484.9	$ 222.9	$ 41.7	$ 158.5	$ 908.0

* See Note 6 for an explanation of the preliminary pro forma adjustments.

See accompanying notes to unaudited pro forma condensed combined financial information

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KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Unaudited Pro Forma Condensed Combined Statement of Operations
(in millions, except per share data)

	Kratos Historical Nine Months Ended September 26, 2010	Herley Historical Nine Months Ended October 31, 2010	Gichner Historical Three Months Ended March 31, 2010	HBE Historical Nine Months Ended September 30, 2010	Preliminary Pro Forma Adjustments*	Pro Forma Combined
Service revenues	$ 211.5	$	$	$ 46.9	$	$ 258.4
Product sales	76.2	142.7	49.9			268.8
Total revenues	287.7	142.7	49.9	46.9		527.2
Cost of service revenue	162.0					162.0
Cost of product sales	62.0	99.3	41.1	33.5		235.9
Total costs	224.0	99.3	41.1	33.5		397.9
Gross profit	63.7	43.4	8.8	13.4		129.3
Selling, general and administrative expenses	45.5	25.3	3.7	10.7	5.2(a)(b)	90.4
Litigation costs and settlements, net of recovery	(1.4)	13.2				11.8
Merger and acquisition expenses	1.5			0.5		2.0
Research and development expenses	1.6					1.6
Operating income (loss) from continuing operations	16.5	4.9	5.1	2.2	(5.2)	23.5
Other expense:						
Interest expense, net	(15.8)	(0.2)	(0.4)	(0.1)	(21.5)(c)	(38.0)
Other income (expense), net	0.8		(0.1)	0.0		0.7

Total other expense, net	(15.0)	(0.2)	(0.5)	(0.1)	(21.5)	(37.3)
Income (loss) from continuing operations before income taxes	1.5	4.7	4.6	2.1	(26.7)	(13.8)
Provision (benefit) for income taxes from continuing operations	(12.5)	1.5	1.6	0.9	(3.0)(d)	(11.5)
Income (loss) from continuing operations	$ 14.0	$ 3.2	$ 3.0	$ 1.2	$ (23.7)	$ (2.3)
Basic income per common share:						
Income from continuing operations	$ 0.87					$ (0.11)
Diluted income per common share:						
Income from continuing operations	$ 0.85					$ (0.11)
Weighted average common shares outstanding:						
Basic	16.0	3.0(e)		2.5(e)		21.5
Diluted	16.4	3.0		2.5		21.5

* See Note 7 for an explanation of the preliminary pro forma adjustments.

See accompanying notes to unaudited pro forma condensed combined financial information

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KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Unaudited Pro Forma Condensed Combined Statement of Operations
(in millions, except per share data)

	Kratos Historical Twelve Months Ended December 27, 2009	Herley Historical Twelve Months Ended January 31, 2010	Gichner Historical Twelve Months Ended December 31, 2009	HBE Historical Twelve Months Ended December 31, 2009	Preliminary Pro Forma Adjustments*	Pro Forma Combined
Revenues	$ 334.5	$ 179.1	$ 147.1	$ 55.1	$	$ 715.8
Cost of revenues	265.2	141.8	122.4	40.8		570.2
Gross profit	69.3	37.3	24.7	14.3		145.6
Selling, general and administrative expenses	52.8	41.8	12.6	15.0	10.2(a)(b)	132.4
Research and development expenses	1.8					1.8
Recovery of unauthorized issuance of stock options, stock option investigation and related fees, and litigation settlement	(0.2)	0.7				0.5
Impairment of goodwill	41.3	44.2				85.5
Impairments and adjustments to the liability of unused office space	0.6					0.6
Operating loss from continuing operations	(27.0)	(49.4)	12.1	(0.7)	(10.2)	(75.2)
Other expense:						
Interest expense, net	(10.4)	(0.9)	(1.5)	(0.3)	(37.6)(c)	(50.7)
Other income (expense), net	0.1	(0.1)		0.1		0.1

Total other expense, net	(10.3)	(1.0)	(1.5)	(0.2)	(37.6)	(50.6)
Income (loss) from continuing operations before income taxes	(37.3)	(50.4)	10.6	(0.9)	(47.8)	(125.8)
Provision (benefit) for income taxes from continuing operations	1.0	(15.8)	5.1	(0.1)	11.8(d)	2.0
Income (loss) from continuing operations	$ (38.3)	$ (34.6)	$ 5.5	$ (0.8)	$ (59.6)	$ (127.8)
Basic loss per common share:						
Loss from continuing operations	$ (2.76)					$ (6.59)
Diluted loss per common share:						
Loss from continuing operations	$ (2.76)					$ (6.59)
Weighted average common shares outstanding:						
Basic	13.9	3.0(e)		2.5(e)		19.4
Diluted	13.9	3.0		2.5		19.4

*

See Note 7 for an explanation of the preliminary pro forma adjustments.

See accompanying notes to unaudited pro forma condensed combined financial information

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Kratos Defense & Security Solutions, Inc.
Notes to Unaudited Pro Forma Condensed Combined Financial Statements

1. Description of the Transaction and Other Recent Events

On February 7, 2011, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Lanza Acquisition Co., a Delaware corporation and the Company's indirect wholly-owned subsidiary ("Merger Sub") and Herley. Assuming the closing of the transactions contemplated by the Merger Agreement, the Company will own all of the issued and outstanding capital stock of Herley, and Herley will become a direct subsidiary of the Company.

The Company estimates its cash requirements in connection with the acquisition of Herley to be approximately $318 million. On February 7, 2011, in connection with the Offer, we entered into a commitment letter (the "Commitment Letter") with Jefferies Group, Inc., Key Capital Corporation and OPY Credit Corp. (collectively, the "Committing Parties"), pursuant to which the Committing Parties have committed to provide debt financing of up to an aggregate of $307.5 million for the Offer. The commitment of the Committing Parties under the Commitment Letter is subject to customary conditions, including the absence of any material adverse effect on the financial condition of Herley or our ability to consummate the transactions described in the Commitment Letter. The amount of the commitment is subject to reduction by the amount of net proceeds that we raise in this offering; provided that the maximum amount of such reduction shall not exceed $40 million. The Company expects to use the net proceeds from this offering together with the net proceeds from the debt financing transaction to fund the purchase of Herley Common Stock in connection with the acquisition of Herley and for other corporate purposes. If the acquisition of Herley is not completed, the Company will use the net proceeds from this offering for general corporate purposes. The shares issued in the offering have been assumed to be approximately three million which results in net proceeds of $40 million assuming that the shares were issued at $13.99 which was the last reported sale price of our common stock on the NASDAQ Global Select Market on February 4, 2011.

On December 15, 2010, the Company completed the merger of Hammer Acquisition Inc., a Delaware corporation and a wholly-owned subsidiary of the Company ("Hammer Merger Sub"), with and into HBE, whereby HBE became a wholly-owned subsidiary of the Company (the "HBE Merger"). The HBE Merger was effected pursuant to an Agreement and Plan of Merger, dated October 5, 2010, by and among the Company, HBE and Hammer Merger Sub, as amended by that certain Amendment to the Agreement and Plan of Merger, dated November 13, 2010, by and among the Company, HBE and Hammer Merger Sub. The Company paid $56.6 million to acquire HBE, of which $54.9 million was paid in cash and $1.7 million of which reflects the fair value of the replacement options issued to HBE option holders.

On October 12, 2010, the Company completed a firm commitment underwritten offering of approximately 2.5 million shares of its common stock at a public offering price of $10.20 per share. The Company received gross proceeds of approximately $25.8 million and net proceeds of approximately $24.7 million after deducting underwriting fees and other offering expenses. The Company used the net proceeds from this offering to fund the purchase price for the acquisition of HBE.

2. Basis of Presentation

The unaudited pro forma condensed combined financial statements were prepared in accordance with the regulations of the SEC. The pro forma adjustments reflecting the completion of the acquisition of Herley are based upon the acquisition method of accounting in accordance with GAAP, and upon the assumptions set forth in the notes to the unaudited pro forma condensed combined financial statements.

During 2010, Kratos acquired Gichner and HBE. The acquisition of each of Gichner and HBE was completed on May 19, 2010 and December 15, 2010, respectively.

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The unaudited pro forma condensed combined balance sheet as of September 26, 2010 combines the historical consolidated balance sheets of Kratos as of September 26, 2010, HBE as of September 30, 2010, and Herley as of October 31, 2010.

The unaudited pro forma condensed combined statements of operations for the nine months ended September 26, 2010 combine the historical consolidated statements of operations of Kratos, Herley and HBE for their respective nine months ended September 26, 2010, October 31, 2010 and September 30, 2010, and of Gichner for the three months ended March 31, 2010. The unaudited pro forma condensed combined statements of operations for the year ended December 27, 2009 combine the historical consolidated statements of operations of Kratos, Gichner and HBE for their respective years ended December 27, 2009, December 31, 2009 and December 31, 2009, and of Herley for the twelve month period ended January 31, 2010. The operating results for the twelve month period ended January 31, 2010 for Herley were derived from the quarterly operating results and annual operating results of Herley.

The pro forma adjustments include the application of the acquisition method of accounting under Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 805 Business Combinations ("ASC Topic 805"). ASC Topic 805 requires, among other things, that identifiable assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date, which is presumed to be the closing date of the acquisition of Herley.

Under ASC Topic 820 Fair Value Measurements and Disclosures ("ASC Topic 820"), "fair value" is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be unrelated buyers and sellers in the principal or the most advantageous market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. Many of these fair value measurements can be highly subjective and it is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

The historical consolidated financial data has been adjusted to give effect to pro forma events that are (1) directly attributable to the acquisition of each of Gichner, HBE and Herley, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results. The pro forma adjustments are preliminary and based on management's estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the acquisition and certain other adjustments. The unaudited pro forma condensed combined financial statements do not reflect revenue opportunities, synergies or cost savings that the Company expects to realize after the acquisitions. No assurance can be given with respect to the estimated revenue opportunities and operating cost savings that are expected to be realized as a result of the acquisitions. The unaudited pro forma condensed combined financial statements also do not reflect non-recurring charges related to integration activities or exit costs that may be incurred by Kratos, Gichner or HBE in connection with the acquisitions thereof. There were no material transactions between Kratos, HBE and Gichner during the periods presented in the unaudited pro forma condensed combined financial statements that would need to be eliminated.

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3. Accounting Policies

Based upon the Company's preliminary review of Herley's summary of significant accounting policies disclosed in its audited financial statements, incorporated herein by reference, the nature and amount of any adjustments to the historical financial statements of Herley to conform Herley's accounting policies to those of the Company's are not expected to be significant. See "Where You Can Find More Information."

4. Consideration Transferred and Purchase Price Allocation

The initial consideration transferred and the aggregate purchase price to be allocated is presented in the table below (in millions).

Cash payable as merger consideration	$ 269.8
Fair value of Kratos replacement options issued to Herley option holders	0.3
Estimate of acquisition consideration[(a)]	$ 270.1

(a) Kratos expects to fund the cash payment with cash on hand and net proceeds from this offering together with the net proceeds from a debt financing transaction, as described in Note 1 above.

5. Estimate of Assets to be Acquired and Liabilities to be Assumed

The following is a discussion of the adjustments made in connection with the preparation of the unaudited pro forma condensed combined financial statements. Each of these adjustments represents preliminary estimates of the fair values of HBE's and Herley's assets and liabilities and periodic amortization of such adjustments to the extent applicable. Actual adjustments will be made when the final fair value of HBE's and Herley's assets and liabilities is determined. Accordingly, the actual adjustments to HBE's and Herley's assets and liabilities and the related amortization of such adjustments may differ materially from the estimates reflected in the unaudited pro forma condensed combined financial statements.

The following is the preliminary estimate of the assets acquired and the liabilities assumed by Kratos reconciled to the consideration transferred (in millions):

	Herley	HBE
Book value of net assets acquired	$ 111.3	$ 12.3
Acquisition accounting adjustment for deferred taxes	(30.5)	(9.8)
Identifiable intangible assets	94.5	18.6
Goodwill	94.8	35.5
Purchase price allocated	$ 270.1	$ 56.6

Goodwill: Goodwill is calculated as the excess of the acquisition date fair value of the consideration transferred over the values assigned to the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but rather is subject to an annual impairment test.

Intangible assets: Using the income approach, the Company has made a preliminary estimate of the fair value of the acquired identifiable intangible assets, which are subject to amortization. Further analysis must be performed to value those assets at fair value and allocate purchase price to those assets. As such, the value of intangible assets may differ significantly from the amount reflected on the unaudited pro forma condensed combined financial information. Amortization recorded in the statement of operations may also

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differ based on the valuation of intangible assets. The following table sets forth the components of these intangible assets and their estimated useful lives (dollars in millions):

	Fair value	Estimated useful life (years)
Trade name	$ 30.4	Indefinite
Technical know-how	19.4	10
Backlog funded	8.4	3
Customer relationships	36.3	10 - 18
	$ 94.5	

6. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet:

(a) The sources and uses of funds relating to the acquisitions are as follows (in millions):

Sources: (See Note 1)	
Debt financing transaction	$ 265.0
Net proceeds from this offering	40.0
Net proceeds from issuance of stock on October 12, 2010	24.7
Uses:	
Cash consideration to stockholders of Herley	(269.8)
Cash consideration to stockholders of HBE	(54.9)
Change in control payments	(9.5)
Estimated transaction fees	(25.5)
Repayment of Herley debt	(11.7)
Net adjustment to cash and cash equivalents	$ (44.5)

(b) Reflects adjustment for current and long term deferred financing costs of $1.8 million and $9.6 million, respectively, related to issuance of debt.

(c) Reflects adjustments to deferred taxes and goodwill as a result of the impact of indefinite lived intangibles acquired.

(d) Reflects adjustments to goodwill (in millions):

Eliminate HBE historical goodwill	$ (4.8)
Record transaction goodwill HBE	35.5
Eliminate Herley goodwill	(43.7)
Record transaction goodwill Herley	94.8
	$ 81.8

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(e)

Reflects adjustments to intangibles (in millions):

Eliminate HBE historical intangibles	$	(0.9)
Record transaction intangibles HBE		18.6
Eliminate Herley intangibles		(7.9)
Record transaction intangibles Herley		94.5
	$	104.3

(f)

Reflects payment of Herley debt.

(g)

Reflects a bond premium of $15.0 million. $2.4 million is current and $12.6 is long term. The bond premium is the difference between the 10% face amount of the notes and an assumed yield to maturity of approximately 8.6% on the new issuance.

(h)

Reflects payment of Herley employee settlements of $2.4 million, of which $1.4 million is a current liability and $1.0 million is a long term liability.

(i)

Reflects the face amount of the long term debt assumed to be issued of $250.0 million offset by payment of Herley long term debt of $10.4 million.

(j)

Reflects the elimination of Herley common stock.

(k)

Reflects the elimination of the Herley and HBE additional-paid-in-capital offset by assumed net proceeds from the issuance of common stock of $64.7 million and $2.0 million related to the fair value of options assumed for Herley and HBE. (See Note 1.)

(l)

Reflects the elimination of Herley and HBE retained earnings offset by transaction costs and change in control payments of $24.0 million.

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7. Adjustments to Unaudited Pro Forma Condensed Combined Statement of Operations:

(a)

Net decrease in amortization expense to reflect the adjustment for intangibles not acquired in the transactions, net of the amortization expense of identifiable intangible assets arising from the purchase price allocations. Identifiable intangible assets are being amortized using the straight-line method and their weighted average useful lives (in millions):

	Pro Forma Combined Nine Months Ended September 26, 2010			
Amortization of:	**Herley**	**Gichner**	**HBE**	**Combined**
Customer relationships	$ 1.6	$ 0.4	$	$ 2.0
Funded backlog	1.5		0.7	2.2
Technical know-how	2.1	0.5		2.6
Favorable leases		0.0		0.0
Total estimated amortization expense	5.2	0.9	0.7	6.8
Elimination of Gichner's previously-recorded amortization of acquisition-related intangible assets	(0.8)	(0.1)	(0.1)	(1.0)
Pro forma adjustment to amortization of acquisition-related intangible assets	$ 4.4	$ 0.8	$ 0.6	$ 5.8

	Pro Forma Combined Twelve Months Ended December 27, 2009			
Amortization of:	**Herley**	**Gichner**	**HBE**	**Combined**
Customer relationships	$ 2.2	$ 1.8	$	$ 4.0
Funded backlog	2.8	2.4	0.9	6.1
Technical know-how	1.9	1.9		3.8
Favorable leases		0.2		0.2
Total estimated amortization expense	6.9	6.2	0.9	14.0
Elimination of previously-recorded amortization of acquisition-related intangible assets	(2.2)	(0.4)	(0.2)	(2.8)
Pro forma adjustment to amortization of acquisition-related intangible assets	$ 4.7	$ 5.8	$ 0.7	$ 11.2

(b)

Reflects a reduction in stock-based compensation expense as a result of the exercise of stock options and restricted stock immediately prior to closing of the Herley and HBE transactions offset by stock-based compensation expense for stock options assumed. The net adjustment was a reduction in expense of $0.6 million for the nine months ended September 26, 2010 and $1.0 million for the year ended December 27, 2009.

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(c)

Interest expense adjustments (in millions):

	Nine months ended September 26, 2010	Twelve months ended December 27, 2009
Estimated interest related to Notes issued on May 19, 2010	$ 17.1	$ 22.8
Amortization of deferred financing costs	1.0	1.4
Estimated interest on new debt	18.7	25.0
Eliminate interest cost related to Herley and Gichner debt	(0.5)	(2.4)
Eliminate interest cost on Kratos debt that was refinanced on May 19, 2010	(14.8)	(9.2)
Net change in interest expense	$ 21.5	$ 37.6

In May 2010, to finance the acquisition Gichner, the Company completed a private offering of $225 million in aggregate principal amount of 10% Senior Secured Notes due 2017 and entered into a new 4-year, $25.0 million revolving credit facility, which is secured by a first priority lien on the combined entity's accounts receivable and inventory. To finance the Herley acquisition, the Company plans to issue additional 10% Senior Secured Notes due 2017. The assumed yield to maturity on the new notes is approximately 8.7%. The interest expense is based on the interest cost of the debt facilities that were the result of the Gichner acquisition and the estimated interest cost for the acquisition of Herley. A 1/8 percent change in the interest rate on the new notes would result in a $0.3 million change in yearly interest expense.

(d)

Reflects the income tax effects of pro forma adjustments and utilization of Kratos net operating losses and tax attributes to offset tax expense that HBE and Gichner would otherwise incur on a stand-alone basis.

(e)

Reflects the issuance of 3.0 million shares related to this offering and the issuance of 2.5 million shares on October 12, 2010. (See Note 1)

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MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income and estate tax considerations relevant to the purchase, ownership and disposition of our common stock by a non-U.S. holder (as defined below) as of the date hereof. This summary deals only with non-U.S. holders that acquire our common stock in this offering and hold the common stock as a capital asset.

For purposes of this summary, a "non-U.S. holder" means a beneficial owner of our common stock that is not a partnership and is not any of the following for U.S. federal income tax purposes: (i) an individual citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (1) its administration is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all of its substantial decisions, or (2) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended, and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, or be subject to differing interpretations, so as to result in U.S. federal tax considerations different from those summarized below. This summary does not represent a detailed description of the U.S. federal tax considerations to you in light of your particular circumstances. In addition, it does not address the U.S. federal tax considerations to you if you are subject to special treatment under the U.S. federal tax laws (including if you are a bank or other financial institution, insurance company, broker or dealer in securities, tax-exempt organization, foreign government or agency, U.S. expatriate, "controlled foreign corporation," "passive foreign investment company," or a person who holds our common stock in a straddle or as part of a hedging, conversion or constructive sale transaction). Except where noted, this summary does not address any U.S. taxes other than U.S. federal income tax. We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

If an entity classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding our common stock, or a partner in such a partnership, you should consult your tax advisors.

If you are considering the purchase of our common stock, you should consult your own tax advisors concerning the particular U.S. federal tax consequences to you of the purchase, ownership and disposition of the common stock, as well as the consequences to you arising under the laws of any other taxing jurisdiction, including any state, local or foreign tax consequences.

Dividends

We have never declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we were to pay cash dividends in the future on our common stock, they would be subject to U.S. federal income tax in the manner described below.

Cash distributions on our common stock generally will constitute dividends for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of current and accumulated earnings and profits will be applied against and reduce a non-U.S. holder's tax basis in our common stock, to the extent thereof, and any excess will be treated as capital gain realized on the sale or other disposition of the common stock and subject to tax in the manner described below under " Gain on Disposition of Common Stock."

