

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Form DEFM14A
June 21, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

Kratos Defense & Security Solutions, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
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(1) Amount Previously Paid:

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(3) Filing Party:

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PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

Kratos Defense & Security Solutions, Inc. ("**Kratos**") and Integral Systems, Inc. ("**Integral Systems**") entered into a merger agreement on May 15, 2011, pursuant to which a wholly-owned subsidiary of Kratos will merge with and into Integral Systems and Integral Systems will become a wholly-owned subsidiary of Kratos upon completion of the merger. The board of directors of each of Kratos and Integral Systems has unanimously approved the merger agreement and the merger.

If the merger is completed, holders of Integral Systems common stock will be entitled to receive (i) \$5.00 in cash, without interest, and (ii) 0.588 shares of Kratos common stock for each share of Integral Systems common stock they own. The exchange ratio of 0.588 is fixed and will not be adjusted for changes in the stock price of either company before the merger is completed. The exchange ratio was determined based on a per share price of \$13.60 for Kratos common stock, which is the 30-day volume-weighted average closing price of Kratos common stock as of immediately prior to the public announcement of the merger. The purchase price per share for Integral Systems common stock represents total consideration of \$13.00 per share based on the 30-day volume-weighted average closing price of Kratos common stock.

Based on the closing price of Kratos common stock of \$13.01 on May 13, 2011, the last trading day before public announcement of the merger, the 0.588 exchange ratio (together with the amount of cash to be paid per share of Integral Systems common stock) represented an implied value of \$12.65 per share of Integral Systems common stock, as determined by reference to the value of merger consideration to be received in respect of each share of Integral Systems common stock in the merger (including the cash consideration of \$5.00 per share) as compared to the closing price of Integral Systems common stock of \$13.01 per share on that date. Based on the closing price of Kratos common stock on June 15, 2011, the latest practicable date before the printing of this joint proxy statement/prospectus, the 0.588 exchange ratio (together with the amount of cash to be paid per share of Integral Systems common stock) represented an implied value of \$11.36 per share of Integral Systems common stock, as determined by reference to the value of the merger consideration to be received in respect of each share of Integral Systems common stock in the merger (including the cash consideration of \$5.00 per share), as compared to the closing price of Integral Systems common stock of \$11.33 per share on that date. You are urged to obtain current market quotations for Kratos and Integral Systems common stock. Kratos common stock is listed on the NASDAQ Global Select Market and trades under the symbol "KTOS". Integral Systems common stock is listed on the NASDAQ Global Select Market and trades under the symbol "ISYS".

The boards of directors of Kratos and Integral Systems believe that the combination of the two companies will produce a financially strong, well-diversified combined company that will be better positioned to enhance stockholder value by establishing itself as one of the most technologically-oriented businesses in a growing and mission-critical national security priority area.

Kratos is soliciting proxies for exercise at the Kratos special meeting of stockholders to consider and vote upon (i) a proposal to approve the issuance of shares of Kratos common stock to the Integral Systems stockholders in connection with the merger and (ii) an adjournment of the Kratos special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the proposal referred to in clause (i). **The Kratos board of directors unanimously recommends that Kratos stockholders vote "FOR" each of the foregoing proposals. Approval of the issuance of Kratos common stock in connection with the merger is necessary to complete the merger.**

Integral Systems is soliciting proxies for exercise at the Integral Systems special meeting of stockholders to consider and vote upon (i) a proposal to approve the merger, the merger agreement and the other transactions contemplated thereby, (ii) a proposal to approve, on an advisory (non-binding) basis, the golden parachute compensation arrangements for Integral Systems' named executive officers and (iii) a proposal to adjourn the Integral Systems special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes in favor of the proposal to approve the merger, the merger agreement and the other transactions contemplated thereby at the time of the Integral Systems special meeting. **The Integral Systems board of directors recommends that Integral Systems stockholders vote "FOR" each of the foregoing proposals. Approval of the merger, the merger agreement and the other transactions contemplated thereby is necessary to complete the merger.**

Your vote is very important. The merger cannot be completed unless (i) the Kratos stockholders approve the issuance of Kratos common stock in connection with the merger and (ii) the Integral Systems stockholders approve the merger, the merger agreement and the other transactions contemplated thereby. Whether or not you plan to attend your respective company's special meeting of stockholders, please submit your proxy as soon as possible to make sure that your shares are represented at the applicable meeting.

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This joint proxy statement/prospectus provides you with detailed information about the Kratos special meeting, the Integral Systems special meeting, the merger and the other business to be considered by each company's stockholders. In addition to being a proxy statement for both Kratos and Integral Systems, this document is also a prospectus to be used by Kratos when issuing Kratos common stock to Integral Systems stockholders in connection with the merger. **Kratos and Integral Systems encourage you to read the entire document carefully. Please pay particular attention to the section entitled "Risk Factors" beginning on page 36 for a discussion of the risks related to the merger and to ownership of Kratos common stock after the merger is completed.**

Eric DeMarco

President and Chief Executive Officer
Kratos Defense & Security Solutions, Inc.

Paul G. Casner, Jr.

Chief Executive Officer and President
Integral Systems, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or determined if this joint proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated June 21, 2011 and is first being mailed to stockholders of Kratos and Integral Systems on or about June 23, 2011.

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REFERENCES TO ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates by reference important business and financial information about Kratos and Integral Systems from other documents that each company has filed with the Securities and Exchange Commission but that have not been included in or delivered with this joint proxy statement/prospectus. For a listing of the documents incorporated by reference into this joint proxy statement/prospectus, see the section entitled "Where You Can Find Additional Information" beginning on page 173. You can obtain the documents incorporated by reference into this joint proxy statement/prospectus through the Securities and Exchange Commission website at www.sec.gov or by requesting them in writing or by telephone at the appropriate address or telephone number below.

Kratos and its proxy solicitor, Georgeson Inc., and Integral Systems and its proxy solicitor, D. F. King & Co., Inc., will provide you with copies of such documents (excluding all exhibits, unless Kratos or Integral Systems, as the case may be, has specifically incorporated by reference an exhibit into this joint proxy statement/prospectus), relating to Kratos or Integral Systems, as applicable, without charge, upon written or oral request. You can obtain such documents by requesting them in writing or by telephone from the appropriate company at the following addresses and telephone numbers:

**Georgeson Inc.
199 Water Street, 26th Floor
New York, New York 10038-3560
Banks and Brokers Call (212) 440-9800
All Others Call Toll-Free (888) 566-8006**

or

**Kratos Defense & Security Solutions, Inc.
4820 Eastgate Mall
San Diego, California 92121
Attn: Corporate Secretary
(858) 812-7300**

**D. F. King & Co., Inc.
48 Wall Street, 22nd Floor
New York, New York 10005
(212) 269-5550**

or

**Integral Systems, Inc.
6721 Columbia Gateway Drive
Columbia, Maryland 21046
Attn: Corporate Secretary
(443) 539-5008**

In addition, if you have questions about the merger or this joint proxy statement/prospectus, would like additional copies of this joint proxy statement/prospectus or need to obtain proxy cards or other information related to the proxy solicitation, you may request them in writing or by telephone from the appropriate company at the address and telephone numbers noted above. You will not be charged for any of these documents that you request.

In order for you to receive timely delivery of the documents in advance of the Kratos special meeting or the Integral Systems special meeting, you must request the information no later than July 19, 2011.

ABOUT THIS JOINT PROXY STATEMENT/PROSPECTUS

This joint proxy statement/prospectus, which forms a part of a registration statement on Form S-4 filed with the Securities and Exchange Commission by Kratos (File No. 333-174745), constitutes a prospectus of Kratos under Section 5 of the Securities Act of 1933, as amended, with respect to the shares of Kratos common stock to be issued to Integral Systems stockholders in connection with the merger.

This joint proxy statement/prospectus also constitutes a notice of meeting and a proxy statement under Section 14(a) of the Securities Exchange Act of 1934, as amended, (i) with respect to the Kratos special meeting, at which Kratos stockholders will be asked to consider and vote upon certain proposals, including a proposal to approve the issuance of shares of Kratos common stock in connection with the merger and (ii) with respect to the Integral Systems special meeting, at which Integral Systems stockholders will be asked to consider and vote upon certain proposals, including a proposal to approve the merger, the merger agreement and the other transactions contemplated thereby and a proposal relating to the advisory (non-binding) vote on the golden parachute arrangements for Integral Systems' named executive officers.

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON JULY 26, 2011**

To the Stockholders of Kratos Defense & Security Solutions, Inc.:

The special meeting of stockholders of Kratos Defense & Security Solutions, Inc., a Delaware corporation, will be held on July 26, 2011, at 10:00 a.m., local time, at the offices of Paul, Hastings, Janofsky & Walker LLP located at 4747 Executive Drive, San Diego, California 92121, for the following purposes:

1. To approve the issuance of Kratos common stock, par value \$0.001 per share, in connection with the merger contemplated by the Agreement and Plan of Merger, dated as of May 15, 2011, by and among Kratos, Integral Systems, IRIS Merger Sub Inc., a wholly-owned subsidiary of Kratos, and IRIS Acquisition Sub LLC, a wholly-owned subsidiary of Kratos;
2. To approve the adjournment of the Kratos special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Kratos Proposal No. 1; and
3. To conduct any other business as may properly come before the Kratos special meeting or any adjournment or postponement thereof.

The Kratos board of directors unanimously recommends that Kratos stockholders vote "FOR" each of Kratos Proposal Nos. 1 and 2 above.

The Kratos board of directors has fixed June 17, 2011 as the record date for the determination of stockholders entitled to notice of, and to vote at, the Kratos special meeting and any adjournment or postponement thereof. Only holders of record of shares of Kratos common stock at the close of business on the record date are entitled to notice of, and to vote at, the Kratos special meeting. At the close of business on the record date, Kratos had outstanding and entitled to vote 23,884,442 shares of common stock.

Your vote is important. The affirmative vote of the holders of a majority of the shares of Kratos common stock present and entitled to vote either in person or by proxy on the applicable matter at the Kratos special meeting (assuming the presence of a quorum with respect to Kratos Proposal No. 1) is required for approval of Kratos Proposal Nos. 1 and 2.

All Kratos stockholders are cordially invited to attend the Kratos special meeting in person. **However, even if you plan to attend the Kratos special meeting in person, Kratos requests that you sign, date and return the enclosed proxy card to ensure that your shares of Kratos common stock will be represented at the Kratos special meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, all of your shares will be voted "FOR" Kratos Proposal Nos. 1 and 2. If you fail to return your proxy card, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the Kratos special meeting and will have no effect with respect to Kratos Proposal Nos. 1 and 2. If you do attend the Kratos special meeting and wish to vote in person, you may withdraw your proxy and vote in person.**

Pursuant to rules adopted by the Securities and Exchange Commission, Kratos has elected to provide access to the proxy materials of Kratos both by sending you this full set of proxy materials, including a proxy card, and by making a copy of the proxy materials available to you on the Internet. This joint proxy statement/prospectus and the Kratos 2010 Annual Report on Form 10-K are available at Kratos' website at www.kratosdefense.com.

This joint proxy statement/prospectus provides you with detailed information about the merger and the other business to be considered by the Kratos stockholders at the Kratos special meeting. **Kratos encourages you to read the entire document carefully. Please pay particular attention to the section entitled "Risk Factors" beginning on page 36 for a discussion of the risks related to the merger and to ownership of Kratos common stock after the merger is completed.**

By Order of the Board of Directors,

Eric DeMarco
President and Chief Executive Officer

June 21, 2011

IMPORTANT: Whether or not you expect to attend the Kratos special meeting, Kratos urges you to mark, sign, date and return the proxy card, or vote over the Internet or by telephone as instructed in these materials, as promptly as possible to ensure your representation at the Kratos special meeting. Even if you have voted by proxy, you may still vote in person if you withdraw your proxy and attend the Kratos special meeting. Please note, however, that if your shares are held of record by a broker or other nominee and you wish to vote at the Kratos special meeting, you must obtain a proxy issued in your name from the record holder prior to the Kratos special meeting.

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON JULY 26, 2011**

To the Stockholders of Integral Systems, Inc.:

You are invited to attend the special meeting of stockholders of Integral Systems, Inc., a Maryland corporation, which will be held on July 26, 2011 at 10:00 a.m., local time, at 6721 Columbia Gateway Drive, Columbia, Maryland 21046 for the following purposes:

1. To consider and vote upon a proposal to approve the merger of IRIS Merger Sub Inc., a wholly-owned subsidiary of Kratos Defense & Security Solutions, Inc., with and into Integral Systems, Inc. pursuant to the Agreement and Plan of Merger, dated as of May 15, 2011, by and among Kratos, Integral Systems, IRIS Merger Sub Inc., a wholly-owned subsidiary of Kratos, and IRIS Acquisition Sub LLC, a wholly-owned subsidiary of Kratos (the "**Merger Agreement**"), the Merger Agreement and the other transactions contemplated by the Merger Agreement;
2. To consider and vote upon, on an advisory (non-binding) basis, the golden parachute compensation arrangements for Integral Systems' named executive officers;
3. To consider and vote upon a proposal to adjourn the Integral Systems special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes in favor of Integral Systems Proposal No. 1 at the time of the Integral Systems special meeting; and
4. To consider and vote upon any other business as may properly come before the Integral Systems special meeting or any adjournment or postponement thereof.

The Integral Systems board of directors recommends that Integral Systems stockholders vote "FOR" Integral Systems Proposal Nos. 1, 2 and 3 above.

The Integral Systems board of directors has fixed June 17, 2011 as the record date for the determination of stockholders entitled to notice of, and to vote at, the Integral Systems special meeting and any adjournment or postponement thereof. Only holders of record of shares of Integral Systems common stock at the close of business on the record date are entitled to notice of, and to vote at, the Integral Systems special meeting. At the close of business on the record date, Integral Systems had outstanding and entitled to vote 17,806,768 shares of common stock. A list of the stockholders as of the record date will be available for inspection by stockholders, for any purpose germane to the Integral Systems special meeting, at Integral Systems' offices or the offices of Registrar & Transfer Co., Integral Systems' transfer agent, during normal business hours for a period of ten (10) days prior to the Integral Systems special meeting and at the special meeting.

Your vote is important. The affirmative vote of the holders of a majority of the shares of Integral Systems common stock outstanding and entitled to vote on the matter is required for approval of Integral Systems Proposal No. 1. The affirmative vote of a majority of the votes cast by the stockholders present in person or by proxy and entitled to vote at the Integral Systems special meeting (assuming the presence of a quorum) is required for approval, on an advisory basis, of Integral Systems Proposal No. 2 and for approval of Integral Systems Proposal No. 3.

All Integral Systems stockholders are cordially invited to attend the Integral Systems special meeting in person. **However, even if you plan to attend the Integral Systems special meeting in person, Integral Systems requests that you sign, date and return the enclosed proxy card and thus ensure that**

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your shares of Integral Systems common stock will be represented at the Integral Systems special meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, all of your shares will be voted "FOR" Integral Systems Proposal Nos. 1, 2 and 3. If you fail to sign, date and return your proxy card, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the Integral Systems special meeting and will have the same effect as an "AGAINST" vote with respect to Integral Systems Proposal No. 1 but no effect with respect to Integral Systems Proposal Nos. 2 and 3. If you do attend the Integral Systems special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

Integral Systems intends to mail these proxy solicitation materials on or about June 23, 2011 to all stockholders of record entitled to vote at the Integral Systems special meeting.

