

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): **February 10, 2011**

**Kratos Defense & Security Solutions, Inc.**

(Exact Name of Registrant as Specified in Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation)

**0-27231**  
Commission  
File Number

**13-3818604**  
(I.R.S. Employer  
Identification Number)

**4820 Eastgate Mall, San Diego, CA 92121**  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(858) 812-7300**

**N/A**  
(Former Name, or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 7.01. Regulation FD Disclosure.**

The attached power-point presentation includes slides from an investor presentation conducted by Kratos Defense & Security Solutions, Inc. (the "Company"), on February 10, 2011, at the S.G. Cowen 32nd Annual Aerospace/Defense Conference, related to the Company's business and its pending acquisition of Herley Industries, Inc. ("Herley"). The power point presentation is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

The information in this Item 7.01 and Exhibit 99.1 to this Current Report on Form 8-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

Additional Information and Where to Find It

No statement in this document or the attached exhibit is an offer to purchase or a solicitation of an offer to sell securities. The tender offer for the shares of Herley common stock has not commenced. The Company intends to file a tender offer statement on Schedule TO with the SEC, and Herley also intends to file a solicitation/recommendation statement on Schedule 14D-9, with respect to the tender offer described in this Current Report on Form 8-K and the exhibit attached hereto. Any offers to purchase or solicitations of offers to sell will be made only pursuant to such tender offer statement. The tender offer statement (including an offer to purchase, a related letter of transmittal and other offer documents) and the related solicitation/recommendation statement will contain important information, including the various terms of, and conditions to, the tender offer, that should be read carefully by Herley's stockholders before they make any decision with respect to the tender offer. Such materials, when prepared and ready for release, will be made available to Herley's stockholders at no expense to them. In addition, at such time such materials (and all other offer documents filed with the SEC) will be available at no charge on the SEC's Web site: [www.sec.gov](http://www.sec.gov) and may also be obtained by directing a request to the Corporate Secretary of Kratos Defense & Security Solutions, Inc., at (858) 812-7300.

**Forward-Looking Statements**

Certain statements in this Current Report on Form 8-K and in the power-point presentation attached hereto may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the management of the Company and Herley and are subject to significant risks and uncertainty. Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and neither the Company nor Herley undertakes any obligation to update or revise these statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from the forward-looking statements contained herein include, but are not limited to: any operational or cultural difficulties associated with the integration of the businesses of the Company and Herley; potential adverse reactions or changes to business relationships resulting from the announcement or completion of the proposed acquisition of Herley; unexpected costs, charges or expenses resulting from the proposed acquisition of Herley; litigation or adverse judgments relating to the proposed acquisition of Herley; risks relating to the consummation of the proposed acquisition of Herley, including the risk that the closing conditions to the proposed acquisition of Herley will not be satisfied; the failure to realize synergies and cost savings from the transaction or delay in realization thereof; any difficulties associated with requests or directions from governmental authorities resulting from their reviews of the transaction; 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 Company’s Annual Report on Form 10-K for the year ended December 27, 2009, which was filed with the SEC on March 11, 2010, under the heading “Item 1A—Risk Factors” and in the Annual Report on Form 10-K of Herley for the year ended August 1, 2010, which was filed with the SEC on October 14, 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 the Company and Herley.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**Kratos Defense & Security Solutions, Inc.**

By: /s/ Laura Siegal  
Laura Siegal  
Vice President, Corporate Controller

Date: February 10, 2011



*DEFENSE & SECURITY SOLUTIONS*

**KRATOS**<sup>®</sup>  
FROM STRENGTH TO SUCCESS

Kratos Defense & Security Solutions, Inc.  
(NASDAQ: KTOS)

Investor Presentation  
February 2011



NASDAQ: KTOS

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# Kratos



## Kratos Defense & Security Solutions (NASDAQ: KTOS):

- Kratos is a specialized National Security Company providing Mission Critical Products, Services and Solutions for United States National Security
- Primary customers include the U.S. Department of Defense (DoD), Intelligence, National Security and other Federal Government agencies
- Headquartered in San Diego, CA
  - Engineering and Technical workforce of ~2,800
  - Majority of Kratos' work force hold an active National Security clearance, including Secret, Top Secret and Higher
- Experienced management team which has previously built a large National Security business and delivered significant shareholder value