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Distributions paid to a non-U.S. holder of our common stock that constitute dividends under the rules described above generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by a non-U.S. holder within the United States and, where an income tax treaty applies, are attributable to a U.S. permanent establishment of the non-U.S. holder, are not subject to this withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable individual or corporate rates. Certain certification and disclosure requirements must be complied with in order for effectively connected dividends to be exempt from this withholding tax. Any such effectively connected dividends received by a foreign corporation may be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A non-U.S. holder of our common stock who is entitled to and wishes to claim the benefits of an applicable treaty rate (and avoid backup withholding as discussed below) with respect to dividends received on our common stock, generally will be required to (i) complete IRS Form W-8BEN (or an acceptable substitute form) and make certain certifications, under penalty of perjury, to establish its status as a non-U.S. person and its entitlement to treaty benefits or (ii) if the common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable U.S. Treasury regulations. Special certification and other requirements apply to certain non-U.S. holders that are entities rather than individuals.

A non-U.S. holder of our common stock eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

Gain on Disposition of Common Stock

A non-U.S. holder generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of our common stock unless (i) the gain is effectively connected with a trade or business of the non-U.S. holder in the United States and, where a tax treaty applies, is attributable to a U.S. permanent establishment of the non-U.S. holder (in which case, for a non-U.S. holder that is a foreign corporation, the branch profits tax described above may also apply), (ii) in the case of a non-U.S. holder who is an individual, such holder is present in the U.S. for 183 or more days in the taxable year of the sale or other disposition and certain other conditions are met, or (iii) subject to certain exceptions, we are or have been a "U.S. real property holding corporation" for U.S. federal income tax purposes.

We believe we currently are not, and do not anticipate becoming, a "U.S. real property holding corporation" for U.S. federal income tax purposes.

Federal Estate Tax

Common stock held by an individual non-U.S. holder at the time of death will be included in such holder's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

We must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to such holder and the tax withheld (if any) with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and any withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty. In addition, dividends paid to a non-U.S. holder may be subject to backup withholding unless applicable certification requirements are met.

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Payment of the proceeds of a sale of our common stock within the United States or conducted through certain U.S. related financial intermediaries is subject to information reporting and, depending upon the circumstances, backup withholding unless the non-U.S. holder certifies under penalties of perjury that it is not a United States person (and the payor does not have actual knowledge or reason to know that the holder is a United States person) or the holder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Legislation Affecting Taxation of Common Stock Held By or Through Foreign Entities

Effective for payments made after December 31, 2012, a 30% U.S. federal withholding tax will be imposed on dividends on stock of U.S. corporations, and on the gross proceeds from the disposition of such stock, paid to a "foreign financial institution" (as specially defined for this purpose), unless such institution enters into an agreement with the U.S. Treasury to collect and provide to the U.S. Treasury substantial information regarding its U.S. account holders and certain account holders that are foreign entities with U.S. owners. A 30% U.S. federal withholding tax will also apply to dividends paid on stock of U.S. corporations and on the gross proceeds from the disposition of such stock paid to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or a certification identifying the direct and indirect substantial U.S. owners of the entity. Under certain circumstances, a holder may be eligible for refunds or credits of such withholding taxes. Investors are urged to consult with their own tax advisors regarding the possible application of these rules to their investment in our common stock.

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UNDERWRITING

Under the terms and subject to the conditions to be set forth in an underwriting agreement dated February , 2011, by and among us and Jefferies & Company, Inc., as representative of the several underwriters, we have agreed to sell to the underwriters and the underwriters have severally agreed to purchase from us, the number of shares indicated in the table below:

	Number of Shares
Underwriters	
Jefferies & Company, Inc.	
B. Riley & Co., LLC	
Oppenheimer & Co. Inc.	
Imperial Capital, LLC	
Noble Financial Group, Inc.	
Total	

The underwriting agreement provides that the obligations of the several underwriters are subject to certain conditions precedent such as the receipt by the underwriters of officers' certificates and legal opinions and approval of certain legal matters by their counsel. The underwriting agreement provides that the underwriters will purchase all of the shares if any of them are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated. We have agreed to indemnify the underwriters and certain of their controlling persons against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares subject to their acceptance of the shares from us and subject to prior sale. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Option to Purchase Additional Shares

We have granted the underwriters an option, exercisable no later than 30 calendar days after the date of the underwriting agreement, to purchase up to an aggregate of additional shares of our common stock at the public offering price, less the underwriting discounts and commissions set forth on the cover page of this prospectus supplement and as indicated below. We will be obligated to sell these shares of our common stock to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise this option only to cover over-allotments, if any, made in connection with the sale of our common stock offered by this prospectus supplement.

Commission and Expenses

The underwriters have advised us that they propose to offer our common stock directly to the public at the offering price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of $ per share. After the offering, the initial public offering price and the concession to dealers may be reduced by the representative. No such reduction will change the amount of proceeds to be received by the offering as set forth on the cover page of this prospectus supplement.

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The following table shows the per share and total underwriting discounts and commissions that we will pay to the underwriters and the proceeds we will receive before expenses. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of our common stock.

	PER SHARE	TOTAL WITHOUT OVER-ALLOTMENT EXERCISE	TOTAL WITH OVER-ALLOTMENT EXERCISE
Public offering price	$	$	$
Underwriting discounts and commissions	$	$	$
Proceeds to Kratos Defense & Security Solutions, before expenses	$	$	$

We have also agreed to reimburse the underwriters for certain reasonable travel, legal and other out-of-pocket expenses.

We estimate the total offering expenses of this offering that will be payable by us, excluding the underwriting discount and commission, will be approximately $, which includes legal costs, various other fees and reimbursement of certain of the underwriters' expenses.

No Sales of Similar Securities

We have agreed, subject to specified exceptions, not to directly or indirectly offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock. We have also agreed not to file any registration statement, preliminary prospectus or prospectus, or any amendment or supplement thereto, under the Securities Act for any such transaction or which registers, or offers for sale, our common stock or any securities convertible into or exercisable or exchangeable for our common stock, except for registration statements on Form S-8 relating to employee benefit plans.

Certain of our executive officers and directors have agreed, subject to specified exceptions, not to directly or indirectly:

- offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of, any shares of our common stock or securities convertible into or exercisable or exchangeable for our common stock (including, without limitation, shares of our common stock or any such securities which may be deemed to be beneficially owned by such officers and directors in accordance with the rules and regulations promulgated under the Securities Exchange Act of 1934, as the same may be amended or supplemented from time to time (such shares or securities, the "Beneficially Owned Shares"));

- enter into any swap, hedge or other agreement or arrangement that transfers in whole or in part, the economic risk of ownership of any Beneficially Owned Shares, our common stock or securities convertible into or exercisable or exchangeable for our common stock; or

- engage in any short selling of any Beneficially Owned Shares, our common stock or securities convertible into or exercisable or exchangeable for our common stock.

These restrictions terminate after the close of trading of the common shares on and including the 90 days after the date of this prospectus supplement.

However, subject to certain exceptions, in the event that either:

- during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to us occurs; or

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prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day restricted period,

then in either case the expiration of the 90-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the issuance of an earnings release or the occurrence of the material news or event, as applicable, unless Jefferies & Company, Inc. waives, in writing, such an extension.

Notwithstanding the above agreement, one of our executive officers, Benjamin Goodwin, our President, Public Safety & Security Segment, will be permitted to surrender to us or sell on account of withholding taxes a portion of his shares of restricted stock under the Plans upon the date such taxes are due. Such surrender or sale will be disclosed on a Form 4 filed under the Exchange Act and will relate to approximately 4,000 shares.

Jefferies & Company, Inc. may, in its sole discretion and at any time or from time to time before the termination of the 90-day restricted period, without public notice, release all or any portion of the securities subject to lock-up agreements. There are no existing agreements between the underwriters and us, providing consent to the sale of shares prior to the expiration of the lock-up period.

Listing

Our common stock is traded on the NASDAQ Global Select Market under the symbol "KTOS."

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares of common stock is completed, SEC rules may limit the underwriters from bidding for and purchasing shares of our common stock.

In connection with this offering, the underwriters may engage in transactions that stabilize, maintain or otherwise make short sales of our common stock and may purchase our common stock on the open market to cover positions created by short sales. Short sales involve the sale by an underwriter of a greater number of shares than it is required to purchase in this offering. The underwriters may close out any short position by purchasing shares in the open market or exercising their over-allotment option.

A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering. A "stabilizing bid" is a bid for or the purchase of our common stock on behalf of the underwriters in the open market prior to the completion of this offering for the purpose of fixing or maintaining the price of the shares of our common stock. A "syndicate covering transaction" is the bid for or purchase of our common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our shares or preventing or retarding a decline in the market price of our shares. As a result, the price of our shares may be higher than the price that might otherwise exist in the open market.

In connection with this offering, the underwriters may also engage in passive market making transactions in our common stock on the NASDAQ Global Select Market in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of shares of our common stock in this offering and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded.

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Neither we, nor any of the underwriters, make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. In addition, neither we nor any of the underwriters makes any representation that the underwriters will engage in these transactions or that any transaction, if commenced, will not be discontinued without notice.

Electronic Distribution

A prospectus supplement in electronic format may be made available by e-mail or on the websites or through online services maintained by one or more of the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus supplement in electronic format, the information on the underwriters' websites and any information contained in any other website maintained by any of the underwriters is not part of this prospectus supplement, has not been approved and/or endorsed by us or the underwriters and should not be relied upon by investors.

Affiliations

Certain of the underwriters or their respective affiliates have in the past performed, and may in the future perform, investment banking, brokerage and other financial services for us or our affiliates for which they received, or will receive, advisory or transaction fees, as applicable, plus out-of-pocket expenses, of the nature and in the amounts customary in the industry for these financial services.

Oppenheimer & Co. Inc. has acted as financial advisor to us in connection with our proposed acquisition of Herley Industries, Inc. Jefferies Group, Inc., an affiliate of Jefferies & Company, Inc., and OPY Credit Corp., an affiliate of Oppenheimer & Co. Inc., have entered into a commitment letter with us pursuant to which such parties, together with others, have committed to provide up to $307.5 million of financing for the proposed acquisition. Jefferies & Company, Inc. has acted as financial advisor and delivered a fairness opinion to Herley Industries, Inc. in connection with the proposed acquisition. In the course of their businesses, the underwriters and their affiliates may actively trade our securities or loans for their own account or for the accounts of customers, and, accordingly, the underwriters and their affiliates may at any time hold long or short positions in such securities or loans.

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NOTICE TO INVESTORS

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (as defined below) (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), an offer of our common stock to the public may not be made in that Relevant Member State prior to the publication of a prospectus in relation to our common stock which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive if they have been implemented in the Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons per Relevant Member State (other than qualified investors as defined in the Prospectus Directive); or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of our common stock to the public" in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and our common stock to be offered so as to enable an investor to decide to purchase or subscribe for our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the term "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

France

This prospectus supplement has not been, and will not be, submitted to the clearance procedures of the Autorité des marchés financiers (the "AMF") in France and may not be directly or indirectly released, issued, or distributed to the public in France, or used in connection with any offer for subscription or sale of our common stock to the public in France, in each case within the meaning of Article L.411-1 of the French Code monétaire et financier (the "French Financial and Monetary Code").

The securities have not been, and will not be, offered or sold to the public in France, directly or indirectly, and will only be offered or sold in France (i) to qualified investors (investisseurs qualifiés) investing for their own account, in accordance with all applicable rules and regulations, and in particular in accordance with Articles L.411-2 and D. 411-2 of the French Financial and Monetary Code; (ii) to investment services providers authorized to engage in portfolio investment on behalf of third parties, in accordance with Article L.411-2 of the French Financial and Monetary Code; or (iii) in a transaction that, in accordance with all applicable rules and regulations, does not otherwise constitute an offer to the public ("appel public à l'épargne") in France within the meaning of Article L.411-1 of the French Financial and Monetary Code.

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This prospectus supplement is not to be further distributed or reproduced (in whole or in part) in France by any recipient, and this prospectus supplement has been distributed to the recipient on the understanding that such recipient is a qualified investor or otherwise meets the requirements set forth above, and will only participate in the issue or sale of the securities for their own account, and undertakes not to transfer, directly or indirectly, the securities to the public in France, other than in compliance with all applicable laws and regulations and in particular with Articles L.411-1, L.411-2, D.411-1 and D.411-2 of the French Financial and Monetary Code.

United Kingdom

Shares of our common stock may not be offered or sold and will not be offered or sold to any persons in the United Kingdom other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or otherwise in circumstances which have not resulted or will not result in an offer to the public in the United Kingdom within the meaning of the Financial Services and Markets Act 2000 (the "FSMA").

In addition, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of shares of our common stock may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to us. Without limitation to the other restrictions referred to herein, this prospectus supplement and the accompanying prospectus are directed only at (1) persons outside the United Kingdom or (2) persons who:

(a) are qualified investors as defined in Section 86(7) of FSMA, being persons falling within the meaning of Article 2.1(e)(i), (ii) or (iii) of the Prospectus Directive; and

(b) are either persons who fall within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), or are persons who fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Order; or

(c) to whom it may otherwise lawfully be communicated in circumstances in which Section 21(1) of the FSMA does not apply.

Without limitation to the other restrictions referred to herein, any investment or investment activity to which this prospectus supplement and the accompanying prospectus relate is available only to, and will be engaged in only with, such persons, and persons within the United Kingdom who receive this communication (other than persons who fall within (2) above) should not rely or act upon this communication.

Germany

Any offer or solicitation of securities within Germany must be in full compliance with the German Securities Prospectus Act (Wertpapierprospektgesetz WpPG). The offer and solicitation of securities to the public in Germany requires the publication of a prospectus that has to be filed with and approved by the German Federal Financial Services Supervisory Authority (Bundesanstalt fu?r Finanzdienstleistungsaufsicht BaFin). This prospectus supplement and the accompanying prospectus have not been and will not be submitted for filing and approval to the BaFin and, consequently, will not be published. Therefore, this prospectus supplement and the accompanying prospectus do not constitute a public offer under the German Securities Prospectus Act (Wertpapierprospektgesetz). This prospectus supplement, the accompanying prospectus and any other document relating to our common stock, as well as any information contained therein, must therefore not be supplied to the public in Germany or used in connection with any offer for subscription of our common stock to the public in Germany, any public marketing of our common stock or any public solicitation for offers to subscribe for or otherwise acquire our common stock. This prospectus

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supplement, the accompanying prospectus and other offering materials relating to the offer of our common stock are strictly confidential and may not be distributed to any person or entity other than the designated recipients hereof.

Sweden

This is not a prospectus under, and has not been prepared in accordance with the prospectus requirements provided for in, the Swedish Financial Instruments Trading Act [lagen (1991:980) om handel med finasiella instrument] nor any other Swedish enactment. Neither the Swedish Financial Supervisory Authority nor any other Swedish public body has examined, approved, or registered this document.

Hong Kong

Our common stock may not be offered or sold in Hong Kong, by means of this prospectus supplement or any document other than (i) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong). No advertisement, invitation or document relating to our common stock may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore and in Singapore, the offer and sale of our common stock is made pursuant to exemptions provided in Sections 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"). Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our common stock may not be circulated or distributed, nor may our common stock be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person as defined in Section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with the conditions (if any) set forth in the SFA. Moreover, this document is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. Prospective investors in Singapore should consider carefully whether an investment in our common stock is suitable for them. Where our common stock is subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) by a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) for a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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shares of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 of the SFA, except:

(1) to an institutional investor (for corporations under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA;

(2) where no consideration is given for the transfer; or

(3) where the transfer is by operation of law.

In addition, investors in Singapore should note that the securities acquired by them are subject to resale and transfer restrictions specified under Section 276 of the SFA, and they, therefore, should seek their own legal advice before effecting any resale or transfer of their securities.

LEGAL MATTERS

The validity of the common stock being offered by this prospectus will be passed upon by our counsel, Paul, Hastings, Janofsky & Walker LLP, San Diego, California. The underwriters are being represented in connection with this offering by White & Case LLP, New York, New York.

EXPERTS

The consolidated financial statements of Kratos Defense & Security Solutions, Inc. as of December 28, 2008 and December 27, 2009 and for each of the three years in the period ended December 27, 2009, included in the Annual Report on Form 10-K filed on March 11, 2010 incorporated by reference in this prospectus and elsewhere in the registration statement have been so incorporated by reference in reliance upon the reports of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing in giving said reports.

The consolidated financial statements of Gichner and its subsidiaries as of and for the years ended December 31, 2009, 2008 and 2007, included in the Current Report on Form 8-K filed by us on May 25, 2010, which is incorporated by reference in this prospectus and elsewhere in the registration statement, have been audited by Plante & Moran PLLC, independent registered public accounting firm, as set forth in their report therein. Such consolidated financial statements are incorporated by reference in reliance upon such reports given on the authority of such firm as an expert in accounting and auditing.

The consolidated financial statements of HBE and its 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 filed by us on February 4, 2011, which is incorporated by reference in this prospectus and elsewhere in the registration statement, have been audited by Amper, Politziner and Mattia, LLP, independent registered public accounting firm, as set forth in their report therein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Herley and its subsidiaries as of and for the year ended August 1, 2010, included in the Annual Report on Form 10-K for the fiscal year ended August 1, 2010 filed by Herley on October 14, 2010 and which are attached to this prospectus supplement as Annex B, have been audited by Grant Thornton LLP, independent registered public accounting firm, as set forth in their report therein, which as to the year ended August 1, 2010 are based in part on the report of Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tohmatsu, independent registered public accounting firm.

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Such consolidated financial statements are attached hereto in reliance upon such reports given on the authority of such firms as experts in accounting and auditing.

The consolidated financial statements of Herley and its subsidiaries as of and for the fifty-two weeks ended August 2, 2009 and the fifty-three weeks ended August 3, 2008, included in the Annual Report on Form 10-K for the fiscal year ended August 1, 2010 filed by Herley on October 14, 2010 and which are attached to this prospectus supplement as Annex B, have been audited by Marcum LLP, independent registered public accounting firm, as set forth in their report therein, which as to the fifty-two weeks ended August 2, 2009 are based in part on the report of Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tohmatsu, independent registered public accounting firm. Such consolidated financial statements are attached hereto in reliance upon such reports given on the authority of such firms as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference room. The SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including Kratos Defense & Security Solutions, Inc. You may also access our reports and proxy statements free of charge at our website, *http://www.kratosdefense.com*. The information contained in, or that can be accessed through, our website is not part of this prospectus supplement. The prospectus included in this filing is part of a registration statement filed by us with the SEC. The full registration statement can be obtained from the SEC, as indicated above, or from us.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to another document that we have filed separately with the SEC. We hereby incorporate by reference the following information or documents into this prospectus supplement and the accompanying prospectus:

our Annual Report on Form 10-K for the fiscal year ended December 27, 2009 filed with the SEC on March 11, 2010;

our Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2010 filed with the SEC on April 29, 2010;

our Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2010 filed with the SEC on August 6, 2010;

our Quarterly Report on Form 10-Q for the fiscal quarter ended September 26, 2010 filed with the SEC on November 5, 2010;

our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 1, 2010 (to the extent incorporated in our Annual Report on Form 10-K for the fiscal year ended December 27, 2009);

our Current Reports on Form 8-K filed with the SEC on January 7, 2010, February 5, 2010, March 8, 2010, March 10, 2010, April 12, 2010, April 29, 2010, May 17, 2010, May 25, 2010, August 5, 2010, October 7, 2010, November 4, 2010, November 15, 2010, November 30, 2010, December 16, 2010, January 5, 2011, and February 4, 2011;

the description of our Common Stock contained in our Registration Statement on Form 8-A (File No. 000-27231), 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

the description of the purchase rights for Series C Preferred Stock, par value $0.001 per share, contained in our Registration Statement on Form 8-A (File No. 000-27231), initially filed under

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Section 12(g) of the Exchange Act on December 17, 2004, as modified by our Registration Statement on Form 8-A12B (File No. 001-34460), filed under Section 12(b) of the Exchange Act on September 16, 2009, and including, in each case, any subsequent amendment or report filed for the purpose of amending such description.

Any information in any of the foregoing documents will automatically be deemed to be modified or superseded to the extent that information in this prospectus supplement or the accompanying prospectus or in a later filed document that is incorporated or deemed to be incorporated herein by reference modifies or replaces such information.

We also incorporate by reference any future filings (other than current reports furnished under Item 2.02 or Item 7.01 of Form 8-K and exhibits filed on such form that are related to such items) made with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, until we sell all of the securities offered by this prospectus supplement. Information in such future filings updates and supplements the information provided in this prospectus supplement. Any statements in any such future filings will automatically be deemed to modify and supersede any information in any document we previously filed with the SEC that is incorporated or deemed to be incorporated herein by reference to the extent that statements in the later filed document modify or replace such earlier statements.

Upon written or oral request, we will provide to you, without charge, a copy of any or all of the documents that are incorporated by reference into this prospectus supplement and the accompanying prospectus but not delivered with the prospectus, including exhibits which are specifically incorporated by reference into such documents. Requests should be directed to: Kratos Defense & Security Solutions, Inc., Attention: Investor Relations, 4820 Eastgate Mall, San Diego, California, 92121, telephone (858) 812-7300.