This joint proxy statement/prospectus (of which this notice of special meeting is a part) provides you with detailed information about the merger and the other business to be considered by the Integral Systems stockholders at the Integral Systems special meeting. Integral Systems encourages you to read the entire document carefully. **Please pay particular attention to the section entitled "Risk Factors" beginning on page 36 for a discussion of the risks related to the merger and to ownership of Kratos common stock after the merger is completed.**

By Order of the Board of Directors,

R. Miller Adams
Corporate Secretary

June 21, 2011

IMPORTANT: Whether or not you expect to attend the Integral Systems special meeting, Integral Systems urges you to mark, sign, date and return the proxy card, as promptly as possible to ensure your representation at the Integral Systems special meeting. Even if you have voted by proxy, you may still vote in person if you withdraw your proxy and attend the Integral Systems special meeting. Please note, however, that if your shares are held of record by a broker or other nominee and you wish to vote at the Integral Systems special meeting, you must obtain a proxy issued in your name from the record holder prior to the Integral Systems special meeting.

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**QUESTIONS AND ANSWERS ABOUT THE MERGER,
THE KRATOS SPECIAL MEETING AND THE INTEGRAL SYSTEMS SPECIAL MEETING**

The following are some questions that you, as a stockholder of Kratos Defense & Security Solutions, Inc. ("Kratos") and/or Integral Systems, Inc. ("Integral Systems"), may have regarding the Merger (as defined below), the Kratos special meeting or the Integral Systems special meeting, together with brief answers to those questions. Kratos and Integral Systems urge you to read carefully the remainder of this joint proxy statement/prospectus, including the annexes and other documents referred to in this joint proxy statement/prospectus, because the information in this section may not provide all of the information that might be important to you with respect to the Merger, the Kratos special meeting or the Integral Systems special meeting.

Q: What is the Merger?

A:

Kratos and Integral Systems have entered into an Agreement and Plan of Merger, dated as of May 15, 2011 (the "**Merger Agreement**"), that contains the terms and conditions of the proposed business combination of Kratos and Integral Systems. Pursuant to the terms of the Merger Agreement, (i) IRIS Merger Sub Inc., a wholly-owned subsidiary of Kratos ("**Merger Sub**"), will merge with and into Integral Systems, with Integral Systems surviving as a wholly-owned subsidiary of Kratos (the "**Merger**"), and (ii) following the Merger, but not later than December 31, 2011, Integral Systems, as the surviving corporation of the Merger, will merge with and into IRIS Acquisition Sub LLC, a wholly-owned subsidiary of Kratos ("**Merger LLC**"), with Merger LLC surviving and continuing as a wholly-owned subsidiary of Kratos (the "**LLC Merger**"). A full copy of the Merger Agreement is attached as Annex A to this joint proxy statement/prospectus. As a result of the Merger, Integral Systems will no longer be a publicly-held corporation.

Q: Why are Kratos and Integral Systems proposing to effect the Merger?

A:

Both Kratos and Integral Systems believe that the combination resulting from the Merger will create significant synergies and will establish the combined company as one of the most technologically oriented businesses in a growing and mission-critical national security priority area.

Q: Why am I receiving these materials?

A:

Kratos and Integral Systems are sending these materials to their respective stockholders to help them decide how to vote their shares of Kratos or Integral Systems common stock, as the case may be, with respect to the proposed Merger and the other matters to be considered at their respective stockholder meetings.

This document constitutes both a joint proxy statement of Kratos and Integral Systems and a prospectus of Kratos. It is a joint proxy statement because the boards of directors of both companies are soliciting proxies from their respective stockholders. It is a prospectus of Kratos because Kratos will use it in connection with the issuance of shares of its common stock in exchange for shares of Integral Systems common stock in connection with the Merger. This document contains important information about the Merger, the Kratos special meeting and the Integral Systems special meeting, and you should read it carefully.

Q: What will Integral Systems stockholders receive in the Merger?

A:

As a result of the Merger, holders of Integral Systems common stock will have the right to receive (i) \$5.00 in cash, without interest, and (ii) 0.588 shares of Kratos common stock for each share of Integral Systems common stock they own (the "**Exchange Ratio**"). For example, if you own 1,000 shares of Integral Systems common stock, upon completion of the Merger, you will have the right

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to receive \$5,000 plus 588 shares of Kratos common stock, less the amount of any tax withholding, in exchange for your Integral Systems shares.

No fractional shares of Kratos common stock will be issued to Integral Systems stockholders in connection with the Merger. Instead, Integral Systems stockholders will receive cash in lieu of any fractional share of Kratos common stock that they would otherwise be entitled to receive in connection with the Merger. For a more complete discussion of what Integral Systems stockholders will receive in connection with the Merger, see the section entitled "The Merger What Integral Systems Stockholders Will Receive in the Merger" beginning on page 44.

Q: Is the Exchange Ratio subject to adjustment based on changes in the prices of Kratos and/or Integral Systems common stock?

A:

No. The Exchange Ratio is fixed and no adjustments to the Exchange Ratio will be made based on changes in the price of either the Kratos common stock or Integral Systems common stock prior to the completion of the Merger. As a result of any such changes in stock price, the aggregate market value of the shares of Kratos common stock that the Integral Systems stockholders are entitled to receive at the time that the Merger is completed could vary significantly from the value of such shares on the date of this joint proxy statement/prospectus, the date of the Kratos special meeting, the date of the Integral Systems special meeting or the date on which the Integral Systems stockholders actually receive their shares of Kratos common stock.

For a more complete discussion of the Exchange Ratio, see the section entitled "The Merger What Integral Systems Stockholders Will Receive in the Merger" beginning on page 44.

Q: What will holders of Integral Systems stock options and restricted stock receive in the Merger?

A:

Each Integral Systems stock option (other than options under the Integral Systems employee stock purchase plan (the "**Integral Systems ESPP**")) will be fully vested as of immediately prior to the completion of the Merger.

In-the-money options. Upon completion of the Merger, each Integral Systems stock option that has an exercise price less than \$13.00 per share will, if the holder thereof elects in writing, be cancelled in exchange for an amount in cash, without interest, equal to the product of the total number of shares of Integral Systems common stock subject to such in-the-money option, multiplied by the aggregate value of the excess, if any, of \$13.00 over the exercise price per share subject to such option, less the amount of any tax withholding.

For example, if you hold an option to purchase up to 1,000 shares of Integral Systems common stock at an exercise price of \$12.00 per share, and have elected that such option be cancelled in exchange for cash as described in the preceding paragraph, upon completion of the Merger, such option will be exchanged for a cash payment of \$1,000, less the amount of any tax withholding. If the holder of an in-the-money option does not elect to receive the consideration described in the preceding paragraph then such option will be treated as an out-of-the-money option as described below.

Out-of-the-money options. Upon completion of the Merger, each Integral Systems stock option that has an exercise price equal to or greater than \$13.00 per share will be converted into an option to purchase Kratos common stock with (i) the number of shares subject to such option adjusted to equal the number of shares of Integral Systems common stock subject to such out-of-the-money option multiplied by 0.9559, rounded up to the nearest whole share and (ii) the per share exercise price under each such option adjusted by dividing the per share exercise price under such option by 0.9559 and rounding up to the nearest cent.

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For example, if you hold an option to purchase up to 1,000 shares of Integral Systems common stock at an exercise price of \$14.00 per share, from and after the completion of the Merger, such option may be exercised for 956 shares of Kratos common stock at an exercise price of \$14.65.

Restricted stock. Upon completion of the Merger, each share of restricted stock granted under an Integral Systems equity plan or otherwise, whether vested or unvested, that is outstanding immediately prior to the completion of the Merger will be cancelled and the holder thereof will be entitled to receive an amount in cash, without interest, equal to the product of the total number of restricted shares of Integral Systems common stock held by such holder, multiplied by \$13.00, less the amount of any tax withholding.

For a more complete discussion of what holders of Integral Systems stock options and restricted stock will receive in connection with the Merger, see the section entitled "The Merger Treatment of Integral Systems Stock Options and Restricted Stock" beginning on page 45.

Q: What if I am a participant in Integral Systems' employee stock purchase plan?

A:

If you are a participant in the Integral Systems ESPP, you may not alter your payroll deductions, other than to discontinue participation in the plan. Additionally, no offering period will commence prior to the completion of the Merger and any offering periods then in effect will be terminated immediately prior to the completion of the Merger. Any contributions you have under the plan as of immediately prior to the completion of the Merger will be refunded, without interest, following the completion of the Merger.

Q: What is required to complete the Merger?

A:

Kratos Stockholder Approval. To complete the Merger, Kratos stockholders must approve the issuance of Kratos common stock in connection with the Merger (the "**Kratos Share Issuance Proposal**"), which requires the affirmative vote of the holders of a majority of the shares of Kratos common stock present and entitled to vote either in person or by proxy on the matter at the Kratos special meeting (assuming the presence of a quorum) (such approval, the "**Kratos Stockholder Approval**").

Integral Systems Stockholder Approval. To complete the Merger, Integral Systems stockholders must approve the Merger, the Merger Agreement and the transactions contemplated thereby (the "**Integral Systems Merger Proposal**"), which requires the affirmative vote of the holders of a majority of the shares of Integral Systems common stock outstanding and entitled to vote on the matter at the Integral Systems special meeting (such approval, the "**Integral Systems Stockholder Approval**").

In addition to the receipt of the foregoing stockholder approvals, each of the other conditions to the completion of the Merger contained in the Merger Agreement must be satisfied or waived. For a more complete discussion of the conditions to the completion of the Merger under the Merger Agreement, see the section entitled "The Merger Agreement Conditions to the Completion of the Merger" beginning on page 110.

Q: Why is Integral Systems asking that its stockholders approve, on an advisory (non-binding) basis, certain compensation arrangements for Integral Systems' named executive officers?

A:

Rules adopted recently by the Securities and Exchange Commission (the "**SEC**") require that Integral Systems provide its stockholders with the opportunity to vote to approve, on an advisory (non-binding) basis, the compensation arrangements between Integral Systems and its named executive officers that are based on or that otherwise relate to the Merger. Approval of these compensation arrangements is not a condition to completion of the Merger, and the vote with

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respect to this proposal is advisory only. Accordingly, the vote will not be binding on Integral Systems or Kratos, or the board of directors or the compensation committees of Integral Systems or Kratos.

Q: What stockholder approvals are required for the adjournment of the Kratos special meeting, or the Integral Systems special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the Kratos Share Issuance Proposal or the Integral Systems Merger Proposal, as applicable?

A:

The holders of a majority of the shares of Kratos common stock, present and entitled to vote either in person or by proxy at the Kratos special meeting, must vote in favor of any adjournment of the Kratos special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the Kratos Share Issuance Proposal.

The affirmative vote of a majority of the votes cast by the Integral Systems stockholders present in person or by proxy and entitled to vote at the Integral Systems special meeting (assuming the presence of a quorum) is required for the adjournment of the Integral Systems special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the Integral Systems Merger Proposal.

Q: When do Kratos and Integral Systems expect to complete the Merger?

A:

Kratos and Integral Systems currently expect to complete the Merger in the third quarter of calendar year 2011. Completion of the Merger will only be possible, however, after all conditions to the completion of the Merger contained in the Merger Agreement are satisfied or waived, including after stockholder approvals are received at the Kratos special meeting and the Integral Systems special meeting and all required regulatory approvals are received. It is possible, therefore, that factors outside of either company's control could require them to complete the Merger at a later time or not complete it at all.

Q: How does the Kratos board of directors recommend that Kratos stockholders vote with respect to the Kratos Share Issuance Proposal and the adjournment of the Kratos special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the Kratos Share Issuance Proposal?

A:

The Kratos board of directors unanimously recommends that the Kratos stockholders vote "FOR" the Kratos Share Issuance Proposal and "FOR" the adjournment of the Kratos special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the Kratos Share Issuance Proposal.

Q: How does the Integral Systems board of directors recommend that Integral Systems stockholders vote with respect to the Integral Systems Merger Proposal, the advisory vote on golden parachute compensation arrangements for Integral Systems' named executive officers and the proposal to approve the adjournment of the Integral Systems special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes in favor of the Integral Systems Merger Proposal at the time of the Integral Systems special meeting?

A:

The Integral Systems board of directors recommends that Integral Systems stockholders vote "FOR" the Integral Systems Merger Proposal, "FOR" the proposal to approve, on an advisory (non-binding) basis, the golden parachute compensation arrangements for Integral Systems' named executive officers and "FOR" the proposal to adjourn the Integral Systems special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes in favor of the Integral Systems Merger Proposal at the time of the Integral Systems special meeting.

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Q: What risks should I consider in deciding whether to vote in favor of the Kratos Share Issuance Proposal or the Integral Systems Merger Proposal?

A: You should carefully review the section of this joint proxy statement/prospectus entitled "Risk Factors" beginning on page 36, which presents risks and uncertainties related to the Merger, the combined company and the business and operations of each of Kratos and Integral Systems.

Q: Does Kratos have the financial resources to fund the cash portion of the merger consideration?

A: Yes. Kratos will have sufficient funds to pay the cash portion of the merger consideration issuable in exchange for shares of Integral Systems common stock acquired pursuant to the Merger Agreement. In connection with the acquisition of Integral Systems, Kratos has been provided with firm commitments for a combination of bond and asset-based debt financing in an aggregate principal amount of up to \$145 million by KeyBank National Association ("**KeyBank**"), Jefferies Group, Inc. ("**Jefferies Group**") and Key Capital Corporation ("**Key Capital**"). Kratos does not have the ability to terminate the Merger Agreement or to refuse to effect the Merger if the bond and asset-based debt financing is not provided.

Q: What are the material federal income tax consequences of the Merger to me?

A: The transactions contemplated by the Merger Agreement, taken together, are intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "**Code**"), and it is a condition to the completion of the Merger that Kratos and Integral Systems each receive written opinions from their respective outside legal counsel regarding such qualification. Generally, assuming the transactions contemplated by the Merger Agreement qualify as a "reorganization", Integral Systems stockholders will only recognize gain (but not loss), determined separately for each identifiable block of shares of Integral Systems common stock (generally, Integral Systems common stock acquired at different prices or at different times) that is exchanged in the Merger, to the extent of the lesser of (i) the amount of cash received in the Merger with respect to such block and (ii) the excess, if any, of (a) the sum of the amount of cash and the fair market value of the Kratos common stock received in the Merger with respect to such block over (b) the Integral Systems stockholder's tax basis in its shares of Integral Systems common stock in such block. An Integral Systems stockholder generally will recognize gain or loss with respect to cash received in lieu of a fractional share of Kratos common stock in the Merger measured by the difference, if any, between the amount of cash received and the tax basis in such fractional share.

Tax matters are very complicated, and the tax consequences of the Merger to a particular Kratos or Integral Systems stockholder will depend in part on such stockholder's circumstances. Accordingly, Kratos and Integral Systems urge you to consult your own tax advisor for a full understanding of the tax consequences of the Merger to you, including the applicability and effect of federal, state, local and foreign income and other tax laws. For a more complete discussion of the material federal income tax consequences of the Merger, see the section entitled, "Material United States Federal Income Tax Consequences of the Merger" beginning on page 94.

Q: Do I have appraisal rights in connection with the Merger?

