

# KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

## CORPORATE GOVERNANCE GUIDELINES

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Revised on May 11, 2010

The Board of Directors (the “**Board**”) of Kratos Defense & Security Solutions, Inc. (the “**Company**”) has adopted the following Corporate Governance Guidelines (the “**Guidelines**”) to assist the Board in the exercise of its responsibilities and to serve the interests of the Company and its stockholders. These Guidelines should be interpreted in the context of all applicable laws and the Company’s charter, bylaws and other corporate governance documents. These Guidelines acknowledge the leadership exercised by the Board’s standing committees and their chairs and are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations. The Guidelines are subject to modification from time to time by the Board as the Board may deem appropriate in the best interests of the Company and its stockholders or as required by applicable laws and regulations.

These Guidelines are available on the Company’s website at “[www.kratosdefense.com](http://www.kratosdefense.com)” and to any stockholder who otherwise requests a copy. The Company’s proxy statement and Annual Report on Form 10-K will state the foregoing.

### **The Board**

#### *Size of the Board*

The Company’s Bylaws provide that the number of Directors will be fixed from time to time by the Board, but in no event will be less than the minimum number required by the Delaware General Corporation Law. The Board currently has six (6) members. The Board believes that six Directors is an appropriate size based on the Company’s present circumstances. The Nominating and Corporate Governance Committee will periodically review the size of the Board and determine the size that is most effective in relation to future operations.

#### *Independence of the Board*

The Board will be comprised of a majority of directors who qualify as independent directors (the “**Independent Directors**”) under the listing standards of the Nasdaq Global Select Market (the “**Nasdaq**”) and, to the extent applicable, under that certain Stipulation and Agreement of Settlement of Derivative Claims (Case No. 04-CV-1663 JAH (NLS)). No more than one (1) management executive who is employed by the Company or who was employed by the Company in the previous three years may serve on the Board at the same time.

The Nominating and Corporate Governance Committee will review annually the relationships that each Director has with the Company (either directly or as a partner,

stockholder or officer of an organization that has a relationship with the Company). Following such annual review, only those Directors who the Board affirmatively determines have no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) will be considered Independent Directors, subject to additional qualifications prescribed under the listing standards of the Nasdaq. The basis for any determination that a relationship is not material will be published in the Company's annual proxy statement or, if the Company does not file an annual proxy statement, in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission.

#### *Separate Sessions of Non-Management Directors*

The non-management Directors will meet in executive session without management Directors or management present on a regularly scheduled basis. The non-management Directors will review the Company's implementation of and compliance with its Guidelines and consider such matters as they may deem appropriate at such meetings. Non-management Directors are all Directors who are not Company officers (as that term is defined in Rule 16a-1(f) under the Securities Act of 1933), including such Directors who are not independent by virtue of a material relationship, former status or family membership, or for any other reason.

In addition, if the non-management Directors include Directors who are not also Independent Directors, the Independent Directors shall also meet separately at least on a quarterly basis in executive session.

#### *Director Qualification Standards*

The Nominating and Corporate Governance Committee is responsible for reviewing with the Board, on an annual basis, the appropriate characteristics, skills and experience required for the Board as a whole and its individual members. In evaluating the suitability of individual candidates (both new candidates and current Board members), the Nominating and Corporate Governance Committee, in recommending candidates for election, and the Board, in approving (and, in the case of vacancies, appointing) such candidates, take into account many factors, including ability to make independent analytical inquiries, general understanding of marketing, finance and other elements relevant to the success of a publicly-traded company in today's business environment, experience in the Company's industry and with relevant social policy concerns, understanding of the Company's business on a technical level, other board service and educational and professional background. Each candidate nominee must also possess fundamental qualities of intelligence, honesty, good judgment, high ethics and standards of integrity, fairness and responsibility. The Board evaluates each individual in the context of the Board as a whole, with the objective of assembling a group that can best perpetuate the success of the business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas. In determining whether to recommend a Director for re-election, the Nominating and Corporate Governance Committee also considers the Director's past attendance at meetings and participation in and contributions to the activities of the Board.