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ANNEX A

AGREEMENT AND PLAN OF MERGER

by and among

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.,

LANZA ACQUISITION CO.

and

HERLEY INDUSTRIES, INC.

dated as of February 7, 2011

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "*Agreement*"), dated as of February 7, 2011, is entered into by and among Kratos Defense & Security Solutions, Inc., a Delaware corporation ("*Parent*"), Lanza Acquisition Co., a Delaware corporation and an indirect wholly owned Subsidiary of Parent ("*Merger Sub*"), and Herley Industries, Inc., a Delaware corporation (the "*Company*"). Certain capitalized terms used in this Agreement are defined in *Section 1.1*.

RECITALS

WHEREAS, Parent desires to acquire the Company on the terms and subject to the conditions set forth in this Agreement;

WHEREAS, Merger Sub is a wholly owned subsidiary of Acquisition Co. Lanza Parent ("*Holdco*"), a Delaware corporation and a wholly owned subsidiary of Parent;

WHEREAS, in furtherance of the acquisition of the Company by Parent, on the terms and subject to the conditions set forth herein, it is proposed that Merger Sub commence (within the meaning of Rule 14d-2 promulgated under the Exchange Act) a tender offer (the "*Offer*") to purchase all issued and outstanding shares of Company Common Stock, at a price of $19.00 per share, net to the seller in cash, without interest (such price per share, or any higher price per share as may be paid by Merger Sub pursuant to the terms of the Offer in accordance with this Agreement, the "*Offer Price*");

WHEREAS, following the consummation of the Offer, Merger Sub will merge with and into the Company with the Company surviving as a wholly owned Subsidiary of Holdco (the "*Merger*"), and each share of Company Common Stock that is not tendered and accepted pursuant to the Offer (other than shares held in the treasury of the Company or owned, directly or indirectly, by Merger Sub, Holdco, Parent or any Subsidiary of Parent or the Company or any Subsidiary of the Company immediately prior to the Effective Time, and other than Dissenting Shares) will thereupon be canceled and converted into the right to receive cash in an amount equal to the Offer Price, on the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Board of Directors of the Company (the "*Company Board*"), at a meeting duly called and held prior to the execution of this Agreement at which all directors of the Company were present, has unanimously (i) determined that this Agreement and the transactions contemplated hereby, including the Offer and the Merger, are advisable and fair to, and in the best interests of, the Company and the Company's stockholders, (ii) adopted and approved this Agreement and the transactions contemplated hereby, including the Offer and the Merger, (iii) directed that the adoption of this Agreement be submitted to the Stockholders Meeting (unless the Merger is consummated in accordance with Section 253 of the DGCL) and (iv) resolved to recommend that the holders of shares of Company Common Stock accept the Offer and tender their shares of Company Common Stock pursuant to the Offer, and that the holders of shares of Company Common Stock adopt this Agreement to the extent required by applicable Law in connection with the Merger (the "*Company Board Recommendation*"), which actions and resolutions have not, as of the date hereof, been subsequently rescinded, modified or withdrawn in any way;

WHEREAS, all of the Disinterested Directors (as defined in Article 7 of the Company Certificate) of the Company have approved this Agreement and the consummation of the transactions contemplated hereby, including the Offer and the Merger, in accordance with Article 7 of the Company Certificate;

WHEREAS, the Board of Directors of Merger Sub has approved and declared it advisable for Merger Sub to enter into this Agreement and consummate the transactions contemplated hereby, including the Offer and the Merger, upon the terms and subject to the conditions set forth herein; and

WHEREAS, the Board of Directors of Parent has (i) approved and declared it advisable for Parent to enter into this Agreement and consummate the transactions contemplated hereby, including the Offer and the Merger, upon the terms and subject to the conditions set forth herein, and (ii) caused Holdco, in its capacity as the sole stockholder of Merger Sub, to vote in favor of the adoption of this Agreement.

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NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements set forth herein and intending to be legally bound hereby, Parent, Merger Sub and the Company hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1 *Certain Definitions*.

(a) As used herein:

"*Affiliate*" has the meaning set forth in Rule 12b-2 promulgated under the Exchange Act.

"*Board Recommendation Change*" means either of the following, as the context may indicate: (i) any failure by the Company Board or any committee of the Company Board (a "*Committee*") to make, or any withdrawal or modification in a manner adverse to Parent of, the Company Board Recommendation (or any public proposal or resolution to do so); (ii) the Company Board or a Committee approving, recommending, endorsing or resolving to approve, recommend or endorse an Acquisition Proposal or recommending against the adoption of this Agreement by the stockholders of the Company; (iii) any failure to recommend against any Acquisition Proposal subject to Regulation 14D under the Exchange Act in a Solicitation/Recommendation Statement on Schedule 14D-9 within 10 Business Days after the commencement of such Acquisition Proposal; or (iv) any failure to include the Company Board Recommendation in the Proxy Statement.

"*Business Day*" means a day other than Saturday, Sunday or any other day on which commercial banks in New York, New York are authorized or required by Law to close.

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

"*Company Common Stock*" means the common stock, par value $0.10 per share, of the Company.

"*Company Material Adverse Effect*" shall mean any fact, circumstance, event, change, effect, occurrence, violation or inaccuracy that, individually or in the aggregate with all other facts, circumstances, events, changes, effects, occurrences, violations or inaccuracies has or would be reasonably expected to have a material adverse effect on (a) the financial condition, business, results of operations, capitalization, assets, liabilities or financial performance of the Company and its Subsidiaries, taken as a whole, or (b) the ability of the Company to consummate the transactions contemplated by this Agreement or (c) Parent's ability to vote, receive dividends with respect to or otherwise exercise ownership rights with respect to the stock of the Surviving Corporation; *provided*, *however*, that none of the following, and no effect arising out of or resulting from the following, shall be deemed to be a Company Material Adverse Effect and shall not be considered in determining whether there has occurred, or may, would or could occur, a Company Material Adverse Effect: (i) any changes, events, occurrences or conditions generally affecting the economy, political climate or the credit, financial or capital markets in the United States or elsewhere in the world, including changes in interest or exchange rates, (ii) changes, events, occurrences or effects arising out of, resulting from or attributable to acts of terrorism or war (whether or not declared), or any escalation or worsening of such acts of terrorism or war (whether or not declared), pandemics, earthquakes, hurricanes, tornados or other natural disaster occurring in the United States or elsewhere in the world, (iii) changes , events, occurrences or effects arising out of, resulting from or attributable to changes or prospective changes in Law, GAAP or other accounting

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standards, regulations or principles or any changes or prospective changes in the interpretation or enforcement of any of the foregoing, or changes or prospective changes in regulatory or political conditions, (iv) any changes, events, occurrences or conditions (or changes in such conditions) affecting the industries or markets in which the Company or any of its Subsidiaries is involved, (v) changes as a result of any action or failure to take action, in each case, consented to or requested by Parent, (vi) events primarily attributable to the announcement or performance of this Agreement or the consummation of the transactions contemplated hereby or the pendency of the Offer or the Merger (including the loss or departure of officers or other employees of the Company or any of its Subsidiaries, or the termination, reduction (or potential reduction) or any other negative effect (or potential negative effect) on the Company's relationships or agreements with any of its customers, suppliers, distributors or other business partners, (vii) events primarily attributable to the taking of any action by the Company or its Subsidiaries if that action is contemplated or required by, this Agreement, or with Parent's or Merger Sub's consent, or the failure to take any action by the Company or its Subsidiaries if that action is prohibited by this Agreement, or the consummation of the transactions contemplated hereby, (viii) in and of itself, a decline in the market price, or a change in the trading volume, of the Company Common Stock, (ix) any change in the Company's credit ratings, (x) in and of itself, any failure by the Company to meet any published estimates, projections, predictions, or expectations of the Company's revenue, earnings or other financial performance or results of operations for any period, or any failure by the Company to meet any internal budgets, plans or forecasts of its revenues, earnings or other financial performance or results of operations including any budgets, plans or forecasts previously made available to Parent, (xi) effects arising out of or relating to any matters disclosed on the Company Disclosure Schedule, or (xii) effects arising out of or related to any legal proceedings commenced by or involving any of the current or former stockholders of the Company (on their own behalf or on behalf of the Company) arising out of or related to this Agreement or any of the transactions contemplated hereby, which, based on the underlying merits of such legal proceedings, are not reasonably expected to result in an award of material damages or injunctive relief against the Company or its directors; *provided*, *however*, that, any fact, circumstance, event, change or occurrence referred to in clauses (i) through (iv) immediately above shall be taken into account in determining whether a Company Material Adverse Effect has occurred or is reasonably expected to occur to the extent (but only to the extent) that such fact, circumstance, event, change, occurrence, violation or inaccuracy has had, or would reasonably be expected to have, a materially disproportionate impact on the financial condition, business or results of operations of the Company and its Subsidiaries, taken as a whole, relative to other participants in the industries in which the Company and its Subsidiaries are involved (in which event the extent of such material adverse change may be taken into account in determining whether a Company Material Adverse Effect has occurred).

"*Company Option*" means each option to purchase shares of Company Common Stock that is outstanding immediately prior to the Effective Time, whether or not exercisable or vested, but excluding the Top-Up Option.

"*Company Permitted Liens*" means (i) materialmen's, mechanics', carriers', workmen's, warehousemen's, repairmen's, and other like Liens arising in the ordinary course of business, and deposits to obtain the release of such Liens, (ii) Liens imposed by applicable Law for (A) Taxes not yet due and payable or (B) Taxes that the Company or any of its Subsidiaries is contesting in good faith through appropriate proceedings and for which adequate reserves, in accordance with GAAP, have been established, (iii) Liens disclosed on the Company Balance Sheet or the notes thereto, (iv) Liens under or in connection with building and zoning laws, codes, ordinances, and state and federal regulations governing the use of land, (v) security

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interests granted pursuant to the Company Revolving Credit Facility and (vi) any Liens that would not have a Company Material Adverse Effect.

"*Company Revolving Credit Facility*" means the Revolving Credit Loan Agreement, dated April 30, 2007, by and among the Company and Manufacturers and Traders Trust Company, as amended.

"*Competition Laws*" means (i) U.S. statutes, rules, regulations, orders, decrees, administrative and judicial doctrines, and other U.S. laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization, lessening of competition or restraint of trade; and (ii) non-U.S. statutes, rules, regulations, orders, decrees, administrative and judicial doctrines, and other non-U.S. laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization, lessening of competition or restraint of trade, if the failure to obtain any consent or approval required under such laws would be reasonably expected to have a Company Material Adverse Effect.

"*Contract*" shall mean any legally binding written, oral or other agreement, contract, subcontract, lease, understanding, instrument, note, option, warranty, purchase order, license, sublicense, insurance policy, benefit plan or other legally binding commitment or undertaking of any nature.

"*Employee Benefit Plan*" means (i) each "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) that the Company or any of its Subsidiaries or ERISA Affiliates sponsors, participates in, is a party or contributes to, or with respect to which the Company or any of its Subsidiaries or ERISA Affiliates could reasonably be expected to have any liability or with respect to which the Company or its Subsidiaries or ERISA Affiliates had any liability during the prior six (6) years; and (ii) each other employee benefit plan, program or arrangement, whether written or unwritten, including without limitation, any stock option, stock purchase, stock appreciation right or other stock or stock-based incentive plan, cash bonus or incentive compensation arrangement, retirement or deferred compensation plan, profit sharing plan, unemployment or severance compensation plan, or employment or consulting agreement, for any current or former employee or director of, or other service provider to, the Company or any of its Subsidiaries that does not constitute an "employee benefit plan" (as defined in Section 3(3) of ERISA), that the Company or any of its Subsidiaries presently sponsors, participates in, is a party or contributes to, or with respect to which the Company or any of its Subsidiaries could reasonably be expected to have any liability. Notwithstanding the foregoing, "Employee Benefit Plan" shall not include any Foreign Plan.

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

"*ERISA Affiliate*" means any Person that is a member of a "controlled group of corporations" with, or is under "common control" with, or is a member of the same "affiliated service group" with the Company, in each case, as defined in Sections 414(b), (c), (m) or (o) of the Code.

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

"*Exclusivity Payment*" means that certain payment of $2 million made by Parent to the Company pursuant to that certain Exclusivity Agreement, dated January 19, 2011, between Parent and the Company.

"*Fully-Diluted Basis*" means as of any time, the number of shares of Company Common Stock outstanding, together with all shares of Company Common Stock (if any) that the Company

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would be required to issue pursuant to the exercise or conversion of any Company Options and all warrants and other rights to acquire, or securities convertible into, or exchangeable for, Company Common Stock, that are outstanding immediately prior to the Offer Closing.

"*GAAP*" means U.S. generally accepted accounting principles.

"*Governmental Entity*" means any governmental entity including any U.S. federal, state or local, or foreign government, or any legislature, or governmental subdivision, department, agency, regulatory or administrative body (including a national securities exchange or other such regulatory body), board, commission, court, tribunal or other instrumentality.

"*In-The-Money Company Option*" shall mean each Company Option that has a per share exercise price that is less than the Offer Price.

"*Intellectual Property*" means all intellectual property rights of any kind or nature throughout the world, including all (i) trademarks, service marks, brand names, certification marks, logos, trade dress, trade names, and corporate names, Internet domain names, designs, slogans, other indications of origin and general intangibles of like nature, including all goodwill, common law rights, registrations and applications related to the foregoing, (ii) copyrights and mask works, including, without limitation, all registrations and applications related to the foregoing, (iii) patents, patent applications and industrial designs (and the inventions embodied by the foregoing), including, without limitation, all continuations, divisionals, continuations-in-part, renewals, reissues, re-examinations and applications related to the foregoing, (iv) computer programs (whether in source code, object code, or other form), algorithms, databases, compilations and data, technology supporting the foregoing, and all documentation, including technical and functional specifications, user manuals and training and support materials, related to any of the foregoing, (v) trade secrets, customer data, technology, know-how, proprietary processes, formulas, algorithms, models and methodologies and (vi) any other intellectual property rights of any kind or nature.

"*Knowledge of the Company*" shall mean the actual current knowledge of those individuals set forth on *Section 1.1* of the Company Disclosure Schedule.

"*Knowledge of Parent*" shall mean the actual current knowledge of those individuals set forth on *Section 1.1* of the Parent Disclosure Schedule.

"*NASDAQ*" means the Nasdaq Global Select Market.

"*Necessary Consent*" shall mean any approval, consent, ratification, permission, waiver or authorization of any Governmental Entity required to be obtained, made or given in connection with the Offer or the Merger and the other transactions contemplated by this Agreement, if the failure to obtain such consent would be reasonably expected to have a Company Material Adverse Effect.

"*NYSE*" means the New York Stock Exchange.

"*Out-Of-The-Money Company Option*" shall mean each Company Option that has a per share exercise price that is equal to or greater than the Offer Price.

"*Organizational Conflicts of Interest*" shall have the meaning ascribed thereto in Section 9.501 of the Federal Acquisition Regulations (FAR) and related agency supplements including but not limited to the Defense Federal Acquisition Regulation Supplement.

"*Parent Common Stock*" shall mean the Common Stock, $0.001 par value per share, of Parent.

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"*Parent Material Adverse Effect*" shall mean any change, effect, event, occurrence, violation, inaccuracy, state of facts or development which, individually or in the aggregate, prevents or materially impedes, interferes with, hinders or delays the consummation by Parent or Merger Sub of the Offer, the Merger or the other transactions contemplated by this Agreement.

"*Person*" means an individual, corporation, partnership, limited liability company, association, trust, unincorporated organization, other entity or group (as defined in Section 13(d)(3) of the Exchange Act).

"*SEC*" means the Securities and Exchange Commission.

"*Securities Act*" means the Securities Act of 1933, as amended.

"*Subsidiary*" means, with respect to any party, any Person of which (i) such party or any Subsidiary of such party owns at least fifty percent (50%) of the outstanding equity or voting securities or interests of such Person or (ii) such party or any Subsidiary of such party has the right to elect at least a majority of the board of directors or others performing similar functions with respect to such Person.

"*Tax*" means any and all domestic or foreign, federal, state, local or other taxes of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto whether disputed or not and including any obligations to indemnify or otherwise assume or succeed to the Tax liabilities of any other Person) imposed by any Taxing Authority, including taxes on or with respect to income, franchises, windfall or other profits, gross receipts, occupation, property, transfer, sales, use, capital stock, severance, alternative minimum, payroll, employment, unemployment, social security, workers' compensation or net worth, and taxes in the nature of excise, withholding, ad valorem or value added or other taxes, fees, duties, levies, customs, tariffs, imposts, assessments, obligations and charges of the same or a similar nature to any of the foregoing.

"*Taxing Authority*" means any federal, state, local or foreign government authority responsible for the assessment, determination, collection or imposition of any Tax (including the U.S. Internal Revenue Service).

"*Tax Return*" means any and all returns, reports or similar filings (including the attached schedules) filed or required to be filed with respect to Taxes, including any information return, claim for refund, amended return or declaration of estimated Taxes.

(b) Each of the following terms is defined in the Section set forth opposite such term:

Acceptable Confidentiality Agreement	7.2(b)
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Agreement	Preamble
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Closing	3.3
Closing Date	3.3
Committee	1.1(a)
Commitment Letter	6.8(c)
Company	Preamble
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Company Board	Recitals
Company Board Recommendation	Recitals

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Company Capital Stock	5.2(a)
Company Certificate	5.1
Company Contracts	5.18(a)
Company Disclosure Schedule	ARTICLE V
Company Government Contract	5.18(c)
Company Government Subcontract	5.18(c)
Company Permits	5.19
Company Real Property	5.13(a)
Company Real Property Leases	5.13(c)
Company Restricted Stock	4.3(c)
Company SEC Documents	5.5(a)
Company Stockholder Approval	5.4(b)
Confidentiality Agreement	7.7(d)
Continuing Directors	7.5(c)
Continuing Employees	7.10(a)
Control Time	7.1
D&O Policies	7.9(c)
D&O Tail Period	7.9(c)
DGCL	3.2
Dissenting Shares	4.1(d)
Effective Time	3.4
Environmental Law	5.12(f)(i)
Environmental Permits	5.12(f)(ii)
Exchange Fund	4.2(a)
Excluded Shares	4.1(b)
Expiration Date	2.1(b)
Foreign Plan	5.10(i)
Holdco	Recitals
HSR Act	5.4(a)(ii)
Indebtedness	7.1(l)
Indemnified Parties	7.9(a)
Intervening Event	7.2(e)(ii)
ITAR	5.17(a)
Law	5.16(a)
Letter of Transmittal	4.2(b)
Lenders	6.8(c)
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Merger	Recitals
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Merger Sub	Preamble
Minimum Condition	Annex A
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Offer	Recitals
Offer Closing	2.1(c)
Offer Documents	2.1(d)
Offer Price	Recitals
Offer to Purchase	2.1(d)
Offer to Purchase	2.1(d)
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Paying Agent	4.2(a)
Paying Agent Agreement	4.2(a)
Permits	5.4(a)(ii)
Proxy Statement	5.8
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Required Foreign Plan	5.10(a)
Restraint	8.1(b)
Schedule 14D-9	2.2(a)
Schedule TO	2.1(d)
SEC Staff	2.1(b)
Short-Form Merger	3.9
Solvent	6.11
Stockholders Meeting	7.3(a)
Superior Proposal	7.2(g)(ii)
Surviving Corporation	3.1
Tender Offer Conditions	2.1(a)
Termination Date	9.2(a)
Termination Fee	9.5(c)
The Encouragement Law	5.9(g)
Third Party	7.2(a)
Top-Up Option	2.3(a)
Top-Up Option Shares	2.3(a)

ARTICLE II

THE OFFER

2.1 *The Offer*.

