

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
CHARTER OF THE COMPENSATION COMMITTEE OF THE
BOARD OF DIRECTORS

Revised May 11, 2010
Revised March 14, 2013
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I. STATEMENT OF POLICY

The Compensation Committee (the “*Committee*”) of the Board of Directors of Kratos Defense & Security Solutions, Inc. (the “*Company*”) has the responsibility and authority to supervise and review the affairs of the Company as they relate to the compensation and benefits of the executive officers and directors of the Company. In carrying out these responsibilities, the Committee shall review all components of executive officer and director compensation for consistency with the Company’s compensation philosophy and with the interests of the Company’s stockholders.

II. ORGANIZATION AND MEMBERSHIP REQUIREMENTS

The Committee shall consist of at least **three** members of the Board of Directors (the “*Board*”), each of whom shall (i) satisfy the independence requirements of the Nasdaq Stock Market (“*Nasdaq*”), including the additional independence requirements applicable to members of the Committee, (ii) qualify as a “Non-Employee Director” for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), and (iii) qualify as an “outside director” for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “*Code*”). No director shall serve as a member of the Committee if such director has been within the last 12 months or is currently a part of an interlocking directorate in which the Chief Executive Officer (“*CEO*”) or another executive officer of the Company serves on the compensation committee of another company that employs such director as an executive officer.

Each member of the Committee shall serve until his or her successor is duly elected and qualified or until such member’s earlier resignation, removal or death. Any member of the Committee may be removed or replaced by the Board. Unless a chairman is elected by the full Board, the members of the Committee may designate a chairman by the majority vote of the full Committee membership. The Chair shall preside at all regular meetings of the Committee and set the agenda for each Committee meeting.

In fulfilling its responsibilities, the Committee shall, to the extent permitted by law, be entitled to delegate any or all of its responsibilities to one or more subcommittees of the Committee comprised of at least two members of the Committee. To the extent necessary to comply with Section 162(m) of the Code or Rule 16b-3 of the Exchange Act, the outside directors, acting as a subcommittee, shall have authority to act on behalf of the Committee.

III. MEETINGS

The Committee shall meet as often as it deems necessary to fulfill its responsibilities hereunder, and may meet with management or individual directors at such time as it deems appropriate to discuss any matters before the Committee. The Committee may request that any employee of the Company attend any of its meetings or meet with any Committee member or consultant. The Committee shall meet at least annually with the CEO and such other senior executives as the Committee deems appropriate; provided, however, that the CEO may not be present during deliberations or voting regarding his or her compensation. The Committee shall meet periodically in executive session without the presence of management.

Formal action to be taken by the Committee shall be by unanimous written consent or by the affirmative vote of at least a majority of the members present (in person or by telephone conference call) at a meeting at which a quorum is present. A quorum shall consist of at least a majority of the members of the Committee. Any actions taken by the Committee during any period in which one or more of the members fail for any reason to meet the membership requirements set forth above shall still constitute duly authorized actions of the Committee for all corporate purposes.

IV. COMMITTEE AUTHORITY AND RESPONSIBILITIES

The Committee shall have the following authority and responsibilities, subject to such modification and additional authority as the Board may approve from time to time:

1. To take any and all actions which may be taken by the Board of the Company with respect to fixing the compensation level of officers and employees of the Company, including but not limited to the development of compensation policies and practices that will attract and retain the highest quality executives, that will clearly articulate the relationship of corporate performance to executive compensation and that will reward executives for the Company's progress.
2. To identify and approve the composition of any peer group used for comparison purposes.
3. To review and approve, at least annually, corporate and individual performance goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of these goals and objectives, and determine and approve the CEO's compensation (including, but not limited to, salary, bonus, incentive compensation, equity awards, benefits and perquisites) based on this evaluation. In evaluating and determining CEO compensation, the Committee shall consider the results of the most recent stockholder advisory vote on executive compensation required by Section 14A of the Exchange Act.
4. To review and approve, at least annually, corporate and individual performance goals and objectives relevant to the compensation of all other executive officers and determine bases for and determine and approve the compensation (including, but not limited to, salary, bonus, incentive compensation, equity awards, benefits and perquisites) for other executive officers.

5. To propose the adoption, amendment, and termination of stock option plans, subject to stockholder and Board approval as required, restricted stock and restricted stock unit plans, stock appreciation rights plans, pension and profit sharing plans, stock bonus plans, employee stock purchase plans, bonus plans, deferred compensation plans, and other incentive or equity programs (“*compensation plans*”).
6. To supervise, administer and evaluate the compensation plans, and make and approve grants of options and other equity awards, and rights, participation and interests in compensation plans to eligible participants.
- [7. To establish policies for allocating between short-term, long-term and currently paid-out compensation, between cash and non-cash compensation and the factors used in deciding between the various forms of compensation.]
8. To review and approve any employment agreements, severance arrangements, change-in-control arrangements or special or supplemental employee benefits (excluding competitive broad based Health, Life, Disability, Long Term Care), and any material amendments to any of the foregoing, applicable to executive officers.
9. To review periodically the compensation and benefits offered to non-employee directors and recommend changes to the Board as appropriate.
- [10. To consider, and if appropriate, establish a policy designed to encourage executive officers and directors to acquire and hold a meaningful equity interest in the Company.]
11. To consider and, if determined to be appropriate, make recommendations to the Board of Directors regarding adoption of a policy regarding recovery of incentive-based compensation that is based on financial information required to be reported under the Exchange Act (or other federal securities laws) following the restatement of such financial information.
12. To monitor and assess the risks associated with the Company’s compensation policies and consult with management regarding such risks.
13. To review and approve such other compensation matters as the Board of Directors or the CEO wishes to have the Committee consider.
14. To prepare an annual report to be filed with the Company’s proxy or information statement which shall disclose the compensation policies applicable to the Company’s executive officers.
15. To review and make recommendations to the Board regarding stockholder proposals related to compensation matters.
16. To evaluate, at least annually, the performance of the Committee, review and reassess this Charter and, if appropriate, recommend changes to the Board.
17. To review and recommend to the Board of Directors for approval the frequency with which the Company will conduct Say on Pay Votes and review and approve the proposals regarding the Say on Pay Vote and the frequency of the Say on Pay Vote to be included in the Company’s proxy.
18. To monitor the Company’s compliance with the requirements of the Sarbanes-Oxley Act of 2002, as amended, the Dodd-Frank Wall Street Reform and Consumer

Protection Act of 2010 and other applicable laws, regulations, and rules, as related to compensation.

19. To oversee the Company's response to regulatory developments relating to compensation arrangements for directors and executive officers.
20. To perform such other functions and have other powers as may be necessary or convenient in the efficient discharge of the foregoing.
21. To report to the Board from time to time, or whenever it shall be called upon to do so.

The Committee shall be empowered, without the approval of the Board or management, to engage, obtain advice and assistance from, and compensate independent legal, accounting and other advisors, as it determines necessary to carry out its duties. The Committee shall have the sole authority to retain and terminate any consultant that it uses to assist in the Committee's evaluation of director, CEO or executive officer compensation and shall have the sole authority to approve that consultant's fees and other retention terms. The compensation consultants, outside counsel and any other advisors retained by, or providing advice to, the Committee (other than the Company's in-house counsel) shall be independent as determined in the discretion of the Committee after considering the factors specified in Nasdaq Rule 5605(d)(3). The Committee shall receive appropriate funding, as determined by the Committee, from the Company for payment of: (a) compensation to any advisor employed by the Committee; and (b) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

The operation of the Committee shall be subject to the Bylaws as in effect from time to time and Section 141 of the Delaware General Corporation Law.