A: No. Neither Kratos stockholders, under Delaware law, nor Integral Systems stockholders, under Maryland law, will be entitled to exercise any appraisal rights in connection with the Merger.

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Q: When and where will the Kratos special meeting take place?

A:

The Kratos special meeting will be held on Tuesday, July 26, 2011 at 10:00 a.m., local time, at the offices of Paul, Hastings, Janofsky & Walker LLP located at 4747 Executive Drive, San Diego, California 92121.

Q: When and where will the Integral Systems special meeting take place?

A:

The Integral Systems special meeting will be held on Tuesday, July 26, 2011 at 10:00 a.m., local time, at 6721 Columbia Gateway Drive, Columbia, Maryland 21046.

Q: Who can attend and vote at the stockholder meetings?

A:

Kratos. All Kratos stockholders of record as of the close of business on June 17, 2011, the record date for the Kratos special meeting, are entitled to receive notice of and to vote at the Kratos special meeting.

Integral Systems. All Integral Systems stockholders of record as of the close of business on June 17, 2011, the record date for the Integral Systems special meeting, are entitled to receive notice of and to vote at the Integral Systems special meeting.

Q: As a Kratos stockholder, why am I receiving paper copies of Kratos' proxy materials when previously I received only a "Notice of Internet Availability of Proxy Materials" for the Kratos' annual stockholders' meeting?

A:

Under the rules of the SEC, Kratos is required to distribute paper copies of these proxy materials because of the subject matter of the business to be conducted at the special meeting.

Q: What do I need to do now and how do I vote?

A:

Kratos and Integral Systems urge you to read this joint proxy statement/prospectus carefully, including its annexes, and to consider how the Merger may affect you.

If you are a Kratos stockholder, you may provide your proxy instructions in any one of three ways. First, you may mail your signed Kratos proxy card in the enclosed return envelope. Alternatively, you may provide your proxy instructions by calling the toll-free call center set up for this purpose indicated on the enclosed Kratos proxy card and following the instructions provided. Please have your Kratos proxy card available when you call. Finally, you may provide your proxy instructions over the Internet by accessing the website indicated on the enclosed Kratos proxy card and following the instructions provided. Please have your Kratos proxy card available when you access the web page. Please provide your proxy instructions only once and as soon as possible so that your shares can be voted at the Kratos special meeting.

If you are an Integral Systems stockholder, you may provide your proxy instructions by mailing your signed and dated Integral Systems proxy card in the enclosed return envelope.

Q: What happens if I do not return a proxy card or otherwise provide proxy instructions or if I elect to abstain from voting?

A:

If you are a Kratos stockholder and you do not submit a proxy card, provide proxy instructions by telephone or over the Internet or vote at the Kratos special meeting, your shares will not be counted as present for the purpose of determining the presence of a quorum, which is required to transact business at the Kratos special meeting, and your actions will have no effect on the outcome of Kratos Proposal Nos. 1 (Kratos Share Issuance Proposal) or 2 (adjournment to solicit additional proxies, if necessary).

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If you are a Kratos stockholder and you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as present for the purpose of determining the presence of a quorum for the Kratos special meeting and all of your shares will be voted "FOR" Kratos Proposal Nos. 1 and 2. However, if you submit a proxy card or provide proxy instructions by telephone or over the Internet and affirmatively elect to abstain from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum for the Kratos special meeting, but will not be voted at the Kratos special meeting. As a result, your abstention will have the same effect as voting "AGAINST" Kratos Proposal Nos. 1 and 2.

If you are an Integral Systems stockholder and you do not submit a proxy card, your shares will not be counted as present for the purpose of determining the presence of a quorum, which is required to transact business at the Integral Systems special meeting, and your actions will have no effect on the outcomes of Integral Systems Proposal No. 2 (advisory vote on the golden parachute compensation arrangements for Integral Systems' named executive officers) and Integral Systems Proposal No. 3 (adjournment to solicit additional proxies, if necessary or appropriate) (assuming the presence of a quorum). However, your actions will have the same effect as voting "AGAINST" Integral Systems Proposal No. 1 (Integral Systems Merger Proposal).

If you are an Integral Systems stockholder and you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as present for the purpose of determining the presence of a quorum for the Integral Systems special meeting and all of your shares will be voted "FOR" Integral Systems Proposal Nos. 1, 2 and 3. However, if you submit a proxy card and affirmatively elect to abstain from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum for the Integral Systems special meeting, but will not be voted at the Integral Systems special meeting. As a result, your abstention will have the same effect as voting "AGAINST" Integral Systems Proposal No. 1, but will have no effect on the outcome of Integral Systems Proposal Nos. 2 and 3.

Q: If my shares are held in "street name" by a broker or other nominee, will my broker or nominee vote my shares for me?

A:

If your shares are held in "street name" in a stock brokerage account or by another nominee, you must provide the record holder of your shares with instructions on how to vote your shares. Please follow the voting instructions provided by your broker or other nominee. Please note that you may not vote shares held in street name by returning a proxy card directly to Kratos or Integral Systems or by voting in person at your special meeting unless you provide a "legal proxy," which you must obtain from your broker or other nominee.

Brokers or other nominees who hold shares in street name for a beneficial owner typically have the authority to vote in their discretion on "routine" proposals, even when they have not received instructions from the beneficial owner. However, brokers or other nominees are not allowed to exercise their voting discretion on matters that are "non-routine" without specific instructions from the beneficial owner. A "broker non-vote" is a vote that, in accordance with stock exchange rules, is not cast by a broker on a non-routine matter because the broker or other nominee has not received instructions from the beneficial owner of such shares as to how to vote on the particular proposal and the broker or other nominee does not have discretionary voting power on such proposal.

Under the rules of The NASDAQ Stock Market LLC, brokers or other nominees do not have discretionary authority to vote on the Kratos Share Issuance Proposal. Therefore, if you are a

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Kratos stockholder and you do not instruct your broker or other nominee on how to vote your shares:

your broker or other nominee may not vote your shares on the Kratos Share Issuance Proposal, and the resulting broker non-vote will have no effect on this proposal; and

your broker or other nominee may vote your shares on the proposal to adjourn the Kratos special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the Kratos Share Issuance Proposal.

Under the rules of The NASDAQ Stock Market LLC, brokers or other nominees do not have discretionary authority to vote on the Integral Systems Merger Proposal or the proposal to approve, on an advisory (non-binding) basis, the golden parachute compensation arrangements for Integral Systems' named executive officers. Therefore, if you are an Integral Systems stockholder and you do not instruct your broker or other nominee on how to vote your shares:

your broker or other nominee may not vote your shares on the Integral Systems Merger Proposal, and the resulting broker non-vote will have the same effect as a vote "AGAINST" this proposal;

your broker or other nominee may not vote your shares on the proposal to approve, on an advisory (non-binding) basis, the golden parachute compensation arrangements for Integral Systems' named executive officers, and the resulting broker non-vote will have no effect on the vote for this proposal; and

your broker or other nominee may vote your shares on the proposal to adjourn the Integral Systems special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes in favor of the Integral Systems Merger Proposal at the time of the Integral Systems special meeting.

Q: May I vote in person?

A:

If your shares of Kratos common stock or Integral Systems common stock are registered directly in your name with Kratos' or Integral Systems' transfer agent, respectively, you are considered, with respect to those shares, the "stockholder of record," and the proxy materials and proxy card are being sent directly to you by Kratos or Integral Systems, as applicable. If you are a Kratos stockholder of record, you may attend the Kratos special meeting and vote your shares in person, rather than signing and returning your proxy card or otherwise providing proxy instructions by telephone or over the Internet. If you are an Integral Systems stockholder of record, you may attend the Integral Systems special meeting and vote your shares in person, rather than signing and returning your proxy card.

If your shares of Kratos common stock or Integral Systems common stock are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in "street name," and these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you are also invited to attend the Kratos special meeting or the Integral Systems special meeting, as applicable. However, since a beneficial owner of shares held in street name is not the stockholder of record, you may not vote these shares in person at the Kratos special meeting or Integral Systems special meeting, as applicable, unless you obtain a "legal proxy" from the broker or other nominee that holds your shares giving you the right to vote the shares in person at the applicable stockholder meeting.

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Q: May I revoke or change my vote after I have sent in my proxy card or provided proxy instructions?

A:

Yes. You may revoke or change your vote at any time before your proxy is voted at the Kratos special meeting or Integral Systems special meeting, as applicable. You may do this in one of three ways. First, you may send a written notice to Kratos or Integral Systems, as applicable, stating that you would like to revoke your proxy. Second, you may submit new proxy instructions either on a new proxy card, or, if you are a Kratos stockholder, by telephone or over the Internet, as and if applicable. Third, you may attend the Kratos special meeting or Integral Systems special meeting, as applicable, and vote in person. Your attendance alone at the applicable stockholder meeting will not revoke your proxy. If you have instructed a broker or other nominee to vote your shares, you must follow the directions received from your broker or other nominee in order to change those instructions.

Q: What constitutes a quorum?

A:

Stockholders who hold a majority of the shares of Kratos common stock outstanding as of the close of business on the record date for the Kratos special meeting must be present either in person or by proxy in order to constitute a quorum to conduct business at the Kratos special meeting.

Stockholders who hold a majority of the shares of Integral Systems common stock outstanding as of the close of business on the record date for the Integral Systems special meeting must be present either in person or by proxy in order to constitute a quorum to conduct business at the Integral Systems special meeting.

Q: How do I vote my shares if I am a participant in Kratos' 401(k) Plan?

A:

The Kratos 401(k) Plan provides that the trustee of the plan will vote the shares of Kratos common stock that are not directly voted by the participants in the plan. If the trustee does not receive voting instructions from participants in the Kratos 401(k) Plan, the trustee may vote the shares of Kratos common stock under such plan in the same proportion as the shares voted by all other respective plan participants. If the trustee receives a signed but not voted proxy card, the trustee will vote such shares of Kratos common stock according to the recommendations of Kratos' board of directors.

Q: Who is paying for this proxy solicitation?

A:

Kratos and Integral Systems will generally share the cost and expense of preparing, filing, assembling, printing and mailing this joint proxy statement/prospectus, and any amendments thereto, the proxy card and any additional information furnished to Kratos stockholders and Integral Systems stockholders, as well as any fees paid to the SEC. Kratos and Integral Systems may also reimburse brokerage houses and other custodians, nominees and fiduciaries for their costs of soliciting and obtaining proxies from beneficial owners, including the costs of reimbursing brokerage houses and other custodians, nominees and fiduciaries for their costs of forwarding this joint proxy statement/prospectus and other solicitation materials to beneficial owners of shares held in street name. In addition, proxies may be solicited without extra compensation by directors, officers and employees of Kratos and Integral Systems by mail, telephone, fax, or other methods of communication. Kratos has retained Georgeson Inc. to assist Kratos in the solicitation of proxies from Kratos stockholders in connection with the Kratos special meeting. Georgeson Inc. will receive aggregate total fees estimated to be \$8,500, plus reimbursement of certain costs and expenses incidental to the solicitation of proxies and fees for the direct telephone solicitation of registered stockholders at a rate of \$6.00 per completed call (incoming and outgoing). Kratos has

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agreed to indemnify Georgeson Inc. against certain liabilities arising out of or in connection with its engagement. Integral Systems has retained D. F. King & Co., Inc. to assist Integral Systems in the solicitation of proxies from Integral Systems stockholders in connection with the Integral Systems special meeting. D. F. King & Co., Inc. will receive aggregate total fees estimated to be \$11,000, plus reimbursement of certain costs and expenses incidental to the solicitation of proxies. Integral Systems has agreed to indemnify D.F. King & Co., Inc. against certain liabilities arising out of or in connection with its engagement.

Q: Whom should I contact if I have any questions about the Merger, the Kratos special meeting or the Integral Systems special meeting?

A:

If you have any questions about the Merger, the Kratos special meeting or the Integral Systems special meeting, or if you need assistance in submitting your proxy or voting your shares or need additional copies of this joint proxy statement/prospectus or the enclosed proxy card, you should contact Kratos or Integral Systems, as applicable, or the proxy solicitation agent for the company in which you hold shares.

If you are a Kratos stockholder you should contact Kratos or Georgeson Inc., Kratos' proxy solicitor, and if you are an Integral Systems stockholder you should contact Integral Systems or D.F. King & Co., Inc., Integral Systems' proxy solicitor, at the applicable address and telephone number listed below below:

Georgeson Inc.
199 Water Street, 26th Floor
New York, New York 10038-3560
Banks and Brokers Call (212) 440-9800
All Others Call Toll-Free (888) 566-8006

D. F. King & Co., Inc.
48 Wall Street, 22nd Floor
New York, New York 10005
(212) 269-5550

or

or

Kratos Defense & Security Solutions, Inc.
4820 Eastgate Mall
San Diego, California 92121
Attention: Corporate Secretary
(858) 812-7300

Integral Systems, Inc.
6721 Columbia Gateway Drive
Columbia, Maryland 21046
Attention: Corporate Secretary
(443) 539-5008

Q: What if I hold stock of both Kratos and Integral Systems?

A:

If you are a stockholder of both Kratos and Integral Systems, you will receive two separate packages of proxy materials. A vote as an Integral Systems stockholder for the Integral Systems Merger Proposal will not constitute a vote as a Kratos stockholder for the Kratos Share Issuance Proposal, and vice versa. Therefore, please sign, date and return all proxy cards that you receive, whether from Kratos or Integral Systems, or you may submit a separate proxy as a stockholder of Kratos over the Internet or by telephone, as and if applicable.

Q: What happens if I sell my shares after the applicable record date but before the applicable special meeting?

A:

If you transfer your Kratos common stock or Integral Systems common stock after the applicable record date but before the date of the applicable meeting, you will retain your right to vote at the applicable special meeting (provided that such shares remain outstanding on the date of the applicable meeting). However, if you are an Integral Systems stockholder you will not have the right to receive any cash and shares of Kratos common stock in exchange for your former shares of Integral Systems common stock if and when the Merger is completed. In order to receive cash

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and shares of Kratos common stock in exchange for your shares of Integral Systems common stock, you must hold your Integral Systems common stock through the completion of the Merger.

Q: What do I do if I receive more than one joint proxy statement/prospectus or set of voting instructions?

A:

If you hold shares directly as a record holder and also in "street name" or otherwise through a nominee, or if you hold both shares of Kratos common stock and Integral Systems common stock, you may receive more than one joint proxy statement/prospectus and/or set of voting instructions relating to the Kratos special meeting or Integral Systems special meeting, as applicable. These should each be voted and/or returned separately in order to ensure that all of your shares are voted.

Q: Should I send in my stock certificates now?

A:

No. Please do not send any stock certificates with your proxy card.

If you are a holder of Integral Systems common stock, you will receive written instructions from Registrar & Transfer Co., the exchange agent for the Merger, after the Merger is completed regarding how to exchange your Integral Systems stock certificates for the cash merger consideration and certificates representing shares of Kratos common stock.

Kratos stockholders will not be required to exchange their stock certificates in connection with the Merger and should keep their stock certificates both now and after the Merger is completed.