(a) Provided that this Agreement shall not have been terminated in accordance with *Article IX* and none of the events set forth in paragraphs (i), (ii), (iii), (iv) and (v) of Annex A hereto shall have occurred, Merger Sub shall, and Parent shall cause Merger Sub to, commence (within the meaning of Rule 14d-2 under the Exchange Act) the Offer as promptly as practicable following the date hereof and in any event within thirteen (13) Business Days after the date hereof. The obligation of Merger Sub to, and of Parent to cause Merger Sub to, accept for payment shares of Company Common Stock validly tendered pursuant to the Offer and to pay the Offer Price for each such tendered and not subsequently withdrawn share shall be subject only to the satisfaction or waiver by Parent or Merger Sub of the conditions set forth in *Annex A* (such conditions, as they may be amended in accordance with this Agreement, the "*Tender Offer Conditions*"). Parent on behalf of Merger Sub expressly reserves the right from time to time, subject to *Section 2.1(b)*, to waive in whole or in part any such condition, to increase the Offer Price payable in the Offer, and to make any other changes to the terms and conditions of the Offer; *provided*, *however*, that without the prior written consent of the Company, Merger Sub shall not (i) amend or waive satisfaction of the Minimum Condition (as defined in *Annex A*), (ii) change the form of consideration to be paid pursuant to the Offer, (iii) decrease the Offer Price payable in the Offer, (iv) decrease the number of shares of Company Common Stock sought to be purchased in the Offer, (v) impose conditions to the Offer that are in addition to those set forth in *Annex A* hereto, (vi) make any change in the Offer that would require an extension or delay of the then current Expiration Date; provided,

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however, that this clause (vi) shall not limit the ability of Parent or Merger Sub to extend the Expiration Date as required by *Section 2.1(b)*; (vii) amend or modify the Tender Offer Conditions (other than to waive such Tender Offer Conditions, except for the Minimum Condition), or (viii) amend or modify any other term of the Offer in any manner materially adverse to the holders of shares of Company Common Stock in their capacities as holders of shares of Company Common Stock.

(b)

The initial expiration date of the Offer shall be the twentieth (20th) Business Day after the date that the Offer is commenced (determined pursuant to Rule 14d-1(g)(3) and Rule 14d-2 under the Exchange Act) (such date, or such subsequent date to which the expiration of the Offer is extended pursuant to and in accordance with the terms of this Agreement, the "*Expiration Date*"). Merger Sub shall not terminate or withdraw the Offer other than in connection with the effective termination of this Agreement in accordance with *Article IX* hereof. Notwithstanding the foregoing, unless this Agreement is terminated in accordance with *Article IX* hereof, Merger Sub shall, and Parent shall cause Merger Sub to, (i) extend the Expiration Date if, on any then scheduled Expiration Date, any of the Tender Offer Conditions is not satisfied or waived by Merger Sub, for such periods of up to five (5) Business Days at a time (or such other longer period as shall be consented to in writing by the Company) as Merger Sub may deem reasonably necessary, but, except as required by any applicable Law, rule, regulation, interpretation or position of the NASDAQ, the SEC or the staff of the SEC (the "*SEC Staff*") applicable to the Offer (including in connection with an increase in the Offer Price), in no event may the Expiration Date be extended pursuant to this clause (i) to a date later than the Termination Date and (ii) extend the Expiration Date for any period required by any applicable Law, rule, regulation, interpretation or position of the NASDAQ, the SEC or the SEC Staff applicable to the Offer, including in connection with an increase in the Offer Price. Except as expressly provided in this *Section 2.1(b)*, Merger Sub shall not extend the Offer if all of the Tender Offer Conditions are satisfied or waived and it is permitted under applicable Law to accept for payment and pay for validly tendered shares of Company Common Stock that are not validly withdrawn. Nothing in this *Section 2.1(b)* shall affect any termination rights contained in *Article IX* hereof.

(c)

Subject to the terms and conditions set forth in this Agreement and to the satisfaction or waiver of the Tender Offer Conditions, Merger Sub shall, and Parent shall cause it to, (i) promptly after the Expiration Date, accept for payment and pay for (after giving effect to any required withholding Tax pursuant to *Section 2.1(e)*) all shares of Company Common Stock that have been validly tendered and not properly withdrawn pursuant to the Offer (the date of acceptance for payment, the "*Acceptance Date*"), which acceptance shall be by written notice to the Paying Agent, (ii) promptly after the Acceptance Date, but no later than the close of business, New York City time, on the third Business Day thereafter, deposit or cause to be deposited with the Paying Agent, cash in U.S. dollars sufficient to pay the aggregate Offer Price for such accepted shares of Company Common Stock, and (iii) as soon as practicable following such deposit, cause the Paying Agent to pay for all shares of Company Common Stock so accepted for payment. In the event that the Acceptance Date occurs, but the number of shares of Company Common Stock that have been validly tendered and not properly withdrawn in the Offer, together with any shares of Company Common Stock then owned by Parent, assuming exercise of the Top-Up Option in full, is less than ninety percent (90%) of the outstanding shares of Company Common Stock on a fully diluted basis, Merger Sub may, in its sole discretion, commence a "subsequent offering period" (in accordance with Rule 14d-11 promulgated under the Exchange Act) for a number of days to be determined by Parent but not less than three (3) nor more than twenty (20) Business Days to acquire additional outstanding shares of Company Common Stock. If Merger Sub shall commence a subsequent offering period in connection with the Offer, Merger Sub shall, and Parent shall

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cause Merger Sub to, accept for payment and pay for (after giving effect to any required withholding Tax) all additional shares of Company Common Stock validly tendered during such subsequent offering period. Parent shall provide or cause to be provided to Merger Sub on a timely basis the consideration necessary to pay for any shares of Company Common Stock that Merger Sub becomes obligated to accept for payment pursuant to the Offer and shall cause Merger Sub to fulfill all of Merger Sub's obligations under this Agreement. Acceptance for payment of shares of Company Common Stock pursuant to and subject to the Tender Offer Conditions is referred to in this Agreement as the "*Offer Closing*."

(d)

On the date of commencement of the Offer, Parent and Merger Sub shall file with the SEC a Tender Offer Statement on Schedule TO (together with all amendments and supplements thereto, including the exhibits thereto, the "*Schedule TO*") with respect to the Offer, which shall contain or shall incorporate by reference an offer to purchase (the "*Offer to Purchase*") and forms of the related letter of transmittal and forms of notice of guaranteed delivery and any related summary advertisement (the Schedule TO, the Offer to Purchase and such other documents, together with all supplements and amendments thereto, being referred to herein collectively as the "*Offer Documents*"), and cause the Offer Documents to be disseminated to holders of shares of Company Common Stock as and to the extent required by applicable Law. The Offer Documents shall comply in all material respects with the requirements under applicable Law. Each of Parent and Merger Sub, on the one hand, and the Company, on the other hand, agrees to correct promptly any information provided by it for use in the Offer Documents if and to the extent that it shall have become false or misleading in any material respect, and Parent and Merger Sub further agree to take all steps necessary to cause the Schedule TO, as so corrected, to be filed with the SEC, and the other Offer Documents, as so corrected, to be disseminated to holders of shares of Company Common Stock, in each case as and to the extent required by applicable Law. The Company shall promptly furnish to Parent and Merger Sub all information concerning the Company that is required or reasonably requested by Parent or Merger Sub in connection with the obligations relating to the Offer Documents contained in this *Section 2.1(d)*. Parent and Merger Sub shall give the Company and its counsel a reasonable opportunity to review and comment on the Offer Documents prior to such documents (or amendments or supplements thereto) being filed with the SEC or disseminated to holders of shares of Company Common Stock. Parent and Merger Sub shall provide the Company and its counsel with any comments or communications, whether written or oral, that Parent, Merger Sub or their counsel may receive from the SEC or the SEC Staff with respect to the Offer Documents promptly after the receipt of such comments or communications and shall provide the Company and its counsel with a reasonable opportunity to participate in the response of Parent or Merger Sub to such comments or communications. Parent and Merger Sub shall give reasonable and good faith consideration to suggestions of the Company or its counsel in response to such comments or communications. In the event that Parent or Merger Sub receives any comments from the SEC or the SEC Staff with respect to the Offer Documents, each shall use commercially reasonable efforts to respond promptly to such comments and take all other actions necessary to resolve the issues raised therein.

(e)

Parent, Merger Sub or the Paying Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to the Offer to any holder of shares of Company Common Stock such amounts as Parent, Merger Sub or the Paying Agent is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign Tax law. To the extent that amounts are so withheld and paid over by Parent, Merger Sub or the Paying Agent to the appropriate Taxing Authority, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made by Parent, Merger Sub or the Paying Agent.

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2.2

Company Action.

(a)

On the date of commencement of the Offer, the Company shall file with the SEC a Tender Offer Solicitation/Recommendation Statement on Schedule 14D-9 (together with all amendments and supplements thereto, including the exhibits thereto the "*Schedule 14D-9*"), containing, subject to *Section 7.2*, the Company Board Recommendation, and shall disseminate the Schedule 14D-9 as and to the extent required by Rule 14d-9 promulgated under the Exchange Act and any other applicable Law. The Schedule 14D-9 shall comply in all material respects with the requirements under applicable Law. Each of the Company, Parent and Merger Sub agrees to promptly correct any information provided by it for use in the Schedule 14D-9 if and to the extent that it shall have become false or misleading in any material respect, and the Company further agrees to take all steps necessary to cause the Schedule 14D-9, as so corrected, to be filed with the SEC and disseminated to holders of shares of Company Common Stock, in each case as and to the extent required by applicable Law. The Company shall give Parent and its counsel a reasonable opportunity to review and comment on the Schedule 14D-9 prior to such document being filed with the SEC or disseminated to holders of shares of Company Common Stock. The Company shall provide Parent and its counsel with any comments or communications, written or oral, that the Company or its counsel may receive from the SEC or the SEC Staff with respect to the Schedule 14D-9 promptly after the receipt of such comments or communications and shall provide Parent and its counsel with a reasonable opportunity to participate in the response of the Company to such comments. The Company shall give reasonable and good faith consideration to suggestions of Parent or its counsel in response to such comments or communications. In the event that the Company receives any comments from the SEC or the SEC Staff with respect to the Schedule 14D-9, it shall use commercially reasonable efforts to respond promptly to such comments and take all other actions necessary to resolve the issues raised therein.

(b)

As promptly as practicable after the date hereof, and in any event within four (4) Business Days, the Company shall instruct its transfer agent to furnish Parent and Merger Sub with mailing labels containing the names and addresses of all record holders of shares of Company Common Stock and with security position listings of shares held in stock depositories, each as of a recent date, together with all other available listings and computer files containing names, addresses and security position listings of record holders and beneficial owners of shares of Company Common Stock. The Company shall instruct its transfer agent to furnish Parent and Merger Sub with such additional available information, including, without limitation, updated listings and computer files of stockholders, mailing labels and security position listings, and such other assistance in disseminating the Offer Documents to holders of shares of Company Common Stock, as Parent or Merger Sub may reasonably request. Subject to the requirements of applicable Law, and except for such steps as are necessary to disseminate the Offer Documents and any other documents necessary to consummate the Offer or the Merger, such information and materials shall be deemed "confidential information" under the Confidentiality Agreement. The information contained in such labels, listings and files shall be treated and held in confidence by Parent and Merger Sub in accordance with the immediately preceding sentence and shall be used only in connection with the transactions contemplated by this Agreement, and, if this Agreement shall be terminated in accordance with *Article IX*, Parent and Merger Sub shall deliver to the Company all copies of such information then in their possession.

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2.3

Top-Up Option.

(a)

The Company hereby grants to Merger Sub an irrevocable option, for so long as this Agreement has not been terminated pursuant to the provisions hereof (the "*Top-Up Option*"), to purchase (for cash or a note payable), that number (but not less than that number) of shares of Company Common Stock (the "*Top-Up Option Shares*") equal to the lesser of (i) the lowest number of shares that, when added to the number of shares owned by Parent or Merger Sub at the time of such exercise, will constitute one share more than ninety percent (90%) of the total shares of Company Common Stock then outstanding on a Fully-Diluted Basis (assuming the issuance of the Top-Up Option Shares) at a price per share equal to the Offer Price, and (ii) the aggregate number of shares held as treasury shares by the Company and the number of shares that the Company is authorized to issue under its certificate of incorporation but which (A) are not issued and outstanding, (B) are not reserved for issuance pursuant to the Company Stock Plans and (C) are issuable without the approval of the Company's stockholders.

(b)

The Top-Up Option shall be exercisable only once, in whole and not in part, on or prior to the fifth (5th) Business Day after the purchase of and payment for shares of Company Common Stock pursuant to the Offer by Merger Sub, or if any subsequent offering period is provided, during the five (5)-Business Day period following the expiration date of such subsequent offering period, and only if Merger Sub shall beneficially own as of such time at least a majority of the outstanding shares of Company Common Stock. Merger Sub will, concurrently with the exercise of the Top-Up Option, give written notice to the Company that as promptly as practicable following such exercise, Merger Sub intends to (and Merger Sub will, and Parent will cause Merger Sub to, as promptly as practicable after such exercise) consummate the Merger in accordance with Section 253 of the DGCL as contemplated by *Section 3.9*. The Top-Up Option shall not be exercisable, and the Company shall not be obligated to deliver the Top-Up Option Shares, if (i) the number of shares of Company Common Stock issuable pursuant to the Top-Up Option exceeds the number of authorized shares of Company Common Stock available for issuance and not otherwise reserved for issuance for outstanding Company Options or other obligations of the Company, (ii) the exercise of the Top-Up Option and the issuance and delivery of the Top-Up Option Shares are prohibited by any applicable Law, (iii) any judgment, injunction, order or decree shall be in effect prohibiting the exercise of the Top-Up Option or the delivery of the Top-Up Option Shares in respect of such exercise (excluding any rule or regulation of the NASDAQ), (iv) immediately upon exercise of the Top-Up Option and the issuance of the Top-Up Option Shares, the number of shares of Company Common Stock owned, directly or indirectly, by Parent and Merger Sub (excluding shares of Company Common Stock tendered in the Offer pursuant to guaranteed delivery procedures as to which delivery has not been completed as of the time of exercise of the Top-Up Option) does not constitute one share more than ninety percent (90%) of the number of shares of Company Common Stock that will be outstanding on a fully diluted basis immediately after the issuance of the Top-Up Option Shares, (v) the issuance of Top-Up Option Shares pursuant to the Top-Up Option would require approval by the Company's stockholders under applicable Law (other than pursuant to the rules and regulations of the NASDAQ) or (vi) Merger Sub has not accepted for payment all shares of Company Common Stock validly tendered in the Offer and not properly withdrawn and has not deposited or caused to be deposited with the Paying Agent cash sufficient to pay the aggregate Offer Price for all accepted shares of Company Common Stock. The parties shall cooperate to ensure that the issuance of the Top-Up Option Shares is accomplished consistent with all applicable Laws (other than pursuant to the rules and regulations of the NASDAQ), including compliance with an applicable exemption from registration of the Top-Up Option Shares under the Securities

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Act. The Top-Up Option shall terminate upon the earlier to occur of (i) the Effective Time and (ii) termination of this Agreement in accordance with *Article IX*.

(c)

In the event that Merger Sub wishes to exercise the Top-Up Option in accordance with this *Section 2.3*, Merger Sub shall give the Company prior written notice specifying in such notice: (i) the number of Shares that Merger Sub intends to purchase pursuant to the Top-Up Option; (ii) the manner in which Parent or Merger Sub intends to pay the applicable exercise price; and (iii) the place and time at which the closing of the purchase of such Top-Up Option Shares by Merger Sub is to take place, with the time for the closing being not more than five (5) Business Days after the exercise of the Top-Up Option. The Company shall, as soon as practicable following receipt of such notice, notify Merger Sub of the number of shares of Company Common Stock then outstanding, the number of shares of Company Common Stock then outstanding on a Fully-Diluted Basis and the number of Top-Up Option Shares. At the closing of the purchase of the Top-Up Option Shares, Merger Sub shall pay the Company the aggregate purchase price payable for the Top-Up Option Shares pursuant to this *Section 2.3*, and the Company shall cause to be issued to Merger Sub a certificate (or evidence of shares in book-entry form) representing the Top-Up Option Shares. The aggregate purchase price payable for the Top-Up Option Shares may be paid either (i) entirely in cash or (ii) at the election of Merger Sub or Parent, by paying in cash an amount equal to not less than the aggregate par value of the Top-Up Option Shares and by Merger Sub executing and delivering to the Company a full recourse promissory note having a principal amount equal to the balance of the aggregate purchase price for the Top-Up Option Shares. Any such promissory note shall bear interest at the rate of five percent (5%) per annum, shall mature on the first (1st) anniversary of the date of execution and delivery of such promissory note and may be prepaid at any time and from time to time, in whole or in part, without premium or penalty. Merger Sub's obligations under any such promissory note shall be guaranteed by Parent. Without the prior written consent of the Company, the right to exercise the Top-Up Option granted pursuant to this Agreement shall not be assigned by Merger Sub except to any direct or indirect wholly owned Subsidiary of Parent. Any attempted assignment in violation of this *Section 2.3(c)* shall be null and void.

(d)

Each of Parent and Merger Sub acknowledges that the Top-Up Option Shares that Merger Sub may acquire upon exercise of the Top-Up Option will not be registered under the Securities Act and will be issued in reliance upon an exemption thereunder for transactions not involving a public offering. Each of Parent and Merger Sub represents and warrants to the Company that Merger Sub is, and will be upon the exercise of the Top-Up Option Shares, an "accredited investor," as defined in Rule 501 of Regulation D promulgated under the Securities Act. Each of Parent and Merger Sub represents, warrants and agrees that the Top-Up Option and the Top-Up Option Shares to be acquired upon exercise of the Top-Up Option are being and will be acquired by Merger Sub for the purpose of investment and not with a view to, or for resale in connection with, any distribution thereof (within the meaning of the Securities Act). Any certificates evidencing Top-Up Option Shares shall include any legends required by applicable securities Laws.

(e)

Any dilutive impact on the value of the shares of Company Common Stock as a result of the issuance of the Top-Up Option Shares will not be taken into account in any determination of the fair value of any Dissenting Shares pursuant to Section 262 of the DGCL as contemplated by *Section 4.1(d)*.

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ARTICLE III

THE MERGER

3.1

The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time, the Company and Merger Sub shall consummate the Merger pursuant to which (a) Merger Sub shall be merged with and into the Company and the separate corporate existence of Merger Sub shall thereupon cease, (b) the Company shall be the surviving corporation (the "*Surviving Corporation*") and shall continue to be governed by the Laws of the State of Delaware and (c) the separate corporate existence of the Company shall continue unaffected by the Merger. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all of the property, rights, privileges, powers, immunities and franchises of Merger Sub and the Company shall vest in the Surviving Corporation, and all debts, liabilities, obligations and duties of Merger Sub and the Company shall become the debts, liabilities, obligations and duties of the Surviving Corporation.

3.2

Effects of the Merger. At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of the Delaware General Corporation Law ("*DGCL*").

3.3

Closing. The closing of the Merger (the "*Closing*") shall take place (a) at the offices of Blank Rome LLP, One Logan Square, Philadelphia, PA 19103, on the third (3rd) Business Day following the date on which the last of the conditions set forth in *Article VIII* hereof shall be fulfilled or waived (to the extent permitted by applicable Law) in accordance with this Agreement (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver (to the extent permitted by applicable Law) of those conditions) or (b) at such other place, time and date as Parent and the Company may mutually agree in writing; *provided*, *however*, that if, as of or immediately following the Acceptance Date, the expiration of any "subsequent offering period" pursuant to *Section 2.1(c)* or the purchase of the Top-Up Option Shares, Parent determines, in consultation with the Company, that a Short-Form Merger is available pursuant to Section 253 of the DGCL, the Closing shall, subject to the satisfaction or waiver of the conditions set forth in *Article VIII*, occur no later than the second (2nd) Business Day immediately following the Acceptance Date, the expiration of such "subsequent offering period" or the closing of the purchase of the Top-Up Option Shares, as applicable. The date on which the Closing takes place is referred to herein as the "*Closing Date*."

3.4

Effective Time. Subject to the provisions of this Agreement, as promptly as practicable on the Closing Date, the Company and Merger Sub shall execute in the manner required by the DGCL and file with the Secretary of State of the State of Delaware a certificate of merger (the "*Certificate of Merger*") in accordance with Section 251 of the DGCL (or to the extent provided in *Section 3.9* hereof, Section 253 of the DGCL). The parties hereto shall take such other and further actions as may be required by applicable Law to make the Merger effective. The Merger shall become effective upon the filing of the Certificate of Merger or at such date and time as Parent and the Company shall agree and shall specify in the Certificate of Merger (the date and time that the Merger becomes effective being hereinafter referred to as the "*Effective Time*").

3.5

Certificate of Incorporation. At the Effective Time, the certificate of incorporation of the Company as in effect immediately prior to the Effective Time shall be amended and restated in its entirety in the Merger to read as set forth in *Exhibit A* hereto, and, as so amended, shall be the certificate of incorporation of the Surviving Corporation.

3.6

Bylaws. At the Effective Time, the bylaws of the Company shall be amended and restated in its entirety in the Merger to read as set forth in *Exhibit B* hereto, and, as so amended, shall be the bylaws of the Surviving Corporation.

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3.7

Directors. The directors of Merger Sub at the Effective Time shall, from and after the Effective Time, be the initial directors of the Surviving Corporation until their successors have been duly elected or appointed and qualified, or until their earlier death, resignation or removal, in accordance with the certificate of incorporation and bylaws of the Surviving Corporation.