### *Selection of New Directors*

The entire Board will stand for election by the stockholders of the Company each year at the Company's annual meeting. Each year, at the annual meeting, the Board will recommend a slate of Directors for election by the stockholders. In accordance with the Bylaws of the Company, the Board will also be responsible for filling vacancies or newly created directorships on the Board that may occur between annual meetings of stockholders. The Nominating and Corporate Governance Committee is responsible for identifying, screening and recommending candidates to the entire Board for Board membership.

### *Selection of Chairman of the Board*

The Board will select the Chairman of the Board in accordance with the Company's Bylaws.

### *Limitations on Other Board Service*

A majority of the Independent Directors of the Company shall not serve on the boards of directors of more than two other publicly traded companies. Any director of the Company who also serves as an executive officer of any other publicly traded company may not serve on the board of directors of more than one other public company in addition to the Company's Board of Directors, including the board of directors of such director's own employer. The Chief Executive Officer of the Company may serve on the board of directors of one additional public company with the prior consent of the Nominating and Governance Committee, or if there is no such Committee, the prior consent of the Board of Directors as a whole.

### *Changes in Director Employment*

The Board, in its discretion, may remove a Director if such Director resigns or materially changes his or her position with his or her employer, and the Board determines that such resignation or change would materially impact such Director's ability to properly serve the Company.

### *Term Limits*

As each Director is subject to election by stockholders on an annual basis, the Board does not believe it is in the best interests of the Company to establish term limits at this time. Additionally, such term limits may cause the Company to lose the contribution of Directors who have been able to develop, over a period of time, increasing insight into the Company's business and therefore can provide an increasingly significant contribution to the Board.

### *Retirement*

It is the general policy of the Company that no Director may stand for election to the Board after his or her 75th birthday. However, the Board may make exceptions to this

standard, based on the recommendation of the Nominating and Corporate Governance Committee, as it deems appropriate in the interests of the Company's stockholders.

### *Director Responsibilities*

The business and affairs of the Company will be managed by or under the direction of the Board, including through one or more of its committees as set forth in the Bylaws and committee charters. Each Director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. These include:

1. Overseeing the conduct of the Company's business, to evaluate whether the business is being properly managed;
2. Reviewing and, where appropriate, approving the Company's major financial objectives, plans and actions;
3. Reviewing and, where appropriate, approving major changes in, and determinations of other major issues respecting, the appropriate auditing and accounting principles and practices to be used in the preparation of the Company's financial statements;
4. Reviewing and, where appropriate, approving major changes in, and determinations under the Guidelines, Code of Business Conduct and Ethics and other Company policies;
5. Reviewing and, where appropriate, approving actions to be undertaken by the Company that would result in a material change in the financial structure or control of the Company, the acquisition or disposition of any businesses or asset(s) material to the Company or the entry of the Company into any major new line of business;
6. With respect to the Independent Directors, together with the Compensation Committee, regularly evaluating the performance and approving the compensation of the Chief Executive Officer;
7. With the input of the Chief Executive Officer and the Compensation Committee, regularly evaluating the performance of principal senior executives; and
8. Planning for succession with respect to the position of Chief Executive Officer and monitoring management's succession planning for other key executives.

### *Compensation*

The Company's executive officers shall not receive additional compensation for their service as Directors. Senior management of the Company will report once a year to the Compensation Committee regarding the status of the Company's non-management

Director compensation in relation to other U.S. companies of comparable size and the Company's competitors. Such report will include consideration of both direct and indirect forms of compensation to the Company's non-management Directors. Following a review of the report, the Compensation Committee will recommend any changes in non-management Director compensation to the Chairman of the Board, which changes will be approved or disapproved by the Board after a full discussion.