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SUMMARY

This joint proxy statement/prospectus is being sent to Kratos stockholders and Integral Systems stockholders. This summary highlights selected information from this joint proxy statement/prospectus. It may not contain all of the information that is important to you with respect to the Kratos Share Issuance Proposal, the Integral Systems Merger Proposal or any other matter described in this joint proxy statement/prospectus. Kratos and Integral Systems urge you to read carefully this joint proxy statement/prospectus, as well as the documents attached to and referenced in this joint proxy statement/prospectus, to fully understand the Merger. In particular, you should read the Merger Agreement, the form of Kratos stockholder voting agreement and the form of Integral Systems stockholder voting agreement, which are described elsewhere in this joint proxy statement/prospectus and attached as Annexes A, B and C, respectively. In addition, Kratos and Integral Systems encourage you to read the information incorporated by reference into this joint proxy statement/prospectus, which includes important business and financial information about Kratos and Integral Systems that has been filed with the SEC. You may obtain the information incorporated by reference into this joint proxy statement/prospectus without charge by following the instructions in the section entitled "Where You Can Find Additional Information" beginning on page 173.

*When this joint proxy statement/prospectus refers to the "**combined company**," it means Kratos and its subsidiaries and Integral Systems and its subsidiaries, collectively, after completion of the Merger.*

The Companies

Kratos Defense & Security Solutions, Inc.

Kratos is a specialized national security business providing mission-critical products, services and solutions for U.S. national security priorities. Kratos' core capabilities are sophisticated engineering, manufacturing and system integration offerings for national security platforms and programs. Kratos' principal services are related to, but are not limited to, Command, Control, Communications, Computing, Combat Systems, Intelligence, Surveillance and Reconnaissance (C5ISR); related cybersecurity; cyberwarfare; information assurance and situational awareness solutions; 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, primarily for ballistic missile defense; public safety, critical infrastructure security and surveillance systems; modeling and simulation; unmanned aerial vehicle systems; and advanced network engineering and information technology services. Kratos offers its customers products, solutions, services and expertise to support their mission-critical needs by leveraging Kratos' skills across its core offering areas. Kratos' primary end customers are U.S. Federal Government agencies, including the Department of Defense ("**DoD**"), classified agencies, intelligence agencies, other national security agencies and homeland security related agencies.

Kratos is headquartered in San Diego, California and was incorporated in the state of New York on December 19, 1994 and began operations in March 1995. Kratos reincorporated in the state of Delaware in 1997. Kratos' principal offices are located at 4820 Eastgate Mall, San Diego, California, 92121 and its telephone number is (858) 812-7300. Kratos' principal website is www.kratosdefense.com. Kratos common stock is listed on the NASDAQ Global Select Market and trades under the symbol "KTOS". Additional information about Kratos and its subsidiaries is included in documents incorporated by reference into this joint proxy statement/prospectus. See the section entitled "Where You Can Find Additional Information" beginning on page 173.

Integral Systems, Inc.

Integral Systems applies almost 30 years of experience to providing integrated technology solutions for the aerospace and communications markets. Customers rely on the Integral Systems family of solution providers (Integral Systems, Inc., Integral Systems Europe, Lumistar, Inc., Newpoint

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Technologies, Inc., RT Logic, Integral Systems SATCOM Solutions, and SAT Corporation) to deliver products, systems, and services on time and on budget. Integral Systems' teams design and deliver innovative solutions combining customized products and services to address the specific needs of its customers. Integral Systems' solutions include: command and control, signal processing and data communications, enterprise network management, and communications information assurance. Integral Systems has developed and owns many of the key technologies used in its solutions.

Integral Systems is headquartered in Columbia, Maryland and was incorporated in Maryland in 1982. Integral Systems' principal offices are located at 6721 Columbia Gateway Drive, Columbia, Maryland 21046 and its telephone number is (443) 539-5008. Integral Systems' principal website is www.integ.com. Integral Systems common stock is listed on the NASDAQ Global Select Market and trades under the symbol "ISYS". Additional information about Integral Systems and its subsidiaries is included in documents incorporated by reference into this joint proxy statement/prospectus. See the section entitled "Where You Can Find Additional Information" beginning on page 173.

IRIS Merger Sub Inc.

Merger Sub is a wholly-owned subsidiary of Kratos and was incorporated in Maryland in May 2011, solely for the purpose of facilitating the Merger. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the Merger Agreement.

IRIS Acquisition Sub LLC

Merger LLC is a wholly-owned subsidiary of Kratos and was formed in Maryland in May 2011, solely for the purpose of facilitating the LLC Merger. Merger LLC has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the Merger Agreement.

The Merger

Each of the boards of directors of Kratos and Integral Systems has unanimously approved the combination of the businesses of Kratos and Integral Systems. Kratos and Integral Systems have entered into the Merger Agreement, which provides that, subject to the terms and conditions of the Merger Agreement and in accordance with the Maryland General Corporation Law (the "**MGCL**"), upon completion of the Merger, Merger Sub will merge with and into Integral Systems, with Integral Systems continuing as the surviving entity and as a wholly-owned subsidiary of Kratos.

What Integral Systems Stockholders Will Receive in the Merger

Each share of Integral Systems common stock that is issued and outstanding immediately prior to the effective time of the Merger (other than any shares of Integral Systems common stock held by Kratos, Merger Sub, or any wholly-owned subsidiary of Integral Systems, which will be cancelled upon completion of the Merger, and shares of Integral Systems restricted stock) will be converted into the right to receive (i) \$5.00 in cash, without interest, and (ii) 0.588 shares of Kratos common stock (such shares and cash, together with any cash in lieu of fractional shares of Kratos common stock paid in accordance with the Merger Agreement, the "**Merger Consideration**"). The Exchange Ratio is fixed and will not be adjusted based upon changes in the price of Integral Systems common stock or Kratos common stock prior to the completion of the Merger. As a result, the value of the shares of Kratos common stock that Integral Systems stockholders will receive in connection with the Merger will not be known before the Merger is completed and will fluctuate as the price of Kratos common stock fluctuates. No fractional shares of Kratos common stock will be issued to Integral Systems stockholders

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in connection with the Merger. Instead, Integral Systems stockholders will be entitled to receive cash in lieu of any fractional shares of Kratos common stock that they would otherwise be entitled to receive.

For a more complete discussion of what Integral Systems stockholders will receive in connection with the Merger, see the section entitled "The Merger What Integral Systems Stockholders Will Receive in the Merger" beginning on page 44.

Treatment of Integral Systems Stock Options and Restricted Stock

Each Integral Systems stock option (other than options under the Integral Systems ESPP), will be fully vested as of immediately prior to the completion of the Merger.

In-the-money options. Upon completion of the Merger, each Integral Systems stock option that has an exercise price less than \$13.00 per share will, if the holder thereof elects in writing, be cancelled in exchange for an amount in cash, without interest, equal to the product of the total number of shares of Integral Systems common stock subject to such in-the-money option, multiplied by the aggregate value of the excess, if any, of \$13.00 over the exercise price per share subject to such option, less the amount of any tax withholding. If the holder of an in-the-money option does not elect to receive the consideration described in the preceding sentence, then such option will be treated as an out-of-the-money option as described below.

Out-of-the-money options. Upon completion of the Merger, each Integral Systems stock option that has an exercise price equal to or greater than \$13.00 per share will be converted into an option to purchase Kratos common stock, with (i) the number of shares subject to such option adjusted to equal the number of shares of Integral Systems common stock subject to such out-of-the-money option multiplied by 0.9559, rounded up to the nearest whole share, and (ii) the per share exercise price under each such option adjusted by dividing the per share exercise price under such option by 0.9559 and rounding up to the nearest cent.

Restricted stock. Upon completion of the Merger, each share of restricted stock granted under an Integral Systems equity plan or otherwise, whether vested or unvested, that is outstanding immediately prior to the completion of the Merger will be cancelled and the holder thereof will be entitled to receive an amount in cash, without interest, equal to the product of the total number of restricted shares of Integral Systems common stock held by such holder, multiplied by \$13.00, less the amount of any tax withholding.

For a more complete discussion of the treatment of Integral Systems stock options and restricted stock, see the section entitled "The Merger Treatment of Integral Systems Stock Options and Restricted Stock" beginning on page 45.

Recommendations of the Kratos Board of Directors and its Reasons for the Merger

The Kratos board of directors has unanimously approved the Merger Agreement and the Merger. The Kratos board of directors has determined that the Merger Agreement and the Merger are advisable and fair to, and in the best interests of, Kratos and its stockholders, and therefore unanimously recommends that Kratos stockholders vote "FOR" the Kratos Share Issuance Proposal. In reaching these decisions, the Kratos board of directors considered a number of factors. See the section entitled "The Merger Recommendations of the Kratos Board of Directors and its Reasons for the Merger" beginning on page 56.

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Recommendations of the Integral Systems Board of Directors and its Reasons for the Merger

The Integral Systems board of directors has unanimously approved the Merger, the Merger Agreement and the transactions contemplated thereby. The Integral Systems board of directors has determined that the Merger Agreement and the Merger are advisable and fair to, and in the best interests of, Integral Systems and its stockholders, and therefore unanimously recommends that Integral Systems stockholders vote "FOR" the Integral Systems Merger Proposal. In reaching these decisions, the Integral Systems board of directors considered a number of factors. See the section entitled "The Merger Recommendations of the Integral Systems Board of Directors and its Reasons for the Merger" beginning on page 58.

Opinions of Financial Advisors

Kratos' Financial Advisor

Kratos retained Jefferies & Company, Inc. ("**Jefferies**") to act as its financial advisor in connection with the Merger and to render to the Kratos board of directors an opinion as to the fairness to Kratos of the Merger Consideration to be paid by Kratos to the holders of shares of Integral Systems common stock pursuant to the Merger Agreement. At the meeting of the Kratos board of directors on May 15, 2011, Jefferies rendered its opinion to the Kratos board of directors to the effect that, as of that date, and based upon and subject to the assumptions made, procedures followed, matters considered and limitations on the scope of the review undertaken by Jefferies set forth in its opinion, the Merger Consideration to be paid by Kratos to the holders of Integral Systems common stock pursuant to the Merger Agreement was fair, from a financial point of view, to Kratos.

Jefferies' opinion sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the scope of the review undertaken by Jefferies in rendering its opinion. **Jefferies' opinion was directed to the Kratos board of directors and addresses only the fairness, from a financial point of view and as of the date of the opinion, to Kratos of the Merger Consideration to be paid by Kratos to the holders of Integral Systems common stock pursuant to the Merger Agreement. It does not address any other aspects of the transaction and does not constitute a recommendation as to how any holder of Kratos common stock should vote on the transaction or any matter related thereto.**

Kratos encourages its stockholders to read Jefferies' opinion carefully and in its entirety. For a more complete discussion of the Jefferies opinion, see the section entitled "The Merger Opinion of Kratos' Financial Advisor" beginning on page 61. See also Annex D to this joint proxy statement/prospectus, which includes the full text of the Jefferies opinion.

Integral Systems' Financial Advisor

In connection with the Merger, the Integral Systems board of directors received a written opinion, dated May 15, 2011, from Integral Systems' financial advisors, Stone Key Partners LLC and Stone Key Securities LLC (together, "**Stone Key**"), as to the fairness, from a financial point of view and as of the date of such opinion, of the Merger Consideration to the holders of Integral Systems common stock. Holders of Integral Systems common stock are encouraged to read Stone Key's opinion carefully in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Stone Key. **Stone Key's opinion was provided for the benefit of the Integral Systems board of directors (solely in its capacity as such) in connection with, and for the purpose of, its evaluation of the Merger Consideration from a financial point of view and does not address any other aspect of the Merger. The opinion does not address the relative merits of the Merger as compared to other business strategies or transactions that might be available with respect to Integral Systems or Integral Systems' underlying business decision to effect the Merger. The opinion**

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does not constitute a recommendation to any Integral Systems stockholder as to how to vote or act with respect to the Merger.

For a more complete discussion of Stone Key's opinion, see the section entitled "The Merger Opinion of Integral Systems' Financial Advisor" beginning on page 70. See also Annex E to this joint proxy statement/prospectus, which includes the full text of Stone Key's opinion.

Interests of Directors and Executive Officers in the Merger

In considering the recommendations of the Kratos and Integral Systems boards of directors, you should be aware that certain directors and executive officers of Kratos and Integral Systems have interests in the Merger that are different from, or in addition to, the interests of the stockholders of Kratos and Integral Systems generally.

Kratos Directors and Executive Officers

Interests of the Kratos directors and executive officers relate to their continuing service as directors and executive officers of the combined company after the Merger is completed.

For a more complete discussion of the interests of the directors and executive officers of Kratos in the Merger, see the section entitled "The Merger Interests of Kratos Directors and Executive Officers in the Merger" beginning on page 87.

Integral Systems Directors and Executive Officers

Interests of the Integral Systems directors and executive officers relate to (i) severance payments, (ii) bonus payments, (iii) the treatment and accelerated vesting of Integral Systems options and restricted stock, and (iv) the right to continued indemnification and insurance coverage after the Merger is completed pursuant to the terms of the Merger Agreement.

For a more complete discussion of the interests of the directors and executive officers of Integral Systems in the Merger, see the section entitled "The Merger Interests of Integral Systems Directors and Executive Officers in the Merger" beginning on page 87.

Anticipated Accounting Treatment of the Merger

The Merger will be accounted for as a business combination under the acquisition method of accounting in accordance with U.S. generally accepted accounting principles ("GAAP"). Under GAAP, Kratos will be the deemed accounting acquiror and Integral Systems will be the deemed accounting acquiree. For a more complete discussion of the accounting treatment of the Merger, see the section entitled "The Merger Anticipated Accounting Treatment" beginning on page 91.

Financing Commitments

In connection with the acquisition of Integral Systems, Kratos has been provided with firm commitments for a combination of bond and asset-based debt financing in an aggregate principal amount of up to \$145 million by KeyBank, Jefferies Group and Key Capital. For a more complete discussion of Kratos' financing obligations in connection with the Merger, see the section entitled "The Merger Agreement Financing" beginning on page 109.

Material United States Federal Income Tax Consequences of the Merger

The transactions contemplated by the Merger Agreement, taken together, are intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and it is a condition to the completion of the Merger that Kratos and Integral Systems each receive written opinions from their

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respective outside legal counsel regarding such qualification. Generally, assuming the transactions contemplated by the Merger Agreement qualify as a "reorganization", Integral Systems stockholders will only recognize gain (but not loss), determined separately for each identifiable block of shares of Integral Systems common stock (generally, Integral Systems common stock acquired at different prices or at different times) that is exchanged in the Merger, to the extent of the lesser of (i) the amount of cash received in the Merger with respect to such block and (ii) the excess, if any, of (a) the sum of the amount of cash and the fair market value of the Kratos common stock received in the Merger with respect to such block over (b) the Integral Systems stockholder's tax basis in its shares of Integral Systems common stock in such block. An Integral Systems stockholder generally will recognize gain or loss with respect to cash received in lieu of a fractional share of Kratos common stock in the Merger measured by the difference, if any, between the amount of cash received and the tax basis in such fractional share.

Tax matters are very complicated, and the tax consequences of the Merger to a particular Kratos or Integral Systems stockholder will depend in part on such stockholder's circumstances. Accordingly, Kratos and Integral Systems urge you to consult your own tax advisor for a full understanding of the tax consequences of the Merger to you, including the applicability and effect of federal, state, local and foreign income and other tax laws. For a more complete discussion of the material federal income tax consequences of the Merger, see the section entitled, "Material United States Federal Income Tax Consequences of the Merger" beginning on page 94.