3.8

Officers. The officers of the Company at the Effective Time shall, from and after the Effective Time, be the initial officers of the Surviving Corporation until their successors have been duly elected or appointed and qualified, or until their earlier death, resignation or removal, in accordance with the certificate of incorporation and bylaws of the Surviving Corporation.

3.9

Merger Without Meeting of Stockholders. Notwithstanding anything in this Agreement to the contrary, but subject to *Article VIII*, if, as of immediately following the Acceptance Date, the expiration of any "subsequent offering period" pursuant to *Section 2.1(c)*, the purchase, if applicable, of the Top-Up Option Shares, and, if necessary, the expiration of the period for guaranteed delivery of shares of Company Common Stock in the Offer, Parent or any direct or indirect Subsidiary of Parent, taken together, shall own at least ninety percent (90%) of the total outstanding shares of Company Common Stock, the parties shall, subject to *Article VIII* hereof, take all necessary and appropriate action to cause the Merger to become effective as soon as practicable after the satisfaction of such threshold, without a meeting of stockholders of the Company, in accordance with Section 253 of the DGCL (such merger, a "*Short-Form Merger*").

ARTICLE IV

MERGER CONSIDERATION;
CONVERSION OR CANCELLATION OF SHARES IN THE MERGER

4.1

Merger Consideration; Conversion or Cancellation of Shares in the Merger.

(a)

Conversion of Company Common Stock. At the Effective Time, by virtue of the Merger and without any action on the part of Parent, Merger Sub, the Company or the holders of any shares of Company Capital Stock or the holders of any capital stock of Merger Sub, each issued and outstanding share of Company Common Stock (other than Excluded Shares (as defined in *Section 4.1(b)*) and Dissenting Shares (as defined in *Section 4.1(d)*) shall, by virtue of the Merger, be converted into the right to receive, pursuant to *Section 4.2*, upon the surrender of the certificates (or evidence of shares in book-entry form) representing Company Common Stock, cash in an amount equal to the Offer Price (the "*Merger Consideration*"), without interest thereon. As a result of the Merger, at the Effective Time, all shares of Company Common Stock shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of shares of Company Common Stock shall cease to have any rights with respect thereto, except an entitlement to receive the Merger Consideration payable in respect of such shares, all to be paid, without interest, in consideration therefor upon the surrender of such shares of Company Common Stock. Subject to *Section 7.1(c)*, if prior to the Effective Time the outstanding shares of Company Common Stock shall have been changed into a different number of shares or a different class, by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, and, in each such case, the record date for such transaction is between the date of this Agreement and the Effective Time, then any number or amount contained herein (including, without limitation, the Offer Price and the Merger Consideration) that is based upon the number of shares of Company Common Stock will be appropriately adjusted to provide to Parent and the holders of Company Common Stock the same economic effect as contemplated by this Agreement prior to such event.

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(b)

Cancellation of Excluded Shares. At the Effective Time, each share of Company Common Stock issued and outstanding and owned by Parent, Merger Sub or any other wholly owned Subsidiary of Parent or held in the treasury of the Company or owned by any wholly owned Subsidiary of the Company immediately prior to the Effective Time (collectively, the "*Excluded Shares*") shall cease to be outstanding, and shall be automatically cancelled and retired without payment of any consideration therefor and shall cease to exist.

(c)

Conversion of Merger Sub Capital Stock. At the Effective Time, each share of Merger Sub capital stock outstanding immediately prior to the Effective Time shall remain outstanding as one share of common stock, par value $0.01 per share, of the Surviving Corporation, which shall thereafter constitute all of the issued and outstanding shares of capital stock of the Surviving Corporation.

(d)

Dissenting Shares. Notwithstanding anything in this Agreement to the contrary, shares of Company Common Stock issued and outstanding immediately prior to the Effective Time and held by a holder who has properly exercised and perfected his or her demand for appraisal rights under Section 262 of the DGCL (the "*Dissenting Shares*") shall not be converted into the right to receive the Merger Consideration, but the holders of such Dissenting Shares shall be entitled to receive such consideration as shall be determined pursuant to Section 262 of the DGCL; *provided*, *however*, that if any such holder shall have failed to perfect or shall have effectively waived, withdrawn or lost his or her right to appraisal and payment under the DGCL, such holder's shares of Company Common Stock shall thereupon be deemed to have been converted as of the Effective Time into the right to receive the Merger Consideration, without any interest thereon, and such shares shall not be deemed to be Dissenting Shares. The Company shall serve prompt written notice to Parent of any demands for appraisal, withdrawals of such demands and any other instruments served pursuant to Section 262 of the DGCL received by the Company in respect of any shares of Company Common Stock, and Parent shall have the right to participate in and direct all negotiations and proceedings with respect to the exercise of appraisal rights under Section 262 of the DGCL. Prior to the Effective Time, the Company shall not, without the prior written consent of Parent, make any payment with respect to, settle or offer to settle or waive any failure to timely deliver a written demand with respect to, any such exercise of appraisal rights, or agree to do any of the foregoing.

4.2

Exchange of Stock Certificates. Certificates (or evidence of shares in book-entry form) representing shares of Company Common Stock shall be exchanged for the Merger Consideration in accordance with the following procedures:

(a)

Prior to the Effective Time, Parent shall appoint a bank, trust company or transfer agent reasonably acceptable to the Company to act as paying agent under this Agreement (the "*Paying Agent*") who shall serve pursuant to an agreement between Parent and the Paying Agent (the "*Paying Agent Agreement*"), a copy of which Paying Agent Agreement shall be provided to the Company and its counsel for its review and comment prior to its execution by Parent and the Paying Agent and which comments shall be given good faith consideration by Parent and its counsel. Prior to the Effective Time, Parent shall deliver, by wire transfer of immediately available funds, to an account designated in writing by the Paying Agent, in trust for the benefit of the holders of Company Common Stock, an amount in cash equal to the Merger Consideration multiplied by the number of shares of Company Common Stock to be converted in the Merger (the "*Exchange Fund*").

(b)

As promptly as practicable after the Effective Time, but in no event later than five (5) Business Days following the Effective Time, Parent shall cause the Paying Agent to mail to each holder of record of Company Common Stock a form of letter of transmittal (the "*Letter of*

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Transmittal") (which shall specify that delivery shall be effected, and risk of loss and title to the certificates shall pass, only upon delivery of the certificates to the Paying Agent and shall be in such form and have such other provisions (including customary provisions with respect to delivery of an "agent's message" with respect to shares held in book-entry form) as Parent may specify, subject to the Company's reasonable approval), together with instructions thereto. Upon (i) in the case of shares of Company Common Stock represented by a certificate, the surrender of such certificate for cancellation to the Paying Agent or (ii) in the case of shares of Company Common Stock held in book-entry form, the receipt of an "agent's message" by the Paying Agent, in each case together with the Letter of Transmittal, duly, completely and validly executed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Paying Agent, the holder of such shares of Company Common Stock shall be entitled to receive (and the Paying Agent shall deliver) an amount equal to the Merger Consideration multiplied by the number of shares of Company Common Stock to be converted.

(c)

The payment of any transfer, documentary, sales, use, stamp, registration, value added and other such Taxes and fees (including any penalties and interest) incurred by a holder of Company Common Stock in connection with the Merger, and the filing of any related Tax Returns and other documentation with respect to such Taxes and fees, shall be the sole responsibility of such holder.

(d)

In no event shall the holder of any surrendered certificates (or evidence of shares in book-entry form) representing Company Common Stock be entitled to receive interest on any of the Merger Consideration.

(e)

If the payment equal to the Merger Consideration is to be made to a Person other than the Person in whose name the surrendered certificate (or evidence of shares in book-entry form) formerly evidencing shares of Company Common Stock is registered on the stock transfer books of the Company, it shall be a condition of payment that the certificate (or evidence of shares in book-entry form) so surrendered shall be properly endorsed or otherwise be in proper form for transfer and that the Person requesting such payment shall have paid all transfer and other taxes required by reason of the payment of the Merger Consideration to a Person other than the registered holder of the certificate (or evidence of shares in book-entry form) surrendered, or shall have established to the satisfaction of the Paying Agent and Parent that such taxes either have been paid or are not applicable.

(f)

At any time following the twelfth (12th) month after the Effective Time, Parent shall be entitled to require the Paying Agent to deliver to it any funds which had been made available to the Paying Agent and not disbursed to holders of shares of Company Common Stock (including, without limitation, all interest and other income received by the Paying Agent in respect of all funds made available to it), and, thereafter, such holders shall be entitled to look to Parent (subject to abandoned property, escheat and other similar laws) only as general creditors thereof with respect to any Merger Consideration that may be payable upon due surrender of the certificates (or evidence of shares in book-entry form) held by them. Notwithstanding the foregoing, neither Parent, Merger Sub nor the Paying Agent shall be liable to any holder of shares of Company Common Stock for any Merger Consideration delivered in respect of such shares to a public official pursuant to any abandoned property, escheat or other similar law.

(g)

If any certificate shall have been lost, stolen or destroyed, then, upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed and, if required by the Paying Agent, the posting by such Person of a bond, in such amount as Parent or the Paying Agent may reasonably direct, as indemnity against any claim that may

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be made against it with respect to such certificate, Parent shall direct the Paying Agent to pay, in exchange for such lost, stolen or destroyed certificate, the Merger Consideration to be paid in respect of the shares of Company Common Stock represented by such certificate, as contemplated by this *Article IV*.

(h)

The Paying Agent shall invest any of the funds deposited with the Paying Agent as directed by Parent; provided, however, that such investments shall be in obligations of or guaranteed by the United States of America or any agency or instrumentality thereof and backed by the full faith and credit of the United States of America, in commercial paper obligations rated A-1 or P-1 or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively, or in certificates of deposit, bank repurchase agreements or banker's acceptances of commercial banks with capital exceeding $1 billion (based on the most recent financial statements of such bank that are then publicly available). Any net profit resulting from, or interest or income produced by, such investments shall be payable to Parent or an affiliate of Parent as Parent directs; *provided*, *however*, that any net loss resulting from such investments shall be promptly reimbursed by Parent to the Exchange Fund upon demand by the Paying Agent. No investment of the Merger Consideration funds shall relieve Parent, the Surviving Corporation or the Paying Agent from making payments required by this *Article IV*. The Exchange Fund shall not be used for any purpose other than as set forth in *Section 4.2(a)*.

(i)

At the close of business on the day of the Effective Time, the stock transfer books of the Company shall be closed and thereafter there shall be no further registration of transfers of shares of Company Common Stock on the records of the Company. From and after the Effective Time, the holders of shares of Company Common Stock outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such shares except as otherwise provided herein or by applicable Law.

4.3

Stock Options; Restricted Stock.

(a)

The Company shall take all such action as may be required to fully vest each Company Option as of immediately prior to the Effective Time. If the holder so elects in writing, each In-The-Money Company Option shall be canceled at the Effective Time, in exchange for a payment by the Company, in cash, within five (5) Business Days of the Effective Time, equal to the product of (i) the excess, if any, of the Offer Price over the per share exercise price of the In-The-Money Company Option, and (ii) the number of shares subject to the Company Option, less applicable withholdings. To the extent that a holder of an In-The-Money Company Option does not elect that a particular Company Option may be treated in the manner described in the prior sentence, that Company Option shall instead be treated as an "Out-Of-The-Money Company Option" for all purposes.

(b)

At the Effective Time, all rights with respect to Company Common Stock under each Out-Of-The-Money Company Option shall be converted into and become rights with respect to Parent Common Stock, and Parent shall assume each such Out-Of-The-Money Company Option in accordance with the terms and conditions (as in effect as of the date of this Agreement) of the stock option plan under which it was issued, as amended, if applicable, and the terms and conditions of the stock option agreement by which it is evidenced, as amended, if applicable. From and after the Effective Time, (i) each Out-Of-The-Money Company Option assumed by Parent may be exercised solely for shares of Parent Common Stock, (ii) the number of shares of Parent Common Stock subject to each such Out-Of-The-Money Company Option shall be equal to the number of shares of Company common stock subject to such Out-Of-The-Money Company Option immediately prior to the Effective Time multiplied by the Option Exchange Ratio, rounding down to the nearest whole share, (iii) the per share exercise price under each such Out-Of-The-Money Company Option

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shall be adjusted by dividing the per share exercise price under such Out-Of-The-Money Company Option by the Option Exchange Ratio and rounding up to the nearest cent, and (iv) any restriction on the exercise of any such Out-Of-The-Money Company Option shall continue in full force and effect and the term, exercisability, and other provisions of such Out-Of-The-Money Company Option shall otherwise remain unchanged; provided, however, that each Out-Of-The-Money Company Option assumed by Parent in accordance with this *Section 4.3(b)* shall, in accordance with its terms, be subject to further adjustment as appropriate to reflect any stock split, stock dividend, reverse stock split, reclassification, recapitalization or other similar transaction effected subsequent to the Effective Time. The "Option Exchange Ratio" shall be equal to the fraction obtained by dividing the Offer Price by the average closing sales price for one share of Parent Common Stock on NASDAQ for the ten (10) trading-day period ending on the first business day immediately preceding the date hereof.

(c)

Each restricted stock award granted under any compensation plan or arrangement of the Company and outstanding immediately prior to the Effective Time ("*Company Restricted Stock*") shall be cancelled at the Effective Time in exchange for the Merger Consideration payable in respect of such stock.

(d)

Prior to the Effective Time, the Company shall take all actions reasonably necessary to effect the measures contemplated by this *Section 4.3*, including but not limited to adoption of any plan amendments, offering to enter into the elections contemplated by *Section 4.3(a)*, seeking Company Board approval and/or seeking any consents, and to ensure that, on and after the Effective Time, no holder of an In-The-Money Company Option or Company Restricted Stock has any further rights with respect thereto (other than to receive the payments provided for in this *Section 4.3*) and that no holder of an Out-Of-The-Money Company Option has any further rights with respect thereto (other than the rights provided for in this *Section 4.3*).

4.4

Withholding Rights. Notwithstanding any provision contained herein to the contrary, each of the Paying Agent, the Surviving Corporation, Parent and their respective agents shall be entitled to deduct and withhold from the Merger Consideration, or the amounts described in *Section 4.3*, otherwise payable to any Person pursuant to this Agreement such amounts as it is required to deduct and withhold with respect to the making of such payment under any provision of any federal, state, local or foreign Tax Law. If the Paying Agent, the Surviving Corporation, Parent or any of their respective agents, as the case may be, so withholds amounts, and pays over such amounts to the appropriate Taxing Authority, such amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which the Paying Agent, the Surviving Corporation, Parent or the agent, as the case may be, made such deduction and withholding.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as disclosed in the Company SEC Documents or on the disclosure schedule delivered by the Company to Parent immediately prior to the execution of this Agreement (the "*Company Disclosure Schedule*"), the Company represents and warrants to Parent and Merger Sub as follows:

5.1

Corporate Organization and Qualification. Each of the Company and its Subsidiaries is a legal entity duly organized, validly existing and (to the extent applicable) in good standing under the Laws of its respective jurisdiction of organization or incorporation and is qualified and (to the extent applicable) in good standing to do business in each jurisdiction where the properties owned, leased or operated or the business conducted by it require such qualification, except where a failure to so qualify or be

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in good standing would not have a Company Material Adverse Effect. Each of the Company and its Subsidiaries has the requisite corporate power and authority to own, lease or otherwise hold its properties and to conduct its business as it is now being conducted and to perform all of its respective obligations under the Company Contracts, except where failure to have such power and authority would not have a Company Material Adverse Effect. The Company has previously made available to Parent complete and correct copies of the Company's amended and restated certificate of incorporation (the "*Company Certificate*") and amended and restated bylaws (the "*Company Bylaws*").

5.2

Capitalization.

(a)

The authorized capital stock of the Company (the "*Company Capital Stock*") consists of 20,000,000 shares of Company Common Stock. As of the date hereof, 14,060,404 shares of Company Common Stock were issued and outstanding (including 91,101 unvested shares of Company Restricted Stock). All outstanding shares of Company Common Stock and all outstanding shares of the capital stock of the Company's Subsidiaries are, and all such shares that may be issued prior to the Effective Time will be if and when issued against payment therefor in accordance with the terms thereof, duly authorized, validly issued, fully paid and nonassessable. No shares of Company Common Stock are held in the treasury of the Company, no shares of Company Common Stock are held by Subsidiaries of the Company and no shares of Company Common Stock are reserved for issuance upon exercise of outstanding warrants of the Company.

(b)

(i) As of the date hereof, 1,518,250 shares of Company Common Stock were reserved for issuance upon the exercise of outstanding Company Options. *Section 5.2(b)(i)* of the Company Disclosure Schedule lists, as of the date hereof, all outstanding Company Options, the number of shares of Company Common Stock subject to each Company Option, the grant dates and exercise prices of each Company Option, the vesting schedule of each Company Option, the names of the holders thereof, the expiration date and an indication of the option or equity incentive plan, pursuant to which such Company Option was granted. Each Company Option was granted in accordance with the terms of the stock option plan applicable thereto. All outstanding Company Options were granted as non-qualified stock options.

(ii)

As of the date hereof, 137,987 shares of Company Restricted Stock were issued and outstanding. *Section 5.2(b)(ii)* of the Company Disclosure Schedule lists, as of the date hereof, all outstanding shares of Company Restricted Stock, the grant dates of each award of Company Restricted Stock, the vesting schedule of each award of Company Restricted Stock, the names of the holders thereof and an indication of the option or equity incentive plan pursuant to which such Company Restricted Stock was granted. Each Company Restricted Stock was granted in accordance with the terms of the stock option plan applicable thereto.

(iii)

As of the date hereof, 1,100,013 shares of Company Common Stock are reserved for issuance as Company Options or Company Restricted Stock under the Company's outstanding stock option plans.

(c)

Except as set forth in this *Section 5.2* or on the Company Disclosure Schedule (or as contemplated by *Section 2.3* hereof), as of the date hereof, there are no outstanding options, warrants, stock appreciation rights, convertible securities, calls or any other rights (including preemptive rights), Contracts, commitments or any other agreements of any character to which the Company or any of its Subsidiaries is a party, or by which it may be bound, relating to the issued or unissued capital stock of the Company or any of its Subsidiaries or requiring the Company or any of its Subsidiaries to (i) issue, transfer, grant or sell, or (ii) purchase, redeem

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or acquire, any shares of Company Capital Stock, the capital stock of any of the Company's Subsidiaries or any other equity interest in the Company or any of its Subsidiaries or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of Company Capital Stock, any shares of the capital stock of any of the Company's Subsidiaries or any equity interest in the Company or any of its Subsidiaries other than, in the case of clause (ii), pursuant to the Company's option and equity incentive plans and set forth in Section 5.2(b)(i) or Section 5.2(b)(ii) of the Company Disclosure Schedule. There are not any bonds, debentures, notes or other indebtedness or, except as described in this *Section 5.2*, securities of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of the Company may vote. Except as set forth in this Section 5.2, as of the date hereof, no shares of capital stock or other voting securities of the Company are issued, reserved for issuance or outstanding and no shares of capital stock or other voting securities of the Company will be issued or become outstanding after the date hereof.

(d)

Except as set forth on *Section 5.2(d)* of the Company Disclosure Schedule, there are no voting trusts or other agreements or understandings to which the Company or any of its Subsidiaries is a party with respect to the voting of the capital stock or other equity interest of the Company.

(e)

All outstanding shares of capital stock or other equity interests of the Company's Subsidiaries are owned directly or indirectly by the Company, free and clear of all liens, mortgages, security interests, charges, encumbrances, claims and options of any nature ("*Liens*"), other than security interests granted under the Company Revolving Credit Facility.

(f)

Section 5.2(f) of the Company Disclosure Schedule sets forth a complete and accurate list of (i) each Subsidiary of the Company and any of its Subsidiaries and the record ownership of all issued and outstanding shares or other equity thereof and (ii) the percentage and type of ownership interest thereof held by the Company or its Subsidiaries.

(g)

Neither the Company nor any of its Subsidiaries has any Contract or other obligation to make any investment (in the form of a loan, capital contribution or otherwise) in any of the Company's Subsidiaries or any other Person. Neither the Company nor any of its Subsidiaries owns, or has any Contract or other obligation to acquire, any equity securities or other securities of any Person (other than Subsidiaries of the Company) or any direct or indirect equity or ownership interest in any other business. Neither the Company nor any of its Subsidiaries is as of the date hereof, or has ever been, at any time since January 1, 2009, a general partner of any general or limited partnership.

5.3

Authorization; Valid and Binding Agreement.