#### *Stock Ownership*

The Company encourages Directors to purchase shares of the Company's stock. However, the number of shares of the Company's stock owned by any Director is a personal decision and, at this time, the Board has chosen not to adopt a policy requiring ownership by Directors of a minimum number of shares.

#### *Conflicts of Interest*

Directors are expected to avoid any action, position or interest that conflicts with the interests of the Company or gives the appearance of a conflict. If an actual or potential conflict of interest develops, the Director should immediately report the matter to the Chairman of the Board. Any significant conflict must be resolved or the Director should resign. If a Director has a personal interest in a matter before the Board, the Director will disclose the interest to the Board, excuse himself or herself from discussion on the matter and not vote on the matter. Further, Directors are expected to be familiar with and abide by the conflict of interest provisions of the Delaware General Corporation Law.

#### *Board Orientation and Continuing Education of Board Members*

The Company shall provide new Directors with a Director orientation program to familiarize them with, among other things, the Company's business, strategic plans, significant financial, accounting and management issues, compliance programs, conflicts policies, Code of Ethics, Guidelines, principal officers, internal auditors and independent auditors.

Each Director shall certify in writing annually that he or she has received, read, and understands the guidelines for directors set forth in the Company's Code of Ethics.

The Company will make available to Directors continuing education programs, as management or the Board determines desirable. Each Director shall attend at least one corporate governance class annually in order to keep current with trends in governance and the fiduciary, legal, and ethical responsibilities of directors.

#### *Interaction with Institutional Investors, the Press and Customers*

The Board believes that management speaks for the Company. Each Director should refer all inquiries from institutional investors, the press or customers to management. Individual Board members may, from time to time at the request of management, meet or otherwise communicate with various constituencies that are

involved with the Company. If comments from the Board are appropriate, they should, in most circumstances, come from the Chairman of the Board.

#### *Board Access to Senior Management*

The Board will have complete access to Company management in order to ensure that Directors can ask any questions and receive all information necessary to perform their duties. Directors should exercise judgment to ensure that their contact with management does not distract managers from their jobs or disturb the business operations of the Company. Such contact, if in writing, should be copied to the Chief Executive Officer of the Company.

#### *Board Access to Independent Advisors*

The Board committees may hire independent advisors as set forth in their applicable charters. The Board as a whole shall have access to such advisors and such other independent advisors that the Company retains or that the Board considers necessary to discharge its responsibilities.

#### *Self-Evaluation*

It is the goal of the Nominating and Corporate Governance Committee to oversee an annual assessment by the Board of the Board's performance. The Nominating and Corporate Governance Committee will be responsible for establishing the evaluation criteria and implementing the process for such evaluation, as well as considering other corporate governance principles that may, from time to time, merit consideration by the Board.

The assessment should include a review of any areas in which the Board or management believes the Board can make a better contribution to the governance of the Company, as well as a review of the committee structure and an assessment of the Board's compliance with the principles set forth in these Guidelines. The purpose of the review will be to improve the performance of the Board as a unit, and not to target the performance of any individual Board member. The Nominating and Corporate Governance Committee will utilize the results of the Board evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board.

The Board shall also evaluate the performance of the Chairman of the Board on an annual basis. Should the remaining Directors determine that the Chairman is not providing meaningful leadership to the Board, the Board shall select a new Chairman.

### **Board Meetings**

#### *Frequency of Meetings*

The Board will meet at least once per quarter. In addition, special meetings may be called from time to time as determined by the needs of the business. It is the responsibility of the Directors to attend meetings.

#### *Director Attendance*

A Director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. Accordingly, a Director is expected to regularly prepare for and attend meetings of the Board and all committees on which the Director sits (including separate meetings of non-management Directors and the Independent Directors), with the understanding that, on occasion, a Director may be unable to attend a meeting. A Director who is unable to attend a meeting is expected to notify the Chairman of the Board or the chair of the appropriate committee in advance of such meeting, and, whenever possible, participate in such meeting via teleconference.