No Appraisal Rights

Neither Kratos stockholders, under Delaware law, nor Integral Systems stockholders, under Maryland law, will be entitled to exercise any appraisal rights in connection with the Merger. For a more complete discussion of stockholder appraisal rights relating to the Merger, see the section entitled "The Merger Appraisal Rights" beginning on page 92.

Regulatory Approvals

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "**HSR Act**"), and the rules and regulations promulgated thereunder, the Merger may not be completed until the required information and materials have been furnished to the Antitrust Division of the U.S. Department of Justice (the "**Antitrust Division**") and the U.S. Federal Trade Commission (the "**FTC**"), and until certain waiting period requirements have expired or been earlier terminated. Kratos and Integral Systems each filed notification and report forms under the HSR Act with the FTC and the Antitrust Division on May 20, 2011. On June 7, 2011, the FTC granted early termination of the waiting period under the HSR Act.

For a more complete discussion of the regulatory approvals relating to the Merger, see the section entitled "The Merger Regulatory Approvals Required for the Merger" beginning on page 92.

Conditions to the Completion of the Merger

The parties currently expect to complete the Merger in the third quarter of calendar year 2011. Completion of the Merger will only be possible, however, after all conditions to the completion of the Merger contained in the Merger Agreement are satisfied or waived, including after Kratos and Integral Systems receive stockholder approvals at their respective special meetings and receive all required regulatory approvals. It is possible, therefore, that factors outside of each company's control could require them to complete the Merger at a later time or not complete it at all.

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The obligations of Kratos and Integral Systems to complete the Merger are each subject to the satisfaction of the following conditions, subject, in some cases, to the exceptions or limitations contained in confidential disclosure schedules delivered to each party by the other:

receipt of the Kratos Stockholder Approval and the Integral Systems Stockholder Approval;

the expiration or termination of any waiting period under the HSR Act, which condition was satisfied on June 7, 2011, and the receipt of all consents required under applicable antitrust laws or the termination or expiration of any waiting periods thereunder;

the absence of any preliminary or permanent injunction, or other legal restraint which restricts, prohibits, or makes illegal consummation of the Merger or the other transactions contemplated by the Merger Agreement;

the effectiveness of the registration statement on Form S-4 of which this joint proxy statement/prospectus forms a part and the absence of any stop order or proceedings seeking a stop order; and

NASDAQ approval of the listing of the shares of Kratos common stock to be issued as the consideration for the Merger, subject to official notice of issuance.

Conditions to the Obligations of Kratos and Merger Sub

The obligations of Kratos and Merger Sub to effect the Merger are also subject to the satisfaction or waiver of the following conditions, subject, in some cases, to the exceptions or limitations contained in confidential disclosure schedules delivered to Kratos and Merger Sub by Integral Systems:

the representations and warranties of Integral Systems in the Merger Agreement shall be true and correct, except where the failure of any such representations and warranties to be so true and correct has not had, and would not reasonably be expected to have, a material adverse effect with respect to Integral Systems, with the exception of the representations and warranties related to capitalization, which shall be true and correct in all respects (other than de minimis inaccuracies);

Integral Systems shall have performed in all material respects each of the obligations required to be performed by it under the Merger Agreement at or prior to the effective time of the Merger;

Kratos shall have received a certificate signed by an executive officer of Integral Systems certifying as to the satisfaction of the conditions described in the preceding bullets;

the absence of any pending suit, action or proceeding commenced by any U.S. federal or state governmental or regulatory authority against Integral Systems, Kratos or any of their respective affiliates challenging or seeking to restrain or otherwise interfere with the consummation of the Merger or which would materially and adversely affect the right of the corporation surviving the Merger to own the assets or operate the business of Integral Systems;

the absence of any material adverse effect with respect to Integral Systems; and

receipt of an opinion of Paul, Hastings, Janofsky & Walker LLP to the effect that the Merger and the LLC Merger will be treated as a single reorganization within the meaning of Section 368(a) of the Code.

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Conditions to the Obligations of Integral Systems

The obligation of Integral Systems to effect the Merger is also subject to the satisfaction or waiver of the following conditions, subject, in some cases, to the exceptions or limitations contained in confidential disclosure schedules delivered to Integral Systems by Kratos:

the representations and warranties of Kratos in the Merger Agreement shall be true and correct, except where the failure of any such representations and warranties to be so true and correct, individually or in the aggregate, has not had, and would not reasonably be expected to have, a material adverse effect with respect to Kratos;

Kratos shall have performed in all material respects each of the obligations required to be performed by it under the Merger Agreement at or prior to the effective time of the Merger;

Integral Systems shall have received a certificate signed by an executive officer of Kratos certifying as to the satisfaction of the conditions described in the preceding bullets;

the absence of any material adverse effect with respect to Kratos; and

receipt of an opinion of Gibson, Dunn & Crutcher LLP to the effect that the Merger and the LLC Merger will be treated as a single reorganization within the meaning of Section 368(a) of the Code.

For a more complete discussion of the conditions to the completion of the Merger, see the section entitled "The Merger Agreement Conditions to the Completion of the Merger" beginning on page 110.

No Solicitation

In the Merger Agreement, each of Kratos and Integral Systems has agreed that it will not directly or indirectly:

initiate, solicit, knowingly encourage or facilitate any inquiries, proposals or offers with respect to, or the making or completion of, an alternative proposal for certain business transactions;

engage or participate in any negotiations concerning, or provide or cause to be provided any non-public information relating to it or any of its subsidiaries in connection with, or relating to, an actual or proposed alternative proposal, or otherwise encourage or facilitate any effort or attempt to make an alternative proposal;

approve, endorse or recommend, or enter into, any letter of intent, acquisition agreement, or other similar agreement relating to any alternative proposal;

amend or grant any waiver or release under any standstill or similar agreement;

in the case of Integral Systems, approve any transaction by which any third party would otherwise have become an "interested stockholder" under the MGCL; or

agree to take any of the foregoing actions.

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The Merger Agreement does not, however, prohibit either Kratos or Integral Systems from considering an alternative proposal from a third party prior to obtaining the requisite stockholder approval of the Kratos Share Issuance Proposal or Integral Systems Merger Proposal, as applicable, if specified conditions are met. For further discussion of the prohibition on solicitation of alternative proposals from third parties, see the section entitled "The Merger Agreement No Solicitation" beginning on page 106.

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Termination of the Merger Agreement

The Merger Agreement may be terminated and the Merger may be abandoned at any time prior to the completion of the Merger, including after the required Kratos Stockholder Approval and/or Integral Systems Stockholder Approval has been obtained:

by written consent which has been authorized by the board of directors of each of Kratos, Merger Sub and Integral Systems;

by either Kratos or Integral Systems if:

a court or other governmental or regulatory authority shall have issued a final and nonappealable order, decree or ruling or taken other final and nonappealable action restraining, enjoining or otherwise prohibiting the transactions contemplated by the Merger Agreement, subject to certain exceptions;

the Merger has not been completed within six months of the date of the Merger Agreement;

the meetings of the stockholders of Integral Systems and Kratos have been held (including any postponements or adjournments thereof) and either the required approval of the Integral Systems Merger Proposal or the Kratos Share Issuance Proposal has not been obtained at the respective stockholders meeting;

subject to certain cure provisions, if the other company's representations and warranties are inaccurate (disregarding all materiality qualifications) such that the conditions to the completion of the Merger relating to the accuracy of the other company's representations and warranties would not be satisfied; or

subject to certain cure provisions, if the other company has breached any of its covenants or obligations such that the conditions to the completion of the Merger relating to the performance of the other company's covenants would not be satisfied;

by Integral Systems if any of the following events occurs:

the Kratos board of directors withdraws or modifies its recommendation that the stockholders of Kratos vote for the Kratos Share Issuance Proposal;

Kratos or its board of directors (i) approves, adopts, endorses or recommends any alternative proposal or (ii) approves, adopts, endorses or recommends, or enters into or allows Kratos or any of its subsidiaries to enter into, a letter of intent or definitive agreement for an alternative proposal;

Kratos materially breaches its obligation to hold a stockholders meeting;

the Kratos board of directors fails to reaffirm its recommendation that the stockholders of Kratos vote for the Kratos Share Issuance Proposal within 10 business days after a written request from Integral Systems that such action be taken; or

Kratos or its board of directors publicly proposes any of the foregoing actions;

by Integral Systems if, at any time prior to receipt of the Integral Systems Stockholder Approval, the Integral Systems board of directors determines to enter into a definitive agreement with respect to an alternative proposal which the Integral Systems board of directors has determined to constitute a superior proposal; *provided*, that:

the Integral Systems board of directors has withdrawn or modified its recommendation that the stockholders of Integral Systems vote for the Integral Systems Merger Proposal or approved or otherwise recommended an alternative proposal;

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Integral Systems has simultaneously entered into a definitive agreement relating to the alternative proposal; and

Integral Systems has paid any amounts due pursuant to the termination fee provisions of the Merger Agreement;

by Kratos if any of the following events occurs:

the Integral Systems board of directors has withdrawn or modified its recommendation that the stockholders of Integral Systems vote for the Integral Systems Merger Proposal;

Integral Systems or its board of directors (i) approves, adopts, endorses or recommends any alternative proposal or (ii) approves, adopts, endorses or recommends, or enters into or allows Integral Systems or any of its subsidiaries to enter into, a letter of intent or definitive agreement for an alternative proposal;

Integral Systems materially breaches its obligation to hold a stockholders meeting;

the Integral Systems board of directors fails to reaffirm its recommendation that the stockholders of Integral Systems vote for the Integral Systems Merger Proposal within 10 business days after a written request from Kratos that such action be taken; or

Integral Systems or its board of directors publicly proposes any of the foregoing actions.

For further discussion of termination of the Merger Agreement, see the section entitled "The Merger Agreement Termination of the Merger Agreement" beginning on page 111.

Expenses and Termination Fees

Generally, all fees and expenses incurred in connection with the Merger Agreement will be paid by the party incurring such expenses. However, Kratos and Integral Systems will share equally all fees and expenses, other than attorneys' fees, incurred in connection with the filing, printing and mailing of the registration statement on Form S-4 and this joint proxy statement/prospectus. Kratos is responsible for all filing fees and other charges for the filings required under the HSR Act.

A reciprocal termination fee of \$9.3 million may be payable by either Kratos or Integral Systems to the other party upon the termination of the Merger Agreement under certain circumstances. For a more complete discussion of termination fees and expenses, see the section entitled "The Merger Agreement Expenses and Termination Fees" beginning on page 113.

Voting Agreements

In connection with the execution of the Merger Agreement, the directors (and certain of their affiliated entities) and certain executive officers of each of Kratos and Integral Systems entered into stockholder voting agreements, whereby each such individual has agreed to vote his or her shares of Kratos common stock or Integral Systems common stock, as applicable, in favor of the Kratos Share Issuance Proposal, in the case of Kratos' directors and executive officers, and in favor of the Integral Systems Merger Proposal, in the case of Integral Systems' directors and executive officers.

As of the date of the Merger Agreement, the shares of Kratos common stock and Integral Systems common stock beneficially owned by the directors (and certain of their affiliated entities) and certain executive officers of each of Kratos and Integral Systems (including shares of Kratos or Integral Systems restricted stock and common stock underlying options that are exercisable within 60 days following such date, as applicable)

and thus subject to the voting agreements constituted approximately 5.2% of the total issued and outstanding shares of Kratos common stock (including shares of Kratos restricted stock and common stock underlying options that are exercisable within 60 days following such date held by such persons) and approximately 12.4% of the total issued and outstanding shares of Integral Systems common

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stock (including shares of Integral Systems restricted stock and common stock underlying options that are exercisable within 60 days following such date held by such persons), respectively. As of June 15, 2011, the latest practicable date before the printing of this joint proxy statement/prospectus, the shares of Kratos common stock and Integral Systems common stock beneficially owned by the directors (and certain of their affiliated entities) and certain executive officers of each of Kratos and Integral Systems (including shares of Kratos or Integral Systems restricted stock and common stock underlying options that are exercisable within 60 days following such date, as applicable) and thus subject to the voting agreements constituted approximately 5.2% of the total issued and outstanding shares of Kratos common stock (including shares of Kratos restricted stock and common stock underlying options that are exercisable within 60 days following such date held by such persons) and approximately 13.5% of the total issued and outstanding shares of Integral Systems common stock (including shares of Integral Systems restricted stock and common stock underlying options that are exercisable within 60 days following such date held by such persons), respectively.

Additionally, the directors (and certain of their affiliated entities) and certain executive officers of both Kratos and Integral Systems have agreed to vote their shares of common stock against any alternative acquisition proposal related to Kratos or Integral Systems, as applicable, and against any action that would in any manner interfere with or impede the Merger or the Merger Agreement.

The stockholder voting agreements also provide, subject to certain exceptions, that the directors (and certain of their affiliated entities) and certain executive officers of Kratos and Integral Systems will not, among other things, sell, transfer or otherwise dispose of, or enter into any contract or other agreement with respect to the transfer of, any shares of Kratos common stock or Integral Systems common stock, as applicable, beneficially owned by them, or grant any proxies with respect to such shares. Such stockholders have also agreed not to take any actions that either Kratos or Integral Systems, as applicable, is prohibited from taking pursuant to the "no solicitation" provisions contained in the Merger Agreement.

The stockholder voting agreements will terminate upon the earliest to occur of (i) the termination of the Merger Agreement in accordance with its terms, (ii) the completion of the Merger, (iii) the date on which an amendment to the Merger Agreement is effected without the consent of the applicable (a) Integral Systems stockholder, to the extent that such amendment decreases the Merger Consideration or materially and adversely affects such Integral Systems stockholder or (b) Kratos stockholder, to the extent that such amendment increases the Merger Consideration or materially and adversely affects such Kratos stockholder, or (iv) with respect to the voting agreement between Integral Systems and the directors (and certain of their affiliated entities) and certain executive officers of Kratos, the date on which the Kratos board of directors withdraws its recommendation in favor of the Kratos Share Issuance Proposal in accordance with the terms of the Merger Agreement.

For a more complete discussion of the voting agreements, see the section entitled "The Voting Agreements" beginning on page 115.

Voting by Kratos and Integral Systems Directors and Executive Officers

As of June 15, 2011, the latest practicable date before the printing of this joint proxy statement/prospectus, directors and executive officers of each of (i) Kratos, and its affiliates, beneficially owned and were entitled to vote 1,348,681 shares of Kratos common stock (including shares of Kratos restricted stock and common stock underlying options that are exercisable within 60 days following such date), or approximately 5.6% of the shares of Kratos common stock outstanding on that date (including shares of Kratos restricted stock and common stock underlying options that are exercisable within 60 days following such date held by such persons) and (ii) Integral Systems, and its affiliates, beneficially owned and were entitled to vote 2,487,702.71 shares of Integral Systems common stock (including shares of Integral Systems restricted stock and common stock underlying options that are

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exercisable within 60 days following such date), or approximately 13.5% of the shares of Integral Systems common stock outstanding on that date (including shares of Integral Systems restricted stock and common stock underlying options that are exercisable within 60 days following such date held by such persons).