(a)

The Company has the requisite corporate power and authority to execute and deliver this Agreement and, subject to obtaining Company Stockholder Approval (if and to the extent required by applicable Law), to perform its obligations hereunder and to consummate, on the terms and subject to the conditions of this Agreement, the transactions contemplated hereby. This Agreement and the consummation by the Company of the transactions contemplated hereby have been duly authorized by (a) the Company Board and (b) all of the Disinterested Directors (as defined in Article 7 of the Company Certificate) on the Company Board in accordance with Article 7 of the Company Certificate and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated hereby (other than, with respect to the Merger, the Company Stockholder Approval (if and to the extent required by applicable Law), and the filing and recordation of the Certificate of Merger and other documents as required by the DGCL). This

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Agreement has been duly executed and delivered by the Company and, assuming that this Agreement constitutes the valid and binding obligation of Parent and Merger Sub enforceable against each of Parent and Merger Sub in accordance with its terms, this Agreement constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except that such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally, and (b) general principles of equity.

(b)

The Company Board, at a meeting duly called and held prior to the execution of this Agreement at which all directors of the Company were present, unanimously (i) determined that this Agreement and the transactions contemplated hereby, including the Offer and the Merger, are advisable and fair to, and in the best interests of, the Company and the Company's stockholders, (ii) adopted and approved this Agreement and the transactions contemplated hereby, including the Offer and the Merger, (iii) directed that the adoption of this Agreement be submitted to the Stockholders Meeting as promptly as practicable after the Offer Closing (unless the Merger is consummated in accordance with Section 253 of the DGCL as contemplated pursuant to *Section 3.9*); and (iv) resolved to make the Company Board Recommendation to the stockholders of the Company, which actions and resolutions have not, as of the date hereof, been subsequently rescinded, modified or withdrawn in any way.

5.4

Consents and Approvals; No Violation.

(a)

Assuming the Company Stockholder Approval is obtained (if and to the extent required by applicable Law), neither the execution and delivery of this Agreement, nor the consummation by the Company of the transactions contemplated hereby, will:

(i)

violate any provision of the Company Certificate or Company Bylaws or the respective organizational documents of any of the Company's Subsidiaries;

(ii)

require any consent, approval, authorization or permit of, or filing with or notification to ("*Permits*"), any Governmental Entity, except (A) in connection with the applicable requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "*HSR Act*"), and any other applicable U.S. or foreign Competition Laws or laws affecting foreign investment; (B) the filings and consents listed on *Section 5.4(a)(ii)* of the Company Disclosure Schedule; (C) pursuant to the applicable requirements of the Securities Act and the Exchange Act; (D) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware pursuant to the DGCL and appropriate documents with the relevant authorities of other states in which the Company or any of its Subsidiaries is authorized to do business; (E) as may be required by any applicable state securities or "blue sky" Laws or state takeover Laws; (F) pursuant to the rules and regulations of the NASDAQ and the NYSE; or (G) such other Permits, the failure of which to be obtained or made would not have a Company Material Adverse Effect;

(iii)

result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration or Lien), or require any consent or notice under any of the terms, conditions or provisions of any Company Contract, except for such violations, breaches and defaults (or rights of termination, cancellation or acceleration or Liens) as to which requisite waivers or consents have been obtained; or

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(iv) assuming that the Permits referred to in this *Section 5.4* are duly and timely obtained or made, violate any Law, Order or Permit applicable to the Company or any of its Subsidiaries, or to any of their respective assets;

except, in the cases of clauses (iii) and (iv) above, any such violation, default, breach or other occurrence that would not have a Company Material Adverse Effect.

(b) Assuming the accuracy of the representations and warranties set forth in *Article VI*, the affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock entitled to be voted for the adoption of this Agreement (the "*Company Stockholder Approval*") is the only vote of any class or series of Company Capital Stock that may be required in connection with the consummation of the Merger.

5.5 *SEC Reports; Financial Statements; Controls*.

(a) The Company has filed all reports and proxy statements with the SEC required to be filed by the Company since November 1, 2010 and through the date hereof under the Securities Act or the Exchange Act (as such reports and statements may have been amended since the date of their filing, the "*Company SEC Documents*"). As of their respective dates, or, if amended or restated, as of the date of the last such amendment or restatement, the Company SEC Documents complied in all material respects with, to the extent in effect at the time of filing, the applicable requirements of the Securities Act and the Exchange Act, as the case may be, and the applicable rules and regulations promulgated thereunder, and none of the Company SEC Documents contained when filed any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, except to the extent updated, amended, restated or corrected by a subsequent Company SEC Document.

(b) The consolidated financial statements (including all related notes and schedules) of the Company included in the Company SEC Documents at the time filed with the SEC, or if amended, updated, restated or corrected in a subsequent Company SEC Document prior to the date hereof, as of the date of such amendment, update, restatement or correction, fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries, as at the respective dates thereof, and the consolidated results of their operations and their consolidated cash flows for the respective periods then ended (subject, in the case of the unaudited statements, to normal year-end audit adjustments and to any other adjustments described therein, including the notes thereto) and were prepared in conformity with GAAP (except, in the case of the unaudited statements, as permitted by the SEC) applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto).

(c) Except as disclosed in the Company SEC Documents or on *Section 5.5(c)* of the Company Disclosure Schedule, (i) the Company has established and maintains disclosure controls and procedures and internal control over financial reporting (as such terms are defined in paragraphs (e) and (f), respectively, of Rule 13a-15 under the Exchange Act), as required by Rule 13a-15 under the Exchange Act, (ii) the Company's disclosure controls and procedures are reasonably designed to ensure that all material information required to be disclosed by the Company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such material information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure and to make the certifications required pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, and (iii) the Company's management has completed an assessment of the

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effectiveness of the Company's internal control over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 for the year ended August 1, 2010, and such assessment was previously disclosed in the Company SEC Documents.

(d)

The Company is, and has at all times since January 1, 2009 been, in compliance, in all material respects, with the applicable listing requirements and corporate governance rules and regulations of NASDAQ.

5.6

Absence of Certain Changes or Events. Except as disclosed in the Company SEC Documents, or as contemplated by this Agreement, since November 1, 2010, the Company has not suffered any Company Material Adverse Effect.

5.7

Litigation.

(a)

Except as set forth on *Section 5.7(a)* of the Company Disclosure Schedule, there are no actions, claims, suits, proceedings or, to the Knowledge of the Company, investigations pending or, to the Knowledge of the Company, threatened against the Company, any of its Subsidiaries or any of their respective properties, before or by (or, in the case of threatened actions, claims, suits, proceedings or investigations, that would be before or by) any Governmental Entity or arbitrator which would be required to be disclosed by the Company in a Current Report on Form 10-Q ("*10-Q*") if such 10-Q were required to be filed with the SEC on the date hereof.

(b)

Except as set forth on *Section 5.7(b)* of the Company Disclosure Schedule, there are no Orders of any Governmental Entity or any arbitrator applicable to the Company or any of its Subsidiaries except for such Orders which (i) are applicable generally to companies conducting business in the industries in which the Company and its Subsidiaries operate or (ii) would not have a Company Material Adverse Effect.

5.8

Offer Documents; Schedule 14D-9; Proxy Statement. None of the information supplied or to be supplied by or on behalf of the Company for inclusion or incorporation in the Offer Documents will, on the date the Offer Documents or any amendments or supplements thereto are filed with the SEC or are published, sent or given to stockholders of the Company, at the time of the Stockholders Meeting, or at the Effective Time, as the case may be, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Schedule 14D-9 and the proxy statement to be sent to the stockholders of the Company in connection with the Stockholders Meeting (if and to the extent required by applicable Law) (such proxy statement, as amended or supplemented, being referred to herein as the "*Proxy Statement*"), will not, on the respective dates the Schedule 14D-9 and Proxy Statement are filed with the SEC, mailed to stockholders of the Company or at the time of the Stockholders Meeting, as applicable, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Schedule 14D-9 and the Proxy Statement shall comply in all material respects as to form with the requirements of the Exchange Act. If at any time prior to the Effective Time any event relating to the Company or any of its Subsidiaries, officers or directors should be discovered by the Company which is required to be set forth in a supplement to the Offer Documents, the Schedule 14D-9 or the Proxy Statement, the Company shall promptly inform Parent. Notwithstanding the foregoing, the Company makes no representation or warranty whatsoever with respect to any statements made or incorporated by reference in the Offer Documents, the Schedule 14D-9 or the Proxy Statement, or any amendments or supplements thereto, based on information supplied in writing by Parent, Merger Sub or any of Parent's or Merger Sub's

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Representatives expressly for the purpose of inclusion or incorporation by reference in the Offer Documents, the Schedule 14D-9, the Proxy Statement or any amendments or supplements thereto.

5.9 *Taxes*.

(a) The Company and its Subsidiaries (i) have timely filed, or have caused to be timely filed on their behalf (in each case taking into account any extension of time within which to file), all material Tax Returns required to have been filed by the Company and its Subsidiaries, (ii) with respect to taxable periods ending on or before the Effective Time, have timely paid all material Taxes due and owing by the Company or any of its Subsidiaries (whether or not shown on any Tax Return) or have adequately reserved for such Taxes in accordance with GAAP, except for Taxes being contested in good faith by the appropriate proceeding and (iii) have not received written notice of any material deficiencies for any Tax from any Taxing Authority against the Company or any of its Subsidiaries which has not been resolved or for which there are not adequate specific reserves on the financial statements included in the Company SEC Documents.

(b) Neither the Company nor any of its Subsidiaries is the subject of any material currently pending tax audit or other proceeding with respect to Taxes nor, to the Knowledge of the Company, has any Tax audit or other proceeding with respect to material Taxes been proposed or threatened in writing against any of them. There is no agreement or other document waiving or extending, or having the effect of waiving or extending, the period of assessment or collection of any Taxes. There are no material Liens for Taxes on any of the assets of the Company or any of its Subsidiaries other than Company Permitted Liens.

(c) Other than customary tax indemnification or other agreements contained in any credit or other commercial agreements the primary purpose of which does not relate to Taxes, neither the Company nor any of its Subsidiaries is (i) obligated by law or by any written contract, agreement or other arrangement to indemnify any other person (other than the Company and its Subsidiaries) with respect to any material Taxes or (ii) a party to or bound by any written Tax allocation, indemnification or sharing agreement (other than an agreement with the Company or its Subsidiaries). Neither the Company nor any of its Subsidiaries is liable under Treasury Regulation Section 1.1502-6 (or any similar provision of the Tax Laws of any state, local or foreign jurisdiction) for any Taxes of any Person other than the Company and its Subsidiaries.

(d) The Company and its Subsidiaries have withheld and paid all Taxes required to have been withheld and paid and reported in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party, except to the extent that the failure to make such withholdings and payments would not have a Company Material Adverse Effect.

(e) Neither the Company nor any of its Subsidiaries will be required to include any material item of income, or exclude any material item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any intercompany transaction or excess loss account described in Treasury Regulation Section 1.1502 (or any corresponding or similar provision of state, local, or foreign income Tax law).

(f) The Company has made available to Parent or its legal or accounting representative copies of all material federal and state Tax Returns for the Company and each of its Subsidiaries filed for all periods including and after the period ended December 31, 2006.

(g) The Company's Subsidiary General Microwave Israel (1987) Ltd. is currently entitled to reduced corporate tax rates, accelerated depreciation and cash governmental grants with

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respect to certain "Approved Enterprises" in the "Grants Track" and "Benefited Enterprises" as defined in The State of Israel's Capital Encouragement Law 1959 ("*The Encouragement Law*"). To the Knowledge of the Company, neither the Company nor any of its Subsidiaries has taken or failed to take any action that would reasonably be expected to invalidate the benefits provided under The Encouragement Law.

5.10

Employee Benefit Plans.

(a)

With respect to each Employee Benefit Plan and Foreign Plan (as defined in *Section 5.10(i)*) that covers one-hundred (100) or more individuals ("*Required Foreign Plan*"), the Company has made available to Parent prior to the date hereof a true, correct and complete copy (in each case, if applicable) of each (i) Employee Benefit Plan and Required Foreign Plan, including any material amendment thereto; (ii) summary plan description and each subsequent summary of material modification; (iii) trust, insurance, annuity or other funding Contract or service provider agreement related thereto; (iv) the most recent financial statements and actuarial or other valuation reports prepared with respect thereto; and (v) the three (3) most recent annual reports on Form 5500 required to be filed with the Internal Revenue Service with respect thereto.

(b)

Each Employee Benefit Plan has been administered in compliance with its terms and applicable Laws, including ERISA and the Code, except where the failure to be in compliance would not have a Company Material Adverse Effect. Except as required by applicable Law and the terms of any Employee Benefit Plan, there are no limitations or restrictions on the right of the Company or its Subsidiaries or, after the consummation of the transactions contemplated hereby, Parent or its Subsidiaries, including the Surviving Corporation, to merge, amend or terminate any Employee Benefit Plan.

(c)

Except as set forth on *Section 5.10(c)* of the Company Disclosure Schedule, no Employee Benefit Plan provides welfare benefits, including without limitation, death or medical benefits (whether or not insured), beyond retirement or termination of service, other than coverage mandated by applicable Law and other than where such benefits would not have a Company Material Adverse Effect.

(d)

With respect to each Employee Benefit Plan intended to be "qualified" within the meaning of Section 401(a) of the Code, (i) each such Employee Benefit Plan and the trusts, if any, maintained thereunder, are the subjects of a favorable determination or opinion letter from the Internal Revenue Service with respect to its qualification or tax-exemption, as the case may be, and (ii) to the Knowledge of the Company, no event has occurred that could reasonably be expected to result in disqualification or adversely affect such exemption.

(e)

Neither the Company nor any of its ERISA Affiliates has, during the six (6) year period ending on the date hereof, contributed to or had any obligation to contribute to or otherwise had any liability with respect to: (i) a plan subject to Title IV or Section 302 of ERISA or Sections 412 or 4971 of the Code; (ii) a "multiemployer plan" (within the meaning of Section 3(37) of ERISA); (iii) a "multiple employer plan" (within the meaning of Section 413(c) of the Code); (iv) any "voluntary employees' beneficiary association" (within the meaning of Section 501(c)(9) of the Code); or (v) any "multiple employer welfare arrangement" (within the meaning of Section 3(40) of ERISA). Neither the Company nor any of its ERISA Affiliates has incurred any withdrawal liability that has not been satisfied in full.

(f)

There are no pending, or to the Knowledge of the Company, threatened actions, suits, disputes or claims by or on behalf of any Employee Benefit Plan or any Foreign Plan, by any employee or beneficiary covered under any such Employee Benefit Plan or Foreign Plan, as applicable,

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or otherwise involving any such Employee Benefit Plan or Foreign Plan (other than routine claims for benefits and other than actions, suits, disputes or claims that would not have a Company Material Adverse Effect).

(g)

Except as listed on *Section 5.10(g)* of the Company Disclosure Schedule, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will, either alone or in combination with another event, (i) entitle any current or former employee, officer, director or other service provider of the Company or any of its Subsidiaries to severance pay, unemployment compensation, a change of control payment or any other payment, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee, officer, director or other service provider, in each case, other than as would not have a Company Material Adverse Effect. Except as listed on *Section 5.10(g)* of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries is party to any contract or arrangement that could reasonably expect to result, separately or in the aggregate, in the payment of any "excess parachute payment" for purposes of Section 280G or Section 4999 of the Code.

(h)

With respect to each Employee Benefit Plan that is a "nonqualified deferred compensation plan" within the meaning of Section 409A(d)(1) of the Code and is subject to Section 409A of the Code, (i) the written terms of such Employee Benefit Plan have at all times since January 1, 2009 been in compliance in all material respects with, and (ii) such Employee Benefit Plan has, at all times while subject to Section 409A of the Code, been operated in compliance in all material respects with, Section 409A of the Code and all applicable guidance thereunder.

(i)

With respect to each plan, arrangement, agreement or contract that would otherwise meet the definition of an "Employee Benefit Plan" but which is subject to any Law other than U.S. federal, state or local Law ("*Foreign Plan*"), except as would not adversely affect the Company or its Subsidiaries in any material respect, (i) if such Foreign Benefit Plan is intended to qualify for special Tax treatment, it has met all requirements for such treatment; (ii) if such Foreign Plan is required to be registered, it has been registered and has been maintained in good standing with the applicable regulatory authorities; and (iii) the fair market value of the assets of each funded Foreign Plan, the liability of each insurer for any Foreign Plan funded through insurance, or the reserve shown on the consolidated financial statements of the Company included in the Company SEC Documents for any unfunded Foreign Plan, together with any accrued contributions, is sufficient to procure or provide for the projected benefit obligations, as of the Effective Time, with respect to all current and former participants in such plan based on reasonable, country-specific actuarial assumptions and valuations, and no transaction contemplated by this Agreement shall cause such assets or insurance obligations or book reserve to be less than such projected benefit obligations.

5.11

Labor Matters. Neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreement or similar labor agreement covering employees or former employees of the Company or any of its Subsidiaries. There are no (i) labor strikes, slowdowns or stoppages currently pending or, to the Knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries, (ii) representation claims or petitions pending before any Governmental Entity or any organizing efforts or challenges concerning representation with respect to the employees of the Company or any of its Subsidiaries or (iii) grievances or pending arbitration proceedings against the Company or any of its Subsidiaries that arose out of or under any collective bargaining agreement, except, in each case, for such occurrences that have not had a Company Material Adverse Effect.

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5.12 *Environmental Laws and Regulations*.

(a) The Company and each of its Subsidiaries is, and has been, since January 1, 2006, in compliance with all applicable Environmental Laws, except where the failure to be in compliance would not have a Company Material Adverse Effect.

(b) Except as would not have a Company Material Adverse Effect, (i) there are no pending or, to the Knowledge of the Company, threatened claims for liability under or noncompliance with any Environmental Laws against the Company or any of its Subsidiaries, and (ii) neither the Company nor any of its Subsidiaries has received written notice of, or, to the Knowledge of the Company, is the subject of, any pending action, cause of action, claim, investigation, demand or notice by any Person alleging liability under, or violation of, or noncompliance with, any Environmental Law.

(c) Except as would not have a Company Material Adverse Effect, (i) the Company and its Subsidiaries have obtained and are in compliance with all Environmental Permits required by the Company and its Subsidiaries for the operation of their business; (ii) all such Environmental Permits are valid and in good standing.

(d) The Company has delivered or otherwise made available for inspection to Parent all material assessments, reports, data, results of investigations or audits, and other information that is in the possession of the Company regarding environmental matters pertaining to the environmental condition of the business of the Company and its Subsidiaries, or the compliance (or noncompliance) by the Company or its Subsidiaries with any Environmental Laws.

(e) The representations and warranties set forth in this *Section 5.12* are the only representations and warranties made by the Company with respect to the subject matter hereof.

(f) For purposes of this Agreement:

(i) "*Environmental Law*" shall mean all federal, state, local and foreign laws and regulations relating to pollution or protection of human health or the environment.

(ii) "*Environmental Permits*" means Permits required pursuant to applicable Environmental Laws.

5.13 *Property and Assets*.

(a) The Company or a Subsidiary of the Company has fee title to, or a leasehold interest in, all the material properties and assets which it purports to own or lease (real, tangible, personal and mixed), including all the properties and assets reflected in the balance sheet contained in the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2010 (the "*Company Balance Sheet*") (except for personal property sold since the date of the Company Balance Sheet in the ordinary course of business consistent with past practice). All material items of equipment and other tangible assets owned by or leased to the Company or any of its Subsidiaries are adequate for the uses to which they are being put, are in good condition and repair (ordinary wear and tear excepted) and are adequate for the conduct of the business of the Company and its Subsidiaries in the manner in which such business is currently being conducted, except where the failure to be so adequate would not reasonably be expected to have a Company Material Adverse Effect. All material real property owned, leased or subleased by the Company and its Subsidiaries as of the date hereof ("*Company Real Property*") is free and clear of all Liens, except for Company Permitted Liens and, if leased by the Company or any of its Subsidiaries, each such lease is valid and in full force

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and effect without default thereunder by the lessee or the lessor, other than defaults that would not reasonably be expected to have a Company Material Adverse Effect. To the Knowledge of the Company, there are no material latent defects or material adverse physical conditions affecting the Company Real Property or any of the facilities, buildings, component parts, other constructions, structures, erections, improvements, fixtures, fixed assets and personalty of a permanent nature annexed, affixed or attached to, located on or forming part of the Company Real Property, except where such defects or conditions would not reasonably be expected to have a Company Material Adverse Effect. The facilities, buildings, component parts, other constructions, structures, erections and improvements on the Company Real Property are in good condition and repair, subject to ordinary wear and tear, except where the failure to be in such condition would not reasonably be expected to have a Company Material Adverse Effect.

(b)

The Company has provided or made available to Parent true and correct copies of all title reports and title policies (including all exception documents referenced therein), surveys and engineering reports in its possession or control regarding the Company Real Property which is owned by the Company or its Subsidiaries.

(c)

All of the material real property leases pursuant to which the Company or its Subsidiaries leases, licenses or occupies any of the Company Real Property or which the Company or its Subsidiaries are a landlord or sublandlord (collectively, the "*Company Real Property Leases*") are valid and enforceable, except where the failure to be valid or enforceable would not have a Company Material Adverse Effect. The Company has provided or made available to Parent true and correct copies of all such Company Real Property Leases.