#### *Attendance of Non-Directors*

The Board encourages the Chairman of the Board or the chair of any committee to bring Company management and outside advisors or consultants from time to time into Board and/or committee meetings to provide insight into items being discussed by the Board which involve the manager, advisor or consultant, and make presentations to the Board on matters which involve the manager, advisor or consultant. Attendance of non-directors at Board meetings is at the discretion of the Board.

#### *Advance Receipt of Meeting Materials*

Information regarding the topics to be considered at a meeting is essential to the Board's understanding of the business and the preparation of the Directors for a productive meeting. To the extent feasible, the meeting agenda and any written materials relating to each Board meeting will be distributed to the Directors sufficiently in advance of each meeting to allow for meaningful review of such agenda and materials by the Directors. Directors are expected to have reviewed and be prepared to discuss all materials distributed in advance of any meeting.

### **Committee Matters**

#### *Number, Name, Responsibilities and Independence of Committees*

The Board currently has three standing committees, each composed entirely of Independent Directors. From time to time, the Board may form a new committee or disband a current committee, depending upon the circumstances. Each committee will perform its duties as assigned by the Board in compliance with the Company's Bylaws and the committee's charter. The current standing committees are:

1. **Audit Committee:** The function of the Audit Committee is to help ensure the integrity of the Company's financial statements, the qualifications and independence of the Company's independent auditor and the performance of the Company's internal audit function and independent auditors. The Audit

Committee also selects, assists and meets with the independent auditor, oversees each annual audit and quarterly review, oversees the Company's internal audit controls and prepares the preparation of the annual report that federal securities laws require be included in the Company's annual proxy statement.

2. Compensation Committee: The function of the Compensation Committee is to review and approve the compensation and benefits of the Company's executive officers, administer and make recommendations to the Board regarding the Company's compensation and incentive award plans, and produce an annual report on executive compensation for inclusion in the Company's proxy statement or Form 10-K, in accordance with applicable rules and regulations.
3. Nominating and Corporate Governance Committee: The function of the Nominating and Corporate Governance Committee is to identify qualified candidates to become Board members; select nominees for election as Directors at the next annual meeting of stockholders (or special meeting of stockholders at which Directors are to be elected); select candidates to fill any vacancies on the Board; develop and recommend to the Board the Guidelines; and oversee the evaluation of the Board and management of the Company.

#### *Assignment and Rotation of Committee Members*

The Board appoints committee members and committee chairs according to criteria set forth in the applicable committee charter and such other criteria that the Board determines to be appropriate in light of the responsibilities of each committee. No individual member of the Board shall be the chairman of more than one Board committee. Committee membership and the position of committee chair will not be rotated on a mandatory basis unless the Board determines that rotation is in the best interest of the Company.

Each member of the Audit Committee must satisfy the independence requirements of the Nasdaq and Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and must be financially literate, as determined by the Board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment. At least one member of the Audit Committee must have accounting or related financial management expertise as determined by the Board in its business judgment. In addition, at least one member of the Audit Committee must meet the definition of "audit committee financial expert" as determined by the Board in its business judgment in accordance with Item 401(h) of Regulation S-K.

#### *Frequency of Committee Meeting*

The minimum number of times each committee must meet is specified in such committee's charter. In addition, special meetings may be called by the chair of the committee from time to time as determined by the needs of the business. It is the

responsibility of the Directors to attend the meetings of the committees on which they serve.

## **Leadership Development**

### *Succession Planning*

The Nominating and Corporate Governance Committee works on a periodic basis with the Chief Executive Officer to review, maintain and revise, if necessary, the Company's succession plan upon the Chief Executive Officer's retirement and in the event of an unexpected occurrence. The Chief Executive Officer shall report annually to the Board on succession planning for the Chief Executive Officer and senior management positions, including a discussion of assessments, leadership development plans and other relevant factors.

### *Management Development*

The Board will determine that a satisfactory system is in effect for the education, development and orderly succession of senior and mid-level managers throughout the Company.