Pursuant to the voting agreements described above that were entered into between Kratos and the directors (and certain of their affiliated entities) and certain executive officers of Integral Systems, such directors (and certain of their affiliated entities) and officers of Integral Systems will vote their respective shares of Integral Systems common stock in favor of the Integral Systems Merger Proposal. Likewise, Integral Systems and the directors (and certain of their affiliated entities) and certain executive officers of Kratos entered in voting agreements and such directors (and certain of their affiliated entities) and officers of Kratos will vote their respective shares of Kratos common stock in favor of the Kratos Share Issuance Proposal. The directors (and certain of their affiliated entities) and applicable executive officers of each of Kratos and Integral Systems subject to such voting agreements collectively hold 1,251,777 shares of Kratos common stock (including shares of Kratos restricted stock and common stock underlying options that are exercisable within 60 days), or approximately 5.2% of the shares of Kratos common stock outstanding (including shares of Kratos restricted stock and common stock underlying options that are exercisable within 60 days held by such persons) and 2,487,702.71 shares of Integral Systems common stock (including shares of Integral Systems restricted stock and common stock underlying options that are exercisable within 60 days), or approximately 13.5% of the shares of Integral Systems common stock outstanding (including shares of Integral Systems restricted stock and common stock underlying options that are exercisable within 60 days held by such persons) as of June 15, 2011, the latest practicable date before the printing of this joint proxy statement/prospectus.

Rights of Integral Systems Stockholders Will Change as a Result of the Merger

Due to differences between the states of incorporation and the governing documents of Kratos and Integral Systems, Integral Systems stockholders receiving Kratos common stock in connection with the Merger will have different rights once they become Kratos stockholders. The material differences are described in detail under the section entitled "Comparison of Rights of Kratos Stockholders and Integral Systems Stockholders" beginning on page 154.

Risk Factors

In evaluating the Merger Agreement and the Merger, you should consider certain risks discussed in the section entitled "Risk Factors" beginning on page 36.

Matters to Be Considered at the Kratos Special Meeting and Integral Systems Special Meeting

Kratos Special Meeting

Date, Time and Place. The Kratos special meeting will be held on July 26, 2011 at 10:00 a.m., local time, at the offices of Paul, Hastings, Janofsky & Walker LLP located at 4747 Executive Drive, San Diego, California 92121.

Matters to be Considered at the Kratos Special Meeting. At the Kratos special meeting, and any adjournments or postponements thereof, Kratos stockholders will be asked to:

approve the Kratos Share Issuance Proposal;

approve the adjournment of the Kratos special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the Kratos Share Issuance Proposal; and

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conduct any other business as may properly come before the Kratos special meeting or any adjournment or postponement thereof.

Record Date. The Kratos board of directors has fixed the close of business on June 17, 2011 as the record date for determination of Kratos stockholders entitled to notice of, and to vote at, the Kratos special meeting and any adjournment thereof.

Required Vote. Approval of the Kratos Share Issuance Proposal and the adjournment of the Kratos special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the Kratos Share Issuance Proposal, require the affirmative vote of the holders of a majority of the shares of Kratos common stock present and entitled to vote either in person or by proxy on the matter at the Kratos special meeting (assuming the presence of a quorum with respect to Kratos Proposal No. 1). As of the close of business on the record date for the Kratos special meeting, there were 23,884,442 shares of Kratos common stock outstanding.

For additional information about the Kratos special meeting, see the section entitled "The Special Meeting of Kratos Stockholders" beginning on page 120.

Integral Systems Special Meeting

Date, Time and Place. The Integral Systems special meeting will be held on Tuesday, July 26, 2011 at 10:00 a.m., local time, at 6721 Columbia Gateway Drive, Columbia, Maryland 21046.

Matters to be Considered at the Integral Systems Special Meeting. At the Integral Systems special meeting, and any adjournments or postponements thereof, Integral Systems stockholders will be asked to:

consider and vote upon the Integral Systems Merger Proposal;

consider and vote upon, on an advisory (non-binding) basis, the golden parachute compensation arrangements for Integral Systems' named executive officers;

consider and vote upon the proposal to adjourn the Integral Systems special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes in favor of the Integral Systems Merger Proposal at the time of the Integral Systems special meeting; and

consider and vote upon any other business as may properly come before the Integral Systems special meeting or any adjournment or postponement thereof.

Record Date. The Integral Systems board of directors has fixed the close of business on June 17, 2011 as the record date for determination of Integral Systems stockholders entitled to notice of and to vote at the Integral Systems special meeting and any adjournment thereof.

Required Vote. Approval of the Integral Systems Merger Proposal requires the affirmative vote of the holders of a majority of the shares of Integral Systems common stock outstanding and entitled to vote on the matter at the Integral Systems special meeting (assuming the presence of a quorum). Approval of the proposal to approve, on an advisory (non-binding) basis, the golden parachute compensation arrangements for Integral Systems' named executive officers requires the affirmative vote of a majority of the votes cast by the stockholders present in person or by proxy and entitled to vote at the Integral Systems special meeting (assuming the presence of a quorum). Approval of the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes in favor of the Integral Systems Merger Proposal at the time of the Integral Systems special meeting requires the affirmative vote of a majority of the votes cast by the stockholders present in person or by proxy and entitled to vote at the Integral Systems special meeting (assuming the presence of a quorum). As of the close of business on the record date, there were 17,806,768 shares of Integral Systems common stock outstanding.

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For additional information about the Integral Systems special meeting, see the section entitled "The Special Meeting of Integral Systems Stockholders" beginning on page 130.

Litigation Relating to the Merger

Integral Systems, the members of the Integral Systems board of directors and Kratos are named as defendants in three lawsuits filed by Integral Systems stockholders purportedly on behalf of themselves and other stockholders of Integral Systems. Two of these lawsuits also assert derivative claims. Merger Sub and Merger LLC are named as defendants in two of the lawsuits. The complaints seek to enjoin consummation of the Merger or, in the event the Merger is completed, seek to rescind the Merger or recover monetary damages on behalf of Integral Systems stockholders caused by alleged breaches of fiduciary duties and each seeks recovery of attorney's fees and costs of the applicable lawsuit.

For additional information on the lawsuits, see the section entitled "The Merger Litigation Relating to the Merger" beginning on page 92.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF KRATOS

The following table sets forth Kratos' selected historical consolidated financial data as of the dates and for each of the periods indicated. The selected historical consolidated financial data for the fiscal years ended December 26, 2010, December 27, 2009 and December 28, 2008 and as of December 26, 2010 and December 27, 2009 is derived from Kratos' audited consolidated financial statements, which are incorporated by reference into this joint proxy statement/prospectus. The selected historical consolidated financial data for the fiscal years ended December 31, 2007 and December 31, 2006 and as of December 28, 2008, December 31, 2007 and December 31, 2006 is derived from Kratos' audited historical consolidated financial statements, which are not included or incorporated by reference into this joint proxy statement/prospectus. The selected historical consolidated financial data for the three months ended and as of March 27, 2011 and March 28, 2010 is derived from Kratos' unaudited condensed consolidated financial statements incorporated by reference into this joint proxy statement/prospectus. In Kratos' opinion, such unaudited condensed consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of its financial position and results of operations for such periods. Interim results for the three months ended and as of March 27, 2011 are not necessarily indicative of, and are not projections for, the results to be expected for the fiscal year ending December 25, 2011.

You should read the selected historical consolidated financial data below together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the consolidated financial statements and notes to the consolidated financial statements for the year ended December 26, 2010, included in Kratos' Annual Report on Form 10-K, and for the three months ended March 27, 2011, included in Kratos' Quarterly Report on Form 10-Q, each of which is incorporated by reference into this joint proxy statement/prospectus. See the section entitled "Where You Can Find Additional Information" beginning on page 173.

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	Fiscal Year Ended						Three Months Ended	
	December 31, 2006	December 31, 2007	December 28, 2008	December 27, 2009	December 26, 2010	March 28, 2010	March 27, 2011	
(All amounts except per share data in millions)								
Consolidated Statements of Operations Financial Data:								
Revenue	\$ 138.2	\$ 180.7	\$ 286.2	\$ 334.5	\$ 408.5	\$ 68.7	\$ 122.8	
Gross profit	26.2	29.7	58.2	69.3	90.0	15.3	27.4	
Operating income (loss) from continuing operations	(25.9)	(23.6)	(93.2)	(27.0)	23.1	3.6	1.4	
Provision (benefit) for income taxes	14.5	1.3	(0.7)	1.0	(12.7)	0.3	(1.2)	
Income (loss) from continuing operations	(41.2)	(27.2)	(104.0)	(38.3)	14.6	(0.4)	(3.8)	
Income (loss) from discontinued operations	(16.7)	(13.6)	(7.1)	(3.2)	(0.1)	0.6	0.3	
Net income (loss)	\$ (57.9)	\$ (40.8)	\$ (111.1)	\$ (41.5)	\$ 14.5	\$ 0.2	\$ (3.5)	
Income (loss) from continuing operations per common share								
Basic	\$ (5.56)	\$ (3.67)	\$ (11.18)	\$ (2.76)	\$ 0.88	\$ (0.02)	\$ (0.18)	
Diluted	\$ (5.56)	\$ (3.67)	\$ (11.18)	\$ (2.76)	\$ 0.87	\$ (0.02)	\$ (0.18)	
Income (loss) from discontinued operations per common share								
Basic	\$ (2.26)	\$ (1.84)	\$ (0.77)	\$ (0.23)	\$ (0.01)	\$ 0.04	\$ 0.01	
Diluted	\$ (2.26)	\$ (1.84)	\$ (0.77)	\$ (0.23)	\$ (0.01)	\$ 0.04	\$ 0.01	
Net income (loss) per common share								
Basic	\$ (7.82)	\$ (5.51)	\$ (11.95)	\$ (2.99)	\$ 0.87	\$ 0.02	\$ (0.17)	
Diluted	\$ (7.82)	\$ (5.51)	\$ (11.95)	\$ (2.99)	\$ 0.86	\$ 0.02	\$ (0.17)	
Weighted average shares								
Basic	7.4	7.4	9.3	13.9	16.6	15.9	21.3	
Diluted	7.4	7.4	9.3	13.9	16.9	15.9	21.3	

	As of						
	December 31, 2006	December 31, 2007	December 28, 2008	December 27, 2009	December 26, 2010	March 28, 2010	March 27, 2011
(all amounts in millions)							
Consolidated Balance Sheet Data:							
Cash and cash equivalents	\$ 5.6	\$ 8.9	\$ 3.7	\$ 9.9	\$ 10.8	\$ 6.3	\$ 45.5
Working capital	(3.8)	23.4	35.0	37.1	65.8	35.5	242.6
Total assets	337.7	335.3	312.4	241.6	536.1	225.9	983.4
Short-term debt	51.4	2.7	6.1	4.7	0.6	6.2	3.6
Long-term debt		74.0	76.9	51.6	226.1	48.3	517.5
Total stockholders' equity	\$ 187.1	\$ 167.2	\$ 146.9	\$ 124.9	\$ 169.9	\$ 126.2	\$ 247.9

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The following table sets forth Integral Systems' selected historical consolidated financial data as of the dates and for each of the periods indicated. The selected historical consolidated financial data for the fiscal years ended September 24, 2010, September 25, 2009 and September 30, 2008 and as of September 24, 2010 and September 25, 2009 is derived from Integral Systems' audited consolidated financial statements, which are incorporated by reference into this joint proxy statement/prospectus. The selected historical consolidated financial data for the fiscal years ended September 30, 2007 and 2006 and as of September 30, 2008, 2007 and 2006 is derived from Integral Systems' audited historical consolidated financial statements, which are not included or incorporated by reference into this joint proxy statement/prospectus. The consolidated financial data for each of the six months ended and as of April 1, 2011 and March 26, 2010 is derived from Integral Systems' unaudited consolidated financial statements incorporated by reference into this joint proxy statement/prospectus. In Integral Systems' opinion, such unaudited consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of its financial position and results of operations for such periods. Interim results for the six months ended and as of April 1, 2011 are not necessarily indicative of, and are not projections for, the results to be expected for the fiscal year ending September 30, 2011.

You should read the selected historical consolidated financial data below together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the consolidated financial statements and notes to the consolidated financial statements for the year ended September 24, 2010, included in Integral Systems' Annual Report on Form 10-K, and for the six months ended April 1, 2011 included in Integral Systems' Quarterly Report on Form 10-Q, each of which is incorporated by reference into this joint proxy statement/prospectus. See the section entitled "Where You Can Find Additional Information" beginning on page 173.

	Fiscal Years Ended			Six Months Ended			
	2006	September 30, 2007	2008	September 25, 2009	September 24, 2010	March 26, 2010	April 1, 2011
	(in thousands, except per share data)						
Statement of Operations Data:							
Revenue	\$ 116,531	\$ 128,654	\$ 160,170	\$ 159,933	\$ 177,895	\$ 78,032	\$ 97,820
Gross profit	37,809	42,346	61,998	53,784	68,606	33,938	28,233
Income (loss) from operations	17,556	16,892	25,096	103	(1,485)	2,340	(6,680)
Net income (loss)	\$ 12,339	\$ 12,826	\$ 18,174	\$ 1,105	\$ (2,396)	\$ 1,351	\$ (6,010)
Cash dividends declared per common share(1)	0.10	0.14			\$		
Income (loss) from continuing operations per share:							
Basic(1)	\$ 0.57	\$ 0.58	\$ 1.02	\$ 0.06	\$ (0.14)	\$ 0.08	\$ (0.34)
Diluted(1)	\$ 0.56	\$ 0.58	\$ 1.01	\$ 0.06	\$ (0.14)	\$ 0.08	\$ (0.34)
Weighted average number of common shares:							
Basic(1)	21,782	21,968	17,813	17,317	17,498	17,411	17,651
Diluted(1)	22,008	21,986	18,008	17,370	17,498	17,422	17,651

(1) For all periods presented, per share amounts have been adjusted to reflect the 2:1 stock split effected on August 25, 2008.

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	As of				As of			
	September 30,		September 25, September 24,		March 26,		April 1,	
	2006	2007	2008	2009	2010	2010	2011	
(all amounts in thousands)								
Balance Sheet Data:								
Cash and cash equivalents	\$ 24,659	\$ 23,894	\$ 15,026	\$ 5,698	\$ 2,625	\$ 16,699	\$ 5,317	
Working capital	74,716	39,008	35,273	47,208	12,703	19,934	9,425	
Total assets	166,851	136,061	147,203	178,324	217,821	213,753	220,215	
Long-term obligations, net of current				5,163	4,181	4,678	3,693	
Stockholders' equity	\$ 142,702	\$ 106,547	\$ 110,041	\$ 115,003	\$ 116,524	\$ 117,691	\$ 113,062	

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SUMMARY UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA

The following summary unaudited pro forma condensed combined financial data is intended to show how the Merger might have affected historical financial statements if the Merger had been completed at an earlier time and was prepared based on the historical financial results reported by Kratos and Integral Systems. The following should be read in conjunction with the section entitled "Unaudited Pro Forma Condensed Combined Financial Statements" beginning on page 140, and the audited and unaudited consolidated financial statements of Kratos and Integral Systems, which are incorporated by reference into this joint proxy statement/prospectus. See the section entitled "Where You Can Find Additional Information" beginning on page 173.

The Merger will be accounted for as a business combination under the acquisition method of accounting, with Kratos as the deemed accounting acquiror and Integral Systems as the deemed accounting acquiree. 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 Merger 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.