(d)

There are no outstanding options, rights of first offer, rights of refusal or similar preemptive rights granted to third parties to purchase or lease any of the Company Real Property owned by the Company or any Subsidiary, or any portion thereof or interest therein.

5.14

No Undisclosed Liabilities. Except as reflected in the Company Balance Sheet, the Company has no liabilities (absolute, accrued, contingent or otherwise) of a nature required to be set forth on the Company's balance sheet under GAAP or the notes thereto, other than (i) any liabilities and obligations incurred since the date of the Company Balance Sheet in the ordinary course of business consistent with past practice, (ii) any liabilities and obligations incurred in connection with the transactions contemplated by this Agreement and (iii) any liabilities and obligations that would not have a Company Material Adverse Effect.

5.15

Intellectual Property. Except as set forth on *Schedule 5.15* of the Company Disclosure Schedule or as would not have a Company Material Adverse Effect:

(a)

The Company and its Subsidiaries own, or have a valid right to use in each case free and clear of any material Liens (other than Company Permitted Liens and except as set forth in Contracts regarding Intellectual Property or standard license agreements for commercially available off-the-shelf software), all material Intellectual Property necessary for their respective businesses as currently conducted; and

(b)

Neither the Company nor any of its Subsidiaries (nor any of their respective predecessors) has received any written notice since three (3) years prior to the date of this Agreement from any third Person, and none are pending, asserting or suggesting the infringement, misappropriation or other violation of any Intellectual Property by the Company or any of its Subsidiaries.

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5.16 *Compliance with Laws and Orders*.

(a) Except with respect to the matters that are the subject of *Section 5.12* (Environmental Laws and Regulations), neither the Company nor any of its Subsidiaries is or was, at any time since January 1, 2010, in material violation of or in default under any law (including the common law), statute, ordinance, code, rule, regulation, treaty or directive having the effect of law of any Governmental Entity (collectively and individually, "*Law*", or writ, judgment, decree, injunction or similar order of any Governmental Entity, in each case, whether preliminary or final (an "*Order*"), applicable to the Company or any of its Subsidiaries or any of their respective assets and properties, or to the conduct or operation of their business, except for such violations which would not subject the Company to any material damages or material penalties in any civil, criminal or governmental litigation or proceeding and, except as disclosed in the Company SEC Documents or as set forth in Schedule 5.16 of the Company Disclosure Schedule, none of the Company or any of its Subsidiaries has received, at any time since January 1, 2010, any written notice from any Governmental Entity regarding any actual, alleged, possible, or potential material violation of, or material failure to comply with, any Law, except for such violations or noncompliance which would not subject the Company to any material damages or material penalties in any civil, criminal or governmental litigation or proceeding.

(b) Except as set forth on *Section 5.4(a)(ii)(B)* of the Company Disclosure Letter, the consummation of the transactions contemplated by this Agreement will not affect any grants or incentives available to the Company or any of its Subsidiaries, including any grants of the Office of the Israeli Chief Scientist, or require any approvals thereunder.

5.17 *Export and Import Controls*.

(a) The Company is registered with the Directorate of Defense Trade Controls of the United States Department of State under the International Traffic in Arms Regulations, 22 C.F.R. Parts 120-130 (the "*ITAR*").

(b) Except as set forth on *Section 5.17(b)* of the Company Disclosure Schedule, the Company and its Subsidiaries are in compliance with applicable United States export and import control laws, including Laws governing embargoes, sanctions and boycotts, including the Export Administration Regulations, the ITAR, Executive Orders and regulations administered by the Office of Foreign Assets Control of the United States Department of the Treasury, and Customs Regulations administered by United States Customs and Border Protection, except where the failure to be in compliance would not have a Company Material Adverse Effect.

5.18 *Company Contracts*.

(a) As of the date hereof, except for this Agreement and agreements filed with or incorporated by reference in the Company SEC Documents or listed on *Section 5.18(a)(i) (xii)* of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries is a party to or bound by any contract constituting a "*material contract*" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC) or:

(i) any Contract that contemplates payments or the delivery of other consideration by or to the Company or any of its Subsidiaries of (1) more than $1,000,000 during any 12-month period or (2) more than $2,500,000 over the remaining term of such Contract;

(ii) any loan or credit agreement, Contract, note, debenture, bond, indenture, mortgage, security agreement, pledge or other similar agreement pursuant to which any material

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Indebtedness in excess of $1,000,000 of the Company or any of its Subsidiaries is outstanding or may be incurred;

(iii) any Contract relating to guarantees or assumptions of other obligations of any third Person or involving any performance bonds which agreements relate to obligations which do not individually exceed $250,000, except for agreements entered into in the ordinary course of business consistent with past practice;

(iv) any Contract that constitutes a collective bargaining or other arrangement with any labor union, labor organization, workers' association, works council or other collective group of employees;

(v) any Contract granting a first refusal, first offer or similar preferential right to purchase or acquire any of the Company Capital Stock or any material asset of the Company, other than the Company Options;

(vi) any Contract containing covenants binding upon the Company or any of its Subsidiaries that (A) materially restrict the ability of the Company or any of its Subsidiaries (or that, following the consummation of the Merger, would materially restrict the ability of the Surviving Corporation or its affiliates) to compete (1) in any business, (2) with any Person or (3) in any geographic area; or (B) materially restrict the right of the Company or any of its Subsidiaries to conduct its business as it is presently conducted or which could require the disposition of any material assets or line of business of the Company or any of its Subsidiaries;

(vii) any Contract relating to the disposition or acquisition of a material business or, other than in the ordinary course, any amount of material assets by the Company or any of its Subsidiaries, with obligations remaining to be performed or liabilities continuing after the date of this Agreement, including any "earn-out" or other contingent payments or obligations that individually, could reasonably be expected to result in payments by the Company or any of its Subsidiaries in excess of $1,000,000 individually or $2,500,000 in the aggregate for all such agreements;

(viii) any Contract pursuant to which the Company or any of its Subsidiaries is or may become obligated to make (A) any severance, termination or similar payment (but excluding any payments in connection with continuation of any healthcare benefits or relating to accrued vacation, paid-time off, or medical leave) in excess of $50,000 to any current or former employee or director, or (B) pursuant to which the Company or any of its Subsidiaries is or may become obligated to make any bonus or similar payment (other than payments constituting base salary) in excess of $50,000 to any current or former employee or director;

(ix) any Contract relating to the acquisition, transfer, development, sharing or licensing of any Intellectual Property (except for any Contract pursuant to which (1) any Intellectual Property is licensed to the Company or any of its Subsidiaries under any third-party software license generally available to the public, or (2) any Intellectual Property is licensed by the Company or any of its Subsidiaries to any Person on a nonexclusive basis);

(x) any material hedge, collar, option, forward purchasing, swap, derivative or similar Contract, understanding or undertaking;

(xi) any other Contract, if breach of such a Contract or the termination of such Contract would reasonably be expected to have a Company Material Adverse Effect.

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All Contracts of the type described in this *Section 5.18(a)* to which the Company or a Subsidiary is bound, including those Contracts filed with or incorporated by reference in the Company SEC Documents and as listed or required to be listed on *Section 5.18(a)(i) (xii)* of the Company Disclosure Schedule, are hereinafter referred to as "*Company Contracts*."

(b)

The Company has delivered or made available to the Parent an accurate and complete copy of each Company Contract. All Company Contracts are valid and binding agreements of the Company or a Subsidiary of the Company and are in full force and effect and are enforceable in accordance with their respective terms except where failure to be valid, binding or in full force and effect would not have a Company Material Adverse Effect. Neither the Company nor any of its Subsidiaries, nor, to the Knowledge of the Company, any counterparty to any Company Contract, is in breach of, or in default under, any Company Contract except for such breaches or defaults that would not have a Company Material Adverse Effect.

(c)

Except where the following matters would not have a Company Material Adverse Effect, with respect to each Company Contract between the Company or any of its Subsidiaries and any Governmental Entity (each, a "*Company Government Contract*") and each Company Contract between the Company or any of its Subsidiaries and any prime contractor or first-tier subcontractor relating to a Contract between such Persons (each, a "*Company Government Subcontract*"):

(i)

to the Knowledge of the Company, each such Company Government Contract (or, if applicable, each prime Contract under which such Company Government Subcontract was awarded) is not currently the subject of bid or award protest proceedings as of the date hereof;

(ii)

neither the United States government nor any prime contractor, subcontractor or other Person has notified the Company or any Subsidiary of the Company, in writing, that the Company or any Subsidiary of the Company has breached or violated any Law or material certification, representation, clause, provision or requirement pertaining to such Company Government Contract or Company Government Subcontract;

(iii)

neither the Company nor any Subsidiary of the Company has received any notice of termination for convenience, notice of termination for default, cure notice or show cause notice pertaining to such Company Government Contract or Company Government Subcontract except as set forth on *Section 5.18(c)(iii)* of the Company Disclosure Schedule; and

(iv)

other than in the ordinary course of business consistent with past practice, to the Knowledge of the Company, no cost incurred by the Company or any Subsidiary of the Company pertaining to a Company Government Contract or Company Government Subcontract is the subject of any audit or investigation by or has been disallowed by any Governmental Entity.

(d)

To the Knowledge of the Company, from January 1, 2010 through the date of this Agreement, neither the Company nor any of its Subsidiaries has been debarred or suspended for ninety (90) days or more in any consecutive twelve-month period, or proposed for debarment or suspension, or received notice of actual or proposed debarment or suspension, from participation in the award of Contracts with the United States government (excluding for this purpose ineligibility to bid on certain contracts due to generally applicable bidding requirements).

5.19

Permits. The Company and its Subsidiaries hold all material Permits, variances, exemptions, orders, registrations, certificates, security facility clearances and approvals of all Governmental Entities that

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are required from such Governmental Entities in order for the Company and its Subsidiaries to own, lease or operate their assets and to carry on their businesses as presently conducted (the "*Company Permits*"), except where the failure to hold such Company Permits would not reasonably be expected to have a Company Material Adverse Effect.

5.20

Insurance. The Company has previously made available to Parent a list of all material policies of insurance maintained by the Company or any of its Subsidiaries. Except as would not have a Company Material Adverse Effect, (i) such policies are in full force and effect, (ii) all premiums due with respect to such policies have either been paid or adequate provisions for the payment by the Company or one of its Subsidiaries thereof has been made and (iii) none of the Company or any of its Subsidiaries have received a notice of termination or cancellation with respect to any such policies, other than such notices which are received in the ordinary course of business.

5.21

Certain Transactions. Since November 1, 2010 through the date of this Agreement, none of the current officers or directors of the Company, nor any Affiliate of the Company, has been a participant in any transaction with the Company or any Subsidiary of the Company (other than for services as an employee, officer or director) of the type that would be required to be disclosed under Item 404 of Regulation S-K under the Securities Act.

5.22

Absence of Certain Payments. Since January 1, 2008 (a) neither the Company nor any of its Representatives or other person acting on behalf of the Company, have used any corporate or other funds for unlawful contributions, payments, gifts, or entertainment, or made any unlawful expenditures relating to political activity to government officials or others, in violation of the Foreign Corrupt Practices Act of 1977, as amended, or any other similar domestic or foreign Law, as amended, or (b) or established or maintained any unlawful or unrecorded funds in violation of the Foreign Corrupt Practices Act of 1977, as amended, or any other similar domestic or foreign Law; and (b) neither the Company nor any of its Representatives or other person acting on behalf of the Company, has accepted or received any unlawful contributions, payments, gifts or expenditures which might subject the Company to any material damages or material penalties in any civil, criminal or governmental litigation or proceeding. No government official or candidate is a beneficiary of any Company Contracts.

5.23

Brokers and Finders. Except for Jefferies & Company, Inc. and Credit Suisse Securities (USA) LLC, no investment banker, broker, finder, consultant or other intermediary is entitled to any investment banking, brokerage, finder's or similar fee or commission in connection with this Agreement or the transactions contemplated hereby based upon arrangements made by and on behalf of the Company and its Subsidiaries.

5.24

Opinion of Financial Advisor. Prior to the execution of this Agreement, the Company Board has received the separate opinions of each of Jefferies & Company, Inc. and Credit Suisse Securities (USA) LLC, each dated on or about the date hereof, to the effect that, as of such date and subject to the various limitations and assumptions contained therein, the consideration to be received by the holders of Company Common Stock (other than Parent, Merger Sub and their respective Affiliates) in the Offer and the Merger, taken together, pursuant to this Agreement is fair, from a financial point of view, to such holders.

5.25

Takeover Provisions. Assuming the accuracy of the representations set forth in *Section 6.10*, the Company, acting through the Company Board, has taken all action necessary to exempt the Offer, the Merger, this Agreement and the transactions contemplated hereby and thereby from the provisions of Section 203 of the DGCL, and such action is effective as of the date hereof. All of the Disinterested Directors (as defined in Article 7 of the Company Certificate) of the Company have approved this Agreement and the consummation of the transactions contemplated hereby, including the Offer and the Merger, in accordance with Article 7 of the Company Certificate. To the Knowledge of the

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Company, no other state takeover statute, including moratorium, control share acquisition, business combination, fair price or other similar anti-takeover Law, applies to the Offer, the Merger, this Agreement or the other transactions contemplated hereby.

5.26

No Other Representations or Warranties. Except for the representations and warranties made by the Company in this *Article V* or any certificate required to be delivered pursuant to this Agreement, neither the Company nor any other Person acting on behalf of the Company makes any representation or warranty, express or implied, with respect to the Company or its Subsidiaries or their respective business, operations, assets, liabilities, condition (financial or otherwise) or prospects, notwithstanding the delivery or disclosure to Parent or Merger Sub of any documentation, forecasts or other information with respect to any one or more of the foregoing.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Except as disclosed in the reports and proxy statements with the SEC required to be filed by Parent since November 1, 2010 and through the date hereof under the Securities Act or the Exchange Act or in the disclosure schedule delivered by Parent to the Company immediately prior to the execution of this Agreement (the "*Parent Disclosure Schedule*"), Parent and Merger Sub jointly and severally represent and warrant to the Company as follows:

6.1

Corporate Organization and Qualification. Each of Parent, Holdco and Merger Sub is a corporation duly organized, validly existing and in good standing under the Laws of Delaware. Parent is the legal and beneficial owner of all of the issued and outstanding capital stock of Holdco. Holdco is the legal and beneficial owner of all of the issued and outstanding capital stock of Merger Sub. Merger Sub was formed at the direction of Parent solely for the purposes of effecting the Offer, the Merger and any other transactions contemplated by this Agreement and Merger Sub has not engaged in any business activities or conducted any operations, other than in connection with the Offer, the Merger and any other transactions contemplated by this Agreement.

6.2

Authorization; Valid and Binding Agreement. Each of Parent and Merger Sub has the requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate, on the terms and subject to the conditions of this Agreement, the transactions contemplated hereby. This Agreement and the consummation by Parent and Merger Sub of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Parent and Merger Sub, and no other corporate proceedings on the part of Parent or Merger Sub are necessary to authorize this Agreement or to consummate the transactions contemplated hereby (other than, with respect to the Merger, the filing and recordation of the Certificate of Merger and other documents as required by the DGCL). This Agreement has been duly and validly executed and delivered by Parent and Merger Sub and, assuming that this Agreement constitutes the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, this Agreement constitutes the valid and binding obligation of each of Parent and Merger Sub, enforceable against each of Parent and Merger Sub in accordance with its terms, except that such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally, and (b) general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

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6.3

Consents and Approvals; No Violation. Neither the execution and delivery of this Agreement by Parent or Merger Sub nor the consummation by Parent and Merger Sub of the transactions contemplated hereby will:

(a)

conflict with or result in any breach of any provision of the certificates of incorporation or bylaws of Parent or of any of Parent's Subsidiaries, including Merger Sub;

(b)

require any Permit from any Governmental Entity, except (i) in connection with the applicable requirements of the HSR Act and the U.S. or foreign Competition Laws listed in *Section 6.3(b)* of the Parent Disclosure Letter; (ii) the filings and consents listed in *Section 6.3(b)* of the Parent Disclosure Letter; (iii) pursuant to the applicable requirements of the Securities Act and the Exchange Act; (iv) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware pursuant to the DGCL; (v) as may be required by any applicable state securities or "blue sky" Laws or state takeover Laws; or (vi) pursuant to the rules and regulations of the NASDAQ and the NYSE;

(c)

result in a material violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration or Lien) or require any consent or notice under any of the terms, conditions or provisions of any note, license, agreement or other instrument or obligation to which Parent or any of its Subsidiaries may be bound, except for such violations, breaches and defaults (or rights of termination, cancellation or acceleration or Liens) as to which requisite waivers or consents have been obtained and except where a failure to obtain such waivers or consents would not reasonably be expected to have a Parent Material Adverse Effect;

(d)

create any Organizational Conflicts of Interest; or

(e)

assuming that the Permits referred to in this *Section 6.3* are duly and timely obtained or made, materially violate any Law, Order or Permit applicable to Parent or any of its Subsidiaries, or to any of their respective assets, except for those violations which would not reasonably be expected to have a Parent Material Adverse Effect.

6.4

Litigation.

(a)

As of the date of this Agreement, there are no actions, claims, suits, proceedings or investigations pending or, to the Knowledge of Parent, threatened against Parent, any of its Subsidiaries or any of their respective properties, or any present or former officer, director, or employee of Parent or its Subsidiaries in their capacity as such, before (or, in the case of threatened, that would be before) or by any Governmental Entity or arbitrator that, individually or in the aggregate, would reasonably be expected to have a Parent Material Adverse Effect.

(b)

As of the date of this Agreement, there are no Orders of any Governmental Entity or any arbitrator applicable to Parent or any of its Subsidiaries except for such that, individually or in the aggregate, have not resulted in or would not be reasonably expected to result in a Parent Material Adverse Effect.

6.5

Offer Documents; Proxy Statement. Neither the Offer Documents nor any information supplied by Parent or Merger Sub for inclusion in the Schedule 14D-9 shall, at the time the Offer Documents, the Schedule 14D-9 or any amendments or supplements thereto are filed with the SEC or are first published, sent or given to stockholders of the Company, as the case may be, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The information supplied by Parent or Merger Sub for inclusion in the Proxy Statement shall not, at the date the Proxy Statement is first mailed to stockholders of the

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Company, at the time of the Stockholders Meeting or at the Effective Time, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not false or misleading, or necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Stockholders Meeting which shall have become false or misleading. Notwithstanding the foregoing, Parent and Merger Sub make no representation or warranty with respect to any information supplied by the Company or any of its Representatives for inclusion in any of the foregoing documents. The Offer Documents shall comply in all material respects as to form with the requirements of the Exchange Act.

6.6

Suspension and Disbarment. To the Knowledge of Parent, from January 1, 2010 through the date of this Agreement, neither Parent nor any of its Subsidiaries has been debarred or suspended for ninety (90) days or more in any consecutive twelve-month period, or proposed for debarment or suspension, or received notice of actual or proposed debarment or suspension, from participation in the award of contracts with the United States government (excluding for this purpose ineligibility to bid on certain contracts due to generally applicable bidding requirements).

6.7

Investigation by Parent and Merger Sub. Each of Parent and Merger Sub has conducted its own independent review and analysis of the businesses, assets, condition, operations and prospects of the Company and its Subsidiaries and acknowledges and agrees that it (a) has had an opportunity to discuss the business of the Company and its Subsidiaries with the management of the Company, (b) has had reasonable access to the electronic data room maintained by the Company for purposes of the transactions contemplated hereby, and (c) has been afforded the opportunity to ask questions of and receive answers from officers of the Company. In entering into this Agreement, each of Parent and Merger Sub has relied solely upon its own independent investigation and analysis of the Company and its Subsidiaries, their respective businesses and the transactions contemplated hereby, and each of Parent and Merger Sub acknowledges and agrees that (i) except for the representations and warranties of the Company expressly set forth in *Article V*, none of the Company or its Subsidiaries nor any of their respective Representatives makes any representation or warranty (express or implied) as to the accuracy or completeness of any of the information made available to Parent or Merger Sub or any of their Representatives or any other matter whatsoever; (ii) it is not relying, and has not relied, on any representations, warranties or other statement by any Person on behalf of the Company or any of its Subsidiaries, other than the representations and warranties of the Company expressly contained in *Article V* of this Agreement and that all other representations and warranties are specifically disclaimed; and (iii) none of the Company and its Subsidiaries nor any other Person will have or be subject to any liability or indemnification obligation to Parent, Merger Sub or any other Person resulting from the distribution to Parent or Merger Sub, or use by Parent or Merger Sub of any such information. Without limiting the generality of the foregoing and notwithstanding anything contained in this Agreement to the contrary, each of Parent and Merger Sub acknowledges and agrees that (a) none of the Company or its Subsidiaries nor any of their respective Representatives or any other Person is making any representation or warranty, whatsoever, express or implied, beyond those expressly given by the Company in *Article V* hereof, the Company Disclosure Schedule or any certificate delivered pursuant to this Agreement, and (b) none of Parent or Merger Sub has been induced by, or relied upon, any representations, warranties or statements (written or oral), whether express or implied, made by any Person, that are not expressly set forth in *Article V* of this Agreement or any certificate delivered pursuant to this Agreement. Without limiting the generality of the foregoing, each of Parent and Merger Sub acknowledges that no representations or warranties are made with respect to (a) any projections, forecasts, estimates, budgets or prospect information for the Company or its Subsidiaries or (b) any material, documents or information relating to the Company or its Subsidiaries made available to each of Parent or Merger Sub or any of their respective Representatives.