Since May 2010, Kratos has acquired Gichner Holdings, Inc. ("**Gichner**"), Henry Bros. Electronics, Inc. ("**HBE**") and Herley Industries, Inc. ("**Herley**"). The acquisition of each of Gichner, HBE and Herley was completed on May 19, 2010, December 15, 2010 and March 25, 2011, respectively. Kratos acquired approximately 94% of the total outstanding shares of Herley common stock in a tender offer on March 25, 2011 and acquired the remainder of the total outstanding shares of Herley common stock on March 30, 2011.

The summary unaudited pro forma condensed combined balance sheet as of March 27, 2011 combines the historical consolidated balance sheets of Kratos as of March 27, 2011 and Integral Systems as of April 1, 2011.

The summary unaudited pro forma condensed combined statements of operations for the three months ended March 27, 2011 combine the historical consolidated statements of operations of Kratos and Integral Systems for their respective three month periods ended March 27, 2011 and April 1, 2011, and the historical consolidated statements of operations of Herley for the three month period ended January 30, 2011. The summary unaudited pro forma condensed combined statements of operations for the year ended December 26, 2010 combine the historical consolidated statements of operations of Kratos and Integral Systems for their respective twelve months ended December 26, 2010 and December 31, 2010, respectively, of Herley for the twelve months ended January 30, 2011, of HBE for the nine months ended September 30, 2010, and of Gichner for the three months ended March 31, 2010, and gives pro forma effect to the Merger as if it had occurred on December 28, 2009. The operating results for the twelve-month period ended December 31, 2010 for Integral Systems were derived from the quarterly operating results and annual operating results of Integral Systems and the operating results for the twelve-month period ended January 30, 2011 for Herley were derived from the quarterly operating results and annual operating results of Herley. The pro forma results do not include the acquisitions by Kratos of DEI Services Corporation ("**DEI**") in August 2010, and Southside Container & Trailer LLC ("**Southside**") in December 2010, nor do they include Gichner's operating results from April 1, 2010 to May 19, 2010 or HBE's operating results from October 1, 2010 to December 15, 2010.

The historical consolidated financial data has been adjusted to give pro forma effect to events that are (i) directly attributable to the acquisitions of Gichner, HBE, Herley, and Integral Systems, (ii) factually supportable and (iii) with respect to the statements of operations, expected to have a continuing impact on the combined results. The pro forma adjustments are preliminary and based on Kratos management's estimates of the fair value and useful lives of the assets acquired and liabilities

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assumed and have been prepared to illustrate the estimated effect of such acquisitions and certain other adjustments. The unaudited pro forma condensed combined financial statements do not reflect revenue opportunities, synergies or cost savings that Kratos expects to realize after the acquisitions of Gichner, HBE, Herley, and Integral Systems. 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 of Gichner, HBE, Herley or Integral Systems. The unaudited pro forma condensed combined financial statements also do not reflect non-recurring charges or exit costs that may be incurred by Kratos, Gichner, HBE, Herley or Integral Systems in connection with the acquisitions thereof. There were no material transactions between Kratos, Gichner, HBE, Herley or Integral Systems 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 financial condition or results of operations that actually would have been realized had the entities been combined during the periods presented. In addition, as explained in more detail in the accompanying notes to the unaudited pro forma condensed combined financial statements (see the section entitled "Unaudited Pro Forma Condensed Combined Financial Statements" beginning on page 140), 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 Merger.

	Year ended December 26, 2010 (in millions, except per share data)	Three Months Ended March 27, 2011 (in millions, except per share data)
Statements of Operations Data:		
Revenues	\$ 883.3	\$ 226.8
Operating income from continuing operations	6.1	5.1
Loss from continuing operations	(42.0)	(9.1)
Loss per common share:		
Basic and diluted	(1.24)	(0.27)
Weighted average common shares outstanding:		
Basic and diluted	34.0	34.3

	As of March 27, 2011 (in millions)
Balance Sheet Data:	
Cash and cash equivalents	\$ 85.9
Property and equipment, net	83.5
Goodwill	528.1
Intangibles, net	166.0
Total assets	1,249.3
Long-term debt	619.3
Total stockholders' equity	361.3

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The following table sets forth certain historical, unaudited pro forma condensed combined and pro forma condensed combined equivalent financial information and reflects:

Kratos and Integral Systems Historical Data: the historical Kratos net income (loss) from continuing operations, book value per share and cash dividends per share of Kratos common stock and the historical Integral Systems net loss from continuing operations, book value per share and cash dividends per share of Integral Systems common stock;

Combined Company Pro Forma Data: the unaudited pro forma combined Kratos, including Gichner, HBE, Herley and Integral Systems, net loss from continuing operations after giving effect to the Merger on a purchase basis as if the Merger had been consummated on December 28, 2009, book value per share, and cash dividends after giving effect to the Merger on a purchase basis as if the Merger had been consummated on March 27, 2011; and

Integral Systems Pro Forma Equivalent Data: the unaudited pro forma Integral Systems equivalent share data, net loss from continuing operations, book value per share and cash dividends per share calculated by multiplying the unaudited pro forma combined data by the exchange ratio of 0.588.

The information below should be read in conjunction with the audited and unaudited consolidated financial statements of Kratos, Gichner, HBE, Herley, and Integral Systems referenced above and the accompanying notes to such financial statements, all of which are incorporated by reference into this joint proxy statement/prospectus. See the section entitled "Where You Can Find Additional Information" beginning on page 173. You are urged to also read the section entitled "Unaudited Pro Forma Condensed Combined Financial Statements" beginning on page 140.

	As of and for the Year Ended December 26, 2010	As of and for the Three Months Ended March 27, 2011
Kratos Historical Data		
Basic net income (loss) per share:	\$ 0.88	\$ (0.18)
Diluted net income (loss) per share	\$ 0.87	\$ (0.18)
Book value per share		\$ 11.64
Cash dividends		
Integral Systems Historical Data		
Basic and diluted net loss per share:	\$ (0.34)	\$ (0.12)
Book value per share		\$ 6.39
Cash dividends		
Combined Company Pro Forma Data		
Basic and diluted net loss per share:	\$ (1.24)	\$ (0.27)
Book value per share		\$ 10.53
Cash dividends		
Integral Systems Pro Forma Equivalent Data		
Basic and diluted net loss per share:	\$ (0.73)	\$ (0.15)
Book value per share		\$ 6.19
Cash dividends		

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The tables below set forth, for the quarters indicated, the high and low sales prices per share of Kratos common stock, which trades on the NASDAQ Global Select Market under the symbol "KTOS", and Integral Systems common stock, which trades on the NASDAQ Global Select Market under the symbol "ISYS". The prices per share of Kratos common stock have been retroactively restated to reflect the one-for-ten reverse stock split effected on September 10, 2009.

Kratos' fiscal year ends on the last Sunday of the year and interim fiscal periods end on the last Sunday of the last month of each calendar quarter. Integral Systems' fiscal year ends on the last Friday of September of each year and interim fiscal periods end on the Friday prior to the calendar quarter-end (the thirteenth week in the calendar quarter).

	Kratos Common Stock	
	High	Low
Fiscal Year 2009		
First Quarter	\$ 14.00	\$ 5.80
Second Quarter	\$ 9.40	\$ 6.50
Third Quarter	\$ 9.20	\$ 6.60
Fourth Quarter	\$ 11.90	\$ 6.01
Fiscal Year 2010		
First Quarter	\$ 15.00	\$ 9.27
Second Quarter	\$ 15.56	\$ 9.82
Third Quarter	\$ 12.00	\$ 9.36
Fourth Quarter	\$ 12.37	\$ 10.35
Fiscal Year 2011		
First Quarter	\$ 14.77	\$ 12.26

	Integral Systems Common Stock	
	High	Low
Fiscal Year 2009		
First Quarter	\$ 25.53	\$ 8.47
Second Quarter	\$ 14.10	\$ 7.39
Third Quarter	\$ 9.17	\$ 6.32
Fourth Quarter	\$ 9.63	\$ 6.01
Fiscal Year 2010		
First Quarter	\$ 9.45	\$ 6.68
Second Quarter	\$ 10.24	\$ 7.28
Third Quarter	\$ 10.25	\$ 5.93
Fourth Quarter	\$ 8.25	\$ 6.13
Fiscal Year 2011		
First Quarter	\$ 10.84	\$ 7.19
Second Quarter	\$ 13.40	\$ 9.50

Table of Contents**Dividends**

Kratos has never paid cash dividends on its common stock. Kratos currently intends to retain any future earnings to finance the growth and development of its business and, therefore, does not anticipate paying any cash dividends in the foreseeable future. In addition, Kratos' credit agreement restricts its ability to pay dividends. Any future determination to pay cash dividends will be at the discretion of Kratos' board of directors and will be dependent upon the future financial condition, results of operations, capital requirements, general business conditions and other relevant factors as determined by the Kratos board of directors.

Integral Systems did not pay dividends during the fiscal years ended September 24, 2010 or September 25, 2009. On December 5, 2007, Integral Systems' board of directors made a determination to cease the payment of dividends for the foreseeable future beginning with fiscal year 2008 in order to maximize Integral Systems' ability to invest in future research and development, marketing, and business development efforts and strategic acquisition efforts that, in the opinion of the Integral Systems board of directors, would result in a greater return for Integral Systems' stockholders. Under Integral Systems' credit agreement, the payment of cash dividends is prohibited unless Integral Systems obtains the consent of the majority of the lenders under the credit agreement.

Comparative Per Share Market Value Data

The following table presents the closing per share price of Kratos common stock and Integral Systems common stock each as reported on the NASDAQ Global Select Market on (i) May 13, 2011, the last trading day preceding public announcement that Kratos and Integral Systems had entered into the Merger Agreement and (ii) June 15, 2011, the latest practicable date before the printing of this joint proxy statement/prospectus.

The table also includes the equivalent closing per share price of Integral Systems common stock on those dates as determined by reference to the value of Merger Consideration to be received in respect of each share of Integral Systems common stock in the Merger (including the cash consideration of \$5.00 per share). These equivalent closing per share prices reflect the fluctuating value of the Kratos common stock that Integral Systems stockholders would receive in exchange for each share of Integral Systems common stock (together with the amount of cash to be paid per share of Integral Systems common stock) if the Merger had been completed on either of these dates, applying the exchange ratio of 0.588 shares of Kratos common stock for each share of Integral Systems common stock.

	Kratos Common Stock	Integral Systems Common Stock	Equivalent Integral Systems Price Per Share
May 13, 2011	\$ 13.01	\$ 13.01	\$ 12.65
June 15, 2011	\$ 10.82	\$ 11.33	\$ 11.36

The above table shows only historical comparisons. These comparisons may not provide meaningful information to Integral Systems stockholders in determining whether to approve the Integral Systems Merger Proposal. Integral Systems stockholders are urged to obtain current market quotations for Kratos common stock and Integral Systems common stock and to review carefully the other information contained in this joint proxy statement/prospectus or incorporated by reference into this joint proxy statement/prospectus. Historical stock prices are not indicative of future stock prices.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus and the other documents incorporated by reference into this joint proxy statement/prospectus contain or may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the fact that they do not relate strictly to historical or current facts. Statements that include words such as "may", "will", "project", "might", "expect", "believe", "anticipate", "intend", "could", "would", "estimate", "continue" or "pursue" or the negative of these words or other words or expressions of similar meaning may identify forward-looking statements. These forward-looking statements are found at various places throughout this joint proxy statement/prospectus and the other documents incorporated by reference and relate to a variety of matters, including but not limited to (i) the timing and anticipated completion of the proposed Merger, (ii) the benefits and synergies expected to result from the proposed Merger, (iii) the anticipated customer base for Kratos and Integral Systems following the completion of the proposed Merger and (iv) other statements that are not purely statements of historical fact. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the management of Kratos and Integral Systems, are not guarantees of performance and are subject to significant risks and uncertainty. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this joint proxy statement/prospectus and those that are incorporated by reference into this joint proxy statement/prospectus. In addition to the risk factors identified elsewhere, important factors that could cause actual results to differ materially from those described in forward-looking statements contained herein include, but are not limited to:

any operational or cultural difficulties associated with the integration of the businesses of Kratos and Integral Systems;

potential adverse reactions or changes to business relationships resulting from the announcement or completion of the proposed Merger;

unexpected costs, charges or expenses resulting from the proposed Merger;

litigation or adverse judgments relating to the proposed Merger;

risks relating to the completion of the proposed Merger, including the risk that the required stockholder approvals might not be obtained in a timely manner or at all or that other conditions to the completion of the Merger will not be satisfied;

the failure to realize anticipated synergies from the Merger or delay in the realization thereof;

any difficulties associated with requests or directions from governmental authorities resulting from their reviews of the Merger; and

any changes in general economic and/or industry-specific conditions.

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 36, the Annual Report on Form 10-K of Kratos for the fiscal year ended December 26, 2010, which was filed with the SEC on March 2, 2011, under the heading "Item 1A Risk Factors" and in the Annual Report on Form 10-K of Integral Systems for the fiscal year ended September 24, 2010, which was filed with the SEC on December 8, 2010, under the heading "Item 1A Risk Factors," and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by each of Kratos and Integral Systems.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this joint proxy statement/prospectus or, in the case of documents incorporated by reference, as of the date of those documents. Neither Kratos nor Integral Systems undertakes any obligation to publicly update or release any revisions to these forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this joint proxy statement/prospectus or to reflect the occurrence of unanticipated events, except as required by law.

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RISK FACTORS

In addition to the other information included and incorporated by reference into this joint proxy statement/prospectus, including the matters addressed in the section entitled "Cautionary Statement Regarding Forward-Looking Statements" beginning on page 35, you should carefully consider the following risk factors before deciding how to vote your shares of Kratos common stock at the Kratos special meeting and/or your shares of Integral Systems common stock at the Integral Systems special meeting. These factors should be considered in conjunction with the other information included by Kratos and Integral Systems in this joint proxy statement/prospectus. If any of the risks described below or in the documents incorporated by reference into this joint proxy statement/prospectus actually materialize, the businesses, financial condition, results of operations, prospects or stock prices of Kratos, Integral Systems and/or the combined company could be materially and adversely affected. See the section entitled "Where You Can Find Additional Information" beginning on page 173.

Risks Related to the Merger

Because the Exchange Ratio is fixed and will not be adjusted in the event of changes in the price of either Kratos' or Integral Systems' common stock, the market value of the shares of Kratos common stock to be received by the Integral Systems stockholders in connection with the Merger is subject to change prior to the completion of the Merger.

The Exchange Ratio is fixed such that each share of Integral Systems common stock will be converted into the right to receive 0.588 shares of Kratos common stock in connection with the Merger. No adjustments to this Exchange Ratio will be made based on changes in the price of either the Kratos common stock or the Integral Systems common stock prior to the completion of the Merger. Changes in stock price may result from a variety of factors, including, among others, general market and economic conditions, changes in Kratos' or Integral Systems' respective businesses, operations and prospects, market assessment of the likelihood that the Merger will be completed as anticipated or at all and regulatory considerations. Many of these factors are beyond Kratos' or Integral Systems' control.

As a result of any such changes in stock price, the market value of the shares of Kratos common stock that the Integral Systems stockholders will receive at the time that the Merger is completed could vary significantly from the value of such shares on the date of this joint proxy statement/prospectus, the date of the Kratos special meeting, the date of the Integral Systems special meeting or the date on which the Integral Systems stockholders actually receive their shares of Kratos common stock. For example, based on the range of closing prices of Kratos common stock during the period from May 13, 2011, the last trading day before the public announcement of the Merger, through June 15, 2011, the latest practicable date before the printing of this joint proxy statement/prospectus, the Exchange Ratio represented a market value ranging from a low of \$10.45 to a high of \$13.01 for each share of Kratos common stock and an implied value ranging from a low of \$11.14 to a high of \$12.65 per share of Integral Systems common stock, as determined by reference to the value of Merger Consideration to be received in respect of each share of Integral Systems common stock in the Merger (including the cash consideration of \$5.00 per share), as compared to the low and high closing price of Integral Systems common stock of \$11.15 and \$13.01, respectively, during that time period. Accordingly, at the time of the Kratos special meeting or the Integral Systems special meeting, as the case may be, neither the Kratos stockholders nor the Integral Systems stockholders, as the case may be, will know or be able to calculate the exact market value of the consideration the Integral Systems stockholders will receive upon completion of the Merger.

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The announcement and pendency of the Merger could have an adverse effect on Kratos' or Integral Systems' stock price, business, financial condition, results of operations or business prospects.

While neither Kratos nor Integral Systems is aware of any significant adverse effects to date, the announcement and pendency of the Merger could disrupt Kratos' and/or Integral Systems' businesses in the following ways, among others:

customers and other third-party business partners of Kratos or Integral Systems may seek to terminate and/or renegotiate their relationships with Kratos or Integral Systems as a result of the Merger, whether pursuant to the terms of their existing agreements with Kratos and/or Integral Systems or otherwise;

the attention of Kratos and/or Integral Systems management may be directed toward the completion of the Merger and related matters and may be diverted from the day-to-day business operations of their respective companies, including from other opportunities that might otherwise be beneficial to Kratos or Integral Systems; and

current and prospective employees may experience uncertainty regarding their future roles with the combined company, which might adversely affect Kratos' and/or Integral Systems' ability to retain, recruit and motivate key personnel.

Should they occur, any of these matters could adversely affect the stock prices of, or harm the financial condition, results of operations or business prospects of, Kratos and/or Integral Systems.

Some of the directors and executive officers of Kratos and Integral Systems have interests in the Merger that are different from, or in addition to, those of the other Kratos and Integral Systems stockholders.

When considering the recommendation by the Kratos board of directors that the Kratos stockholders vote "FOR" the Kratos Share Issuance Proposal and the recommendation by the Integral Systems board of directors that the Integral Systems stockholders vote "FOR" the Integral Systems Merger Proposal, the Kratos and Integral Systems stockholders should be aware that certain of the directors and executive officers of Kratos and Integral Systems have arrangements that provide them with interests in the Merger that are different from, or in addition to, those of the stockholders of Kratos and Integral Systems. For instance, in connection with the Merger, each director of the Kratos board of directors will continue to serve as a director of the combined company following the completion of the Merger. Likewise, Kratos' executive officers will also continue to serve as executive officers of the combined company following the completion of the Merger. See the section entitled "The Merger Interests of Kratos Directors and Executive Officers in the Merger" beginning on page 87.

The employees, including executive officers, and directors of Integral Systems may elect to have each of their in-the-money options converted into (i) \$13.00 in cash, without interest, less the applicable option exercise price and any tax withholding, or (ii) an option to purchase Kratos common stock, with (a) the number of shares subject to such option adjusted to equal the number of shares of Integral Systems common stock subject to such option multiplied by 0.9559, rounded up to the nearest whole share and (b) the per share exercise price under each such option adjusted by dividing the per share exercise price under such option by 0.9559 and rounding up to the nearest cent. As a result, if the value of the Kratos shares is less than \$13.00 per share, it may be more advantageous for the option holders to elect to receive cash in exchange for their options to purchase Integral Systems common stock, whereas if the value of the Kratos common stock is greater than \$13.00 per share, it may be more advantageous for them to elect to receive options to purchase Kratos common stock in exchange for their options to purchase Integral Systems common stock. Holders of outstanding Integral Systems common stock who are not employees or directors holding in-the-money stock options do not have these alternatives. As of June 15, 2011, the latest practicable date before the printing of this joint

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proxy statement/prospectus, there were outstanding in-the-money options to purchase 1,028,875 shares of Integral Systems common stock. Each Integral Systems stock option (other than options under the Integral Systems ESPP) will be fully vested as of immediately prior to the completion of the Merger. Upon completion of the Merger, employees and directors of Integral Systems who hold Integral Systems restricted stock granted under an Integral Systems equity plan or otherwise, whether vested or unvested, will be entitled to receive an amount in cash equal to the product of the total number of restricted shares of Integral Systems common stock held by such holder, multiplied by \$13.00, less the amount of any tax withholding.

In addition, in connection with the Merger, certain executive officers of Integral Systems will be entitled or eligible to receive certain additional cash and equity compensation. Upon the completion of the Merger, Paul G. Casner, Jr., the Chief Executive Officer and President of Integral Systems, is entitled to a change-in-control payment of \$1,000,000, less the amount of any excise taxes imposed under Section 4999 of the Code. After taking into account such excise taxes, it is estimated that Mr. Casner will receive approximately \$443,000 pursuant to the change-in-control payment agreement. Also upon completion of the Merger, Mr. Casner will receive \$550,000, subject to any withholding taxes, pursuant to a Noncompetition, Nonsolicitation and Confidentiality Agreement. Integral Systems' Chief Financial Officer and Treasurer, Christopher B. Roberts, will receive his base salary for six months if he is terminated without cause within the twelve-month period following the Merger. The Integral Systems board of directors has the discretion to award R. Miller Adams, General Counsel, Executive Vice President for Corporate Affairs and Corporate Secretary of Integral Systems, up to \$100,000 upon the completion of the Merger. The options of all Integral Systems' directors and executive officers are subject to the accelerated vesting described above.

The directors and executive officers of Integral Systems also have certain rights to indemnification and directors' and officers' liability insurance that will be provided by the combined company following the completion of the Merger. See the section entitled "The Merger Interests of Integral Systems Directors and Executive Officers in the Merger" beginning on page 87.

The boards of directors of each of Kratos and Integral Systems were aware of these potential interests and considered them in making their respective recommendations to approve the Kratos Share Issuance Proposal, with respect to the Kratos stockholders, and to approve the Integral Systems Merger Proposal, with respect to the Integral Systems stockholders.

The Merger Agreement contains provisions that could discourage or make it difficult for a third party to acquire Kratos or Integral Systems prior to the completion of the Merger.

The Merger Agreement contains provisions that make it difficult for Kratos or Integral Systems to entertain a third-party proposal for an acquisition of Kratos or Integral Systems. These provisions include the general prohibition on Kratos' and Integral Systems' soliciting or engaging in discussions or negotiations regarding any alternative acquisition proposal, and the requirement that Kratos and Integral Systems pay a termination fee of \$9.3 million to the other party if the Merger Agreement is terminated under certain circumstances. See the sections entitled "The Merger Agreement No Solicitation", "The Merger Agreement Board Recommendation" and "The Merger Agreement Expenses and Termination Fees" beginning on pages 106, 106 and 113, respectively.

These provisions might discourage an otherwise-interested third party from considering or proposing an acquisition of Kratos or Integral Systems, even one that may be deemed of greater value than the Merger to Kratos stockholders or Integral Systems stockholders, as applicable. Furthermore, even if a third party elects to propose an acquisition, the concept of a termination fee may result in that third party's offering of a lower value to Kratos stockholders or Integral Systems stockholders, as applicable, than such third party might otherwise have offered.

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Failure to complete the Merger could negatively impact Kratos' and Integral Systems' respective businesses, financial condition, results of operations or stock prices.

The completion of the Merger is subject to a number of conditions and there can be no assurance that the conditions to the completion of the Merger will be satisfied. If the Merger is not completed, Kratos and Integral Systems will be subject to several risks, including:

the current prices of Kratos and Integral Systems common stock may reflect a market assumption that the Merger will occur, meaning that a failure to complete the Merger could result in a decline in the price of the common stock of either or both companies;

Kratos or Integral Systems, as the case may be, may be required to pay a termination fee of \$9.3 million to the other party if the Merger Agreement is terminated under certain circumstances;

Kratos and Integral Systems are expected to incur substantial transaction costs in connection with the Merger whether or not the Merger is completed;

neither Kratos nor Integral Systems would realize any of the anticipated benefits of having completed the Merger; and

under the Merger Agreement, each of Kratos and Integral Systems is subject to certain restrictions on the conduct of its business prior to completing the Merger, which restrictions could adversely affect their ability to realize certain of their respective business strategies.

If the Merger is not completed, these risks may materialize and materially and adversely affect either or both companies' respective businesses, financial condition, results of operations or stock prices.

Obtaining required approvals necessary to satisfy the conditions to the completion of the Merger may delay or prevent completion of the Merger.

The completion of the Merger is conditioned upon the receipt of certain governmental authorizations, consents, orders or other approvals, including the expiration or termination of the waiting period under the HSR Act. Kratos and Integral Systems intend to pursue all required approvals in accordance with the Merger Agreement. No assurance can be given that the required approvals will be obtained and, even if all such approvals are obtained, no assurance can be given as to the terms, conditions and timing of the approvals or that they will satisfy the terms of the Merger Agreement. See the sections entitled "The Merger Agreement Conditions to the Completion of the Merger" and "The Merger Regulatory Approvals Required for the Merger" beginning on pages 110 and 92, respectively for a discussion of the conditions to the completion of the Merger.

Three lawsuits have been filed against Integral Systems, the members of the Integral Systems board of directors, Kratos, Merger Sub and Merger LLC challenging the Merger, and an adverse judgment in any of these lawsuits or similar lawsuits may prevent the Merger from becoming effective or from becoming effective within the expected timeframe.

Integral Systems, the members of the Integral Systems board of directors and Kratos are named as defendants in three purported class action lawsuits, two of which also assert derivative claims, brought by certain Integral Systems stockholders challenging the proposed merger and seeking, among other things, to enjoin the defendants from consummating the Merger on the agreed-upon terms. Merger Sub and Merger LLC are named as defendants in two of the lawsuits. See the section entitled "The Merger Litigation Relating to the Merger" beginning on page 92 for more information about the purported class action and derivative lawsuits related to the Merger. Similar lawsuits may be filed prior to the closing of the Merger. One of the conditions to the closing of the Merger is that no temporary

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restraining order, preliminary or permanent injunction or other judgment, order or decree or other legal restraint or prohibition issued by any court or other governmental entity prohibiting consummation of the Merger shall be in effect. As such, if the plaintiffs in any such lawsuits are successful in obtaining an injunction prohibiting the defendants from consummating the Merger on the agreed upon terms, the Merger may be prevented from becoming effective, or may not become effective within the expected timeframe.

Failure to complete the LLC Merger could result in Integral Systems stockholders being fully taxed on the Merger. In addition, if the IRS (or a court, in the event of an IRS challenge) determines that the Merger and the LLC Merger, taken together, do not qualify as a "reorganization" under Section 368(a) of the Code, Integral Systems stockholders may be fully taxed on the Merger.

While Kratos is obligated under the Merger Agreement to take all steps and actions required to effect the LLC Merger on or before December 31, 2011, it is possible that the LLC Merger may not be completed by this time or may not be completed at all. If the LLC Merger does not occur, the Merger will not qualify as a "reorganization" under Section 368(a) of the Code. Further, if the LLC Merger occurs after December 31, 2011, the Internal Revenue Service ("IRS") (or a court, in the event of an IRS challenge) may not treat the Merger and the LLC Merger, taken together, as a "reorganization" under Section 368(a) of the Code. If either the LLC Merger is not completed or the Merger and the LLC Merger, taken together, are not treated as a "reorganization" under Section 368(a) of the Code, then the Merger will be a fully taxable transaction, and Integral Systems stockholders would be required to recognize all of the gain or loss on their exchange of Integral Systems shares for the consideration received in the Merger. See the section entitled "Material United States Federal Income Tax Consequences of the Merger" beginning on page 94 for a discussion of the tax treatment of Integral Systems stockholders.

Risks Related to the Combined Company if the Merger Is Completed

The failure to integrate successfully the businesses of Kratos and Integral Systems in the expected timeframe would adversely affect the combined company's future results following the completion of the Merger.

The success of the Merger will depend, in large part, on the ability of the combined company following the completion of the Merger to realize the anticipated benefits from combining the businesses of Kratos and Integral Systems. To realize these anticipated benefits, the combined company must successfully integrate the businesses of Kratos and Integral Systems. This integration will be complex and time-consuming.

The failure to integrate successfully and to manage successfully the challenges presented by the integration process may result in the combined company's failure to achieve some or all of the anticipated benefits of the Merger.

Potential difficulties that may be encountered in the integration process include the following:

lost sales and customers as a result of customers of either of the two companies deciding not to do business with the combined company;

complexities associated with managing the larger, more complex, combined business;

integrating personnel from the two companies while maintaining focus on providing consistent, high quality products and services;

potential unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the Merger; and

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performance shortfalls at one or both of the companies as a result of the diversion of management's attention caused by completing the Merger and integrating the companies' operations.

The combined company's future results will suffer if the combined company does not effectively manage its expanded operations following the Merger.

Following the Merger, the size of the combined company's business will be significantly larger than the current businesses of Kratos and Integral Systems. The combined company's future success depends, in part, upon its ability to manage this expanded business, which will pose substantial challenges for the combined company's management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. Neither Kratos nor Integral Systems can assure you that the combined company will be successful or that the combined company will realize the expected operating efficiencies, annual net operating synergies, revenue enhancements and other benefits currently anticipated to result from the Merger.

The loss of key personnel could have a material adverse effect on the combined company's business, financial condition or results of operations.

The success of the Merger will depend in part on the combined company's ability to retain key Kratos and Integral Systems employees who continue employment with the combined company after the Merger is completed. It is possible that these employees might decide not to remain with the combined company after the Merger is completed. If these key employees terminate their employment, the combined company's sales, marketing or development activities might be adversely affected, management's attention might be diverted from successfully integrating Integral Systems' operations to recruiting suitable replacements and the combined company's business, financial condition or results of operations could be adversely affected. In addition, the combined company might not be able to locate suitable replacements for any such key employees who leave the combined company or offer employment to potential replacements on reasonable terms.

The success of the combined company will also depend on relationships with third parties and pre-existing customers of Kratos and Integral Systems, which relationships may be affected by customer preferences or public attitudes about the Merger. Any adverse changes in these relationships could adversely affect the combined company's business, financial condition or results of operations.

The combined company's success will be dependent on the ability to maintain and renew relationships with pre-existing customers and other clients of both Kratos and Integral Systems and to establish new client relationships. There can be no assurance that the business of the combined company will be able to maintain pre-existing customer contracts and other business relationships, or enter into or maintain new customer contracts and other business relationships, on acceptable terms, if at all. The failure to maintain important customer relationships could have a material adverse effect on the business, financial condition or results of operations of the combined company.

Future results of the combined company may differ materially from the unaudited pro forma financial statements presented in this joint proxy statement/prospectus and the financial forecasts prepared by Kratos and Integral Systems in connection with discussions concerning the Merger.

The future results of the combined company may be materially different from those shown in the unaudited pro forma condensed combined financial statements presented in this joint proxy statement/prospectus, which show only a combination of the historical results of Kratos and Integral Systems, and the financial forecasts prepared by Kratos and Integral Systems in connection with discussions concerning the Merger. Kratos expects to