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6.8

Sufficient Funds; Financing.

(a)

Parent has, and shall have at the Acceptance Date, available to it sufficient cash and cash equivalents to permit Merger Sub to perform all of its obligations under this Agreement and to consummate all the transactions contemplated hereby, including, without limitation, acquiring all the outstanding shares of Company Common Stock in the Offer and the Merger. Parent and Merger Sub expressly acknowledge and agree that their obligations hereunder are not subject to any conditions, express or implied, regarding their ability to obtain financing (or to obtain financing on acceptable terms) for the consummation of the Offer or the Merger.

(b)

None of the transactions contemplated hereby, including the Offer and the Merger, will require the consent from any lender or the holder or any notes, bonds or other debt instruments pursuant to which Parent or Merger Sub, or any of their respective Affiliates, are obligated or bound. To the extent that any such consents were required to be obtained prior to the execution this Agreement, Parent has provided to the Company true, correct and complete copies of such consents.

(c)

Parent has received a commitment letter (the "*Commitment Letter*") executed by the parties specified therein (the "*Lenders*"), pursuant to which the Lenders have committed, upon the terms and subject to the conditions set forth therein, to provide debt financing in the amounts set forth therein for the purpose of (*inter alia*) funding the Offer, the Merger and the other transactions contemplated hereby. A true, correct and complete copy of the Commitment Letter has been provided to the Company. The obligations of the Lenders to fund the commitments under the Commitment Letter are not subject to any conditions, other than the conditions expressly set forth in the Commitment Letter. The respective commitments of the Lenders set forth in the Commitment Letter have not been withdrawn, modified or rescinded in any respect. The Commitment Letter is in full force and effect and constitutes the legal, valid and binding obligations of Parent and the other parties thereto. Assuming the accuracy of the representations and warranties set forth in *Article V*, Parent knows of no facts or circumstances that are reasonably likely to result in any of the conditions set forth in the Commitment Letter not being satisfied. Parent has paid any and all fees which are due and payable under the Commitment Letter. For the avoidance of doubt, Parent expressly acknowledges that the consummation of the financing contemplated by the Commitment Letter is not a condition to the obligations of Parent and Merger Sub to consummate the Offer, the Merger and the other transactions contemplated hereby.

6.9

Brokers and Finders. Except for the fees and expenses payable to Oppenheimer & Co., Inc., which fees and expenses are the sole responsibility of Parent, Parent has not employed any investment banker, broker, finder, consultant or intermediary in connection with the transactions contemplated by this Agreement that would be entitled to any investment banking, brokerage, finder's or similar fee or commission in connection with this Agreement or the transactions contemplated hereby.

6.10

Share Ownership; Interested Stockholder. As of the date hereof, none of Parent, Merger Sub or any of their Affiliates (a) beneficially owns (within the meaning of Section 13 of the Exchange Act or the rules or regulations thereunder), directly or indirectly, any shares of Company Capital Stock, or (b) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, shares of Company Capital Stock. Prior to the Company Board approving this Agreement, the Merger and the other transactions contemplated hereby for purposes of the applicable provisions of the DGCL, neither Parent nor Merger Sub, alone or together with any other Person, was at any time, or became, an "interested stockholder" thereunder , or an "Interested Stockholder" as defined in Article 7 of the Company Certificate, has taken any action that would cause any anti-takeover statute under the DGCL to be applicable to this Agreement, the Merger, or any transactions contemplated hereby.

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6.11

Solvency. Neither Parent nor Merger Sub is entering into the transactions contemplated hereby with the intent to hinder, delay or defraud either present or future creditors. Immediately after giving effect to all of the transactions contemplated hereby, including any arrangement by Parent of any financing to be consummated prior to or contemporaneously with the Closing in respect of the transactions contemplated by this Agreement, any alternative financing and the payment of the aggregate Offer Price and the aggregate Merger Consideration, the Surviving Corporation will be Solvent. For purposes of this *Section 6.11*, the term "*Solvent*" with respect to the Surviving Corporation means that, as of any date of determination, (x) the amount of the fair saleable value of the assets of the Surviving Corporation and its Subsidiaries, taken as a whole, exceeds, as of such date, the sum of (i) the value of all liabilities of the Surviving Corporation and its Subsidiaries, taken as a whole, including contingent and other liabilities, as of such date, as such quoted terms are generally determined in accordance with the applicable federal Laws governing determinations of the solvency of debtors, and (ii) the amount that will be required to pay the probable liabilities of the Surviving Corporation and its Subsidiaries, taken as a whole on its existing debts (including contingent liabilities) as such debts become absolute and matured; (y) the Surviving Corporation will not have, as of such date, an unreasonably small amount of capital for the operation of the business in which it is engaged or proposed to be engaged by Parent following such date; and (z) the Surviving Corporation will be able to pay its liabilities, including contingent and other liabilities, as they mature.

6.12

Certain Arrangements. There are no Contracts between Parent, Holdco or Merger Sub, on the one hand, and any member of the Company's management or directors, on the other hand, as of the date hereof that relate in any way to the Company or the transactions contemplated hereby.

ARTICLE VII

COVENANTS AND AGREEMENTS

7.1

Conduct of Business. The Company agrees that during the period from the date of this Agreement until the earlier of (i) the Effective Time and (ii) such time as designees of Parent first constitute at least a majority of the Company Board pursuant to *Section 7.5* (the "*Control Time*"), that except with the prior written consent of Parent (which consent shall not be unreasonably withheld, conditioned or delayed), as required by applicable Law, as otherwise expressly contemplated or permitted by this Agreement or as set forth on *Section 7.1* of the Company Disclosure Schedule, the Company will, and will cause each of its Subsidiaries to, conduct its operations in all material respects according to its ordinary course of business consistent with past practice and in compliance, in all material respects, with all applicable Laws and all Company Contracts. Without limiting the generality of the foregoing, and except with the prior written consent of Parent (which consent shall not be unreasonably withheld, conditioned or delayed), as required by applicable Laws, as otherwise contemplated or permitted by this Agreement or as set forth on *Section 7.1* of the Company Disclosure Schedule, during the period from the date of this Agreement to the Control Time, the Company will not, and will cause its Subsidiaries not to:

(a)

issue, deliver, sell, dispose of, pledge or otherwise encumber, or authorize or propose the issuance, sale, disposition or pledge or other encumbrance of, (i) any additional shares of Company Capital Stock of any class, or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for any shares of capital stock, or any rights, warrants, options, calls, commitments or any other agreements of any character to purchase or acquire any shares of capital stock or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of capital stock, other than the issuance of any shares of Company Capital Stock upon the exercise of the Company Options or the lapsing of forfeiture restrictions on Company Restricted Stock outstanding on the date of this Agreement in accordance with the terms of such options or restricted stock award or (ii) any

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other securities in respect of, in lieu of, or in substitution for, shares of Company Capital Stock outstanding on the date hereof;

(b)

redeem, purchase or otherwise acquire, or propose or offer to redeem, purchase or otherwise acquire, any outstanding shares of Company Capital Stock, *provided*, *however*, that the Company may (i) withhold shares of Company Capital Stock to satisfy Tax obligations with respect to Company Options or Company Restricted Stock granted prior to the date hereof pursuant to the Company's option and equity incentive plans and (ii) acquire shares of Company Capital Stock in connection with the surrender of shares of Company Capital Stock by holders of Company Options in order to pay the exercise price of such Company Options;

(c)

split, combine, subdivide or reclassify any shares of Company Capital Stock or declare, set aside for payment or pay any dividend in respect of any shares of Company Capital Stock or otherwise make any payments to stockholders in their capacity as such, other than dividends paid by a Subsidiary of the Company to another Subsidiary or the Company;

(d)

adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its Subsidiaries or alter through merger, liquidation, reorganization or restructuring the corporate structure of the Company or any of its Subsidiaries (other than the Merger), excluding the merger, dissolution, liquidation or consolidation of any Subsidiary of the Company with or into the Company or another Subsidiary of the Company;

(e)

(i) amend the Company Certificate or the Company Bylaws or (ii) amend the certificate of incorporation or bylaws or similar organizational documents of any Subsidiary of the Company, except as required by Law and except for immaterial amendments to the Company Certificate, Company Bylaws or similar organization documents of any Subsidiary of the Company;

(f)

except as required by Law, enter into, adopt, amend, renew or extend any Employee Benefit Plan or any other compensatory program, policy or arrangement with respect to any current or former employee, officer, director or other consultant of the Company or any of its Subsidiaries (including without limitation any employment, severance or change of control agreement), other than amendments that are immaterial or administrative in nature;

(g)

make any material change in financial accounting methods, principles or practices, except as required by applicable Law, GAAP or the rules or policies of the Public Company Accounting Oversight Board;

(h)

directly or indirectly acquire or agree to acquire in any transaction any equity interest in or business of any Person or division thereof or enter into any agreement, arrangement or understanding with respect to any such acquisition, including any confidentiality, exclusivity, standstill or similar agreements;

(i)

(i) other than sales of inventory in the ordinary course of business consistent with past practice, sell, lease (as lessor), license, or otherwise dispose of any tangible properties or assets in excess of $100,000 or (ii) sell, lease, mortgage, sell and leaseback or otherwise dispose of any real properties or any interests therein;

(j)

encumber or subject to any Lien any properties or assets or any interests therein other than Company Permitted Liens, except in connection with permitted Indebtedness under *Section 7.1(l)*;

(k)

except as required by Law, (i) make or change any material Tax election or settle or compromise any material Tax liability, claim or assessment or agree to an extension or waiver

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of the limitation period to any material Tax claim or assessment or enter into any closing agreement with respect to any material Tax or surrender any right to claim a material Tax refund, (ii) change its fiscal year, (iii) change any method of accounting for Tax purposes, (iv) file any material amended U.S. federal, state or foreign income Tax Return or any other material amended Tax Return and (v) take any other action, or omit to take any other action, that would have the effect of materially increasing the Tax liability or accrual of Tax liability under FASB Interpretation No. 48 or materially reducing any Tax asset or accrual of Tax under FASB Interpretation No. 48 of the Company or any of its Subsidiaries;

(l)

incur any (i) obligations for borrowed money, (ii) capitalized lease obligations, (iii) guarantees and other arrangements having the economic effect of a guarantee of any Indebtedness of any other Person or (iv) obligations or undertakings to maintain or cause to be maintained the financial position or covenants of others or to purchase the obligations of others (the items referenced in the foregoing clauses (i) through (iv) being collectively hereinafter referred to as "*Indebtedness*"), except for (A) Indebtedness incurred under individual letters of credit after the date hereof in the ordinary course of business in an amount not to exceed $1,000,000 individually or $2,000,000 in the aggregate, (B) guarantees by the Company or a Subsidiary of the Company of Indebtedness of the Company or any Subsidiary of the Company, other than guarantees of customer Contracts, (C) Indebtedness of the Company or a Subsidiary of the Company to the Company or any Subsidiary of the Company or (D) Indebtedness incurred to suppliers in the ordinary course of business;

(m)

make any capital expenditures, except (i) capital expenditures made in accordance with the Company's annual budget and capital expenditure plan, as furnished to Parent, (ii) other capital expenditures in an aggregate amount not to exceed $1,000,000 or (iii) purchases of supplies in the ordinary course of business, consistent with past practice;

(n)

settle, compromise, discharge or agree to settle any litigation, investigation, arbitration or proceeding other than those that do not involve the payment by the Company or any of its Subsidiaries of monetary damages and do not involve any material injunctive or other non-monetary relief or impose material restrictions on the business or operations of the Company or its Subsidiaries; *provided*, that the Company or its Subsidiaries may settle or agree to settle any litigation, investigation, arbitration or proceeding that does not involve the payment by the Company or any of its Subsidiaries of monetary damages in excess of $500,000 in the aggregate provided that the Company has kept Parent reasonably informed of the status of settlement discussions prior to any settlement;

(o)

enter into any Company Contract if consummation of the transactions contemplated by this Agreement or compliance by the Company with the provisions of this Agreement will conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time or both) under, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation or to a loss of a material benefit under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of such Contract; or

(p)

commit or agree to take any of the foregoing actions.

7.2

No Solicitation of Transactions.

(a)

Except as permitted by this *Section 7.2*, from the date of this Agreement until the earlier of the Effective Time or the termination of this Agreement pursuant to *Article IX*, the Company shall not, nor shall it permit any of its Subsidiaries to, nor shall it authorize or permit any officer, director or employee of, or any investment banker, attorney or other advisor or

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representative (collectively, "*Representatives*") of the Company or any of its Subsidiaries to, (i) solicit or initiate, or knowingly encourage or facilitate, directly or indirectly, the submission of any Acquisition Proposal by any Person other than Parent, Merger Sub or any Affiliates thereof (a "*Third Party*") or take any action that would reasonably be expected to result in the receipt by the Company of an Acquisition Proposal from a Third Party, (ii) directly or indirectly participate in discussions or negotiations regarding, or furnish to any Third Party information with respect to, or facilitate the making of any proposal that constitutes, or would reasonably be expected to lead to, an Acquisition Proposal, or (iii) enter into any agreement with respect to any Acquisition Proposal with any Third Party; provided that, it is understood and agreed that any determination or action by the Company Board permitted under *Section 7.2(b)*, *Section 7.2(e)*, *Section 7.2(f)* or *Section 9.4(c)*, shall not, in and of itself, be deemed to be a breach or violation of this *Section 7.2(a)* or, in the case of *Section 7.2(b)*, give Parent a right to terminate this Agreement pursuant to *Section 9.3(b)*. Without limiting the generality of the foregoing, the Company acknowledges and agrees that any violation of the restrictions set forth in the preceding sentence by any Representative of the Company or any of its Subsidiaries shall be deemed to constitute a breach of this *Section 7.2* by the Company.

(b)

Notwithstanding anything to the contrary in *Section 7.2(a)*, if at any time on or after the date of this Agreement and prior to the Offer Closing, the Company or its Representatives receives an Acquisition Proposal from a Third Party which did not result from a breach of *Section 7.2(a)*, and the Company Board, or any committee thereof, determines in good faith, after consulting with outside legal and financial advisors, that any such Acquisition Proposal constitutes, or would reasonably be expected to lead to, a Superior Proposal and the Company Board, or any committee thereof, determines in good faith, after consultation with outside legal counsel, that the failure to take such action would reasonably be expected to be a breach of its fiduciary duties under applicable Law, then the Company and its Representatives may (A) furnish, pursuant to an Acceptable Confidentiality Agreement, information (including non-public information) and/or access with respect to the Company and its Subsidiaries to the Person or group of Persons who has made such Acquisition Proposal; *provided* that the Company shall provide or make available, to the extent not previously provided or made available to Parent or its Representatives, to Parent any non-public information with respect to the Company or any of its Subsidiaries that is provided to the Third Party making such Acquisition Proposal prior to or substantially concurrently with the time it is provided or made available to such Third Party; and (B) engage in or otherwise participate in discussions and/or negotiations directly or through its Representatives with the Person or group of Persons making such Acquisition Proposal. Notwithstanding anything to the contrary contained in *Section 7.2(a)*, the Company shall be permitted to grant a waiver or release to any Person or group of Persons subject to an Acceptable Confidentiality Agreement for the sole purpose of allowing such Person or group of Persons to submit an Acquisition Proposal that the Company Board, or any committee thereof, determines in good faith is reasonably likely to lead to a Superior Proposal if the Company Board determines that the failure to take such action would reasonably be expected to be a breach of its fiduciary duties under applicable Law. For the purposes of this Agreement, "*Acceptable Confidentiality Agreement*" means any confidentiality agreement that contains provisions that are no less favorable in the aggregate to the Company than those contained in the Confidentiality Agreement, provided that any such agreement shall permit the Company to comply with the terms of this *Section 7.2*. The Company also will promptly request each Person that has executed, within 12 months prior to the date of this Agreement, a confidentiality agreement in connection with its consideration of a possible Acquisition Transaction or equity investment to, subject to the terms of the applicable confidentiality agreement, return or destroy all confidential information heretofore furnished to such Person by or on behalf of the Company and, in the event that such Person refuses to

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comply with such request in breach of the terms of the applicable confidentiality agreement, the Company will use its commercially reasonable efforts to enforce or cause to be enforced any obligation that such Person has to do so.

(c)

The Company shall advise Parent orally and in writing, promptly (but in no event later than forty-eight (48) hours) after receipt thereof, of (i) any Acquisition Proposal received by any Representative of the Company and (ii) the material terms of such Acquisition Proposal (including the identity of the Person proposing the Acquisition Proposal), and provide a copy of such Acquisition Proposal to Parent if such proposal is in writing. The Company shall keep Parent fully informed on a reasonably current basis of the status of, and any material changes or proposed material changes to, the terms of any such Acquisition Proposal and the status of discussions and negotiations with respect thereto.

(d)

Except as expressly provided by *Section 7.2(e)*, neither the Company Board nor any committee thereof shall effect a Board Recommendation Change.

(e)

Notwithstanding anything to the contrary set forth in this Agreement, at any time prior to the Offer Closing, the Company may effect a Board Recommendation Change if:

(i)

the Company Board has received an Acquisition Proposal that it determines in good faith (after consultation with outside legal and financial advisors) constitutes a Superior Proposal and (after consultation with outside legal counsel) the failure to take such action would reasonably be expected to be a breach of its fiduciary duties, provided that (A) the Company has not violated the terms of *Section 7.2*, (B) the Company shall have given Parent at least three (3) Business Days' prior written notice of its intention to take such action (which notice shall specify the material terms and conditions of any such Superior Proposal) and, no later than the time of such notice, provided Parent a copy of the relevant proposed transaction agreement and other material documents with the party making such Superior Proposal, (C) if requested by Parent, the Company shall have negotiated in good faith with Parent during such three (3) Business Day notice period to enable Parent to propose changes to the terms of this Agreement that would cause such Superior Proposal to no longer constitute a Superior Proposal, (D) the Company Board shall have considered in good faith (after consultation with outside legal and financial advisors) any changes to this Agreement proposed by Parent in a written offer capable of acceptance and determined that the Superior Proposal would continue to constitute a Superior Proposal if such changes were to be given effect, and (E) in the event of any material change to the financial or other material terms of such Superior Proposal, the Company shall, in each case, have delivered to Parent an additional notice and copies of the relevant proposed transaction agreement and other material documents and the three (3) Business Day notice period shall have recommenced; or

(ii)

a material fact, event, change, development or set of circumstances that was not known by the Company Board as of or at any time prior to the date of this Agreement (other than, and not relating in any way to, an Acquisition Proposal, it being understood and hereby agreed that the Company Board may only effect a Board Recommendation Change in response to or in connection with an Acquisition Proposal pursuant to and in accordance with *Section 7.2(e)(i)*) (such material fact, event, change, development or set of circumstances, an "*Intervening Event*") shall have occurred and be continuing; provided that (A) the Company Board determines in good faith (after consultation with outside legal counsel) that the failure to take such action in light of the Intervening Event would reasonably be expected to be a breach of its fiduciary duties, (B) the Company shall have given Parent at least three (3) Business

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Days' prior written notice of its intention to take such action and, no later than the time of such notice, provided Parent with a written explanation of the Company Board's basis and rationale for proposing to effect such Board Recommendation Change, (C) if requested by Parent, the Company shall have negotiated in good faith with Parent during such three (3) Business Day notice period to enable Parent to propose changes to the terms of this Agreement that would obviate the need for the Company Board to effect such Board Recommendation Change, (D) the Company Board shall have considered in good faith (after consultation with outside legal counsel) any changes to this Agreement proposed in writing by Parent and determined that the failure to take such action would reasonably be expected to be a breach of its fiduciary duties if such changes were to be given effect, and (E) in the event of any material change to the facts and circumstances relating to such Intervening Event, the Company shall have delivered to Parent an additional notice and the three (3) Business Day notice period shall have recommenced.

(f)

Nothing contained in this Agreement shall prevent the Company, the Company Board or a Committee from (i) taking and disclosing to the stockholders of the Company a position contemplated by Rule 14e-2(a), Rule 14d-9 or Item 1012(a) of Regulation M-A promulgated under th