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## Kratos – Primary Capabilities and Focus Areas



### Command, Control, Communications, Computers Intelligence, Surveillance and Reconnaissance (C4ISR)

#### Command and Control



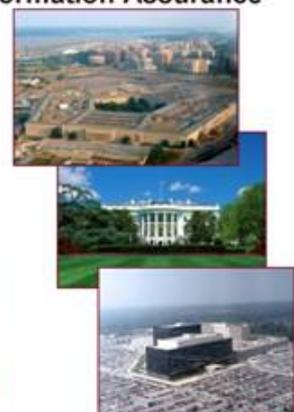
#### Intelligence, Surveillance & Reconnaissance



#### Unmanned Systems



#### Cyber Security & Information Assurance



### Ballistic Missile Defense



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# Kratos – C4ISR



## Representative Kratos Customers:



Missile Defense Agency



Classified Programs



Defense Threat Reduction Agency



Space & Naval Warfare Systems Command



Space & Missile Defense Command

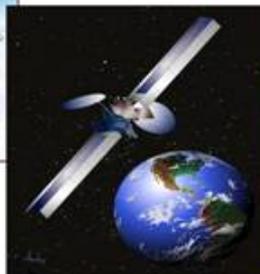


Port of Long Beach

Kratos supports National Security agencies and Military Commanders in identifying, prioritizing and achieving strategic and tactical objectives:

- Computer based systems
- Computer controlled systems
- Decision theoretic systems & methods
- Specialized tools and techniques
- Modeling and simulation
- Information Assurance/Cyber

*Information  
Dominance*



## Representative Programs:

Space and Missile Defense Command (SMDC)

- Command and Control System Design
- Command and Control System Mission Effectiveness – Modeling & Simulation



Army Aviation and Missile Research Development and Engineering Center (AMRDEC)

- Command and Control Program work for various missile systems, weapons systems, targeting, etc.

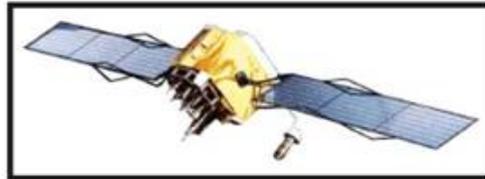
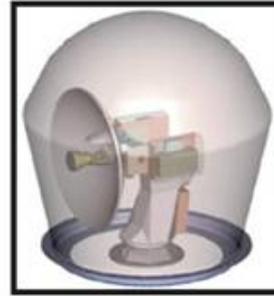


# Kratos – C4ISR



## Representative Programs:

- Various Unmanned Systems
- Center for Information Dominance (CID) - Classified
- Maritime Surveillance Systems
- Advanced EHF (AEHF) Satellite Terminal
- Navy Multi-Band Terminal (NMT)
- Mobile User Objective Comm System (MUOS)
- Navy Command and Control Programmatic, Technical and Engineering Support - Classified
- Low Band Universal Communications System (LBUCS)
- Horizontal Integration Data Environment (HIDE)
- Commercial Broadband Satellite Program (CBSP)
- Other - Classified



# Kratos – C4ISR



## Representative Programs:

- Submarine C4ISR Systems:
  - Fire Control Systems
  - Acoustic Rapid Advanced Tactical System (ATS)
  - Integrated Augmentation Display (IAD)
  - Automatic Identification System (AIS)
  - Total Ship Monitoring System (TSMS)
  - Rapid Technical Insertion (RTI)



# Kratos – C4ISR

**KRATOS**  
FROM STRENGTH TO SUCCESS



Defense Threat Reduction Agency



➤ *Combating Weapons of Mass Destruction*

U.S. Strategic Command



➤ *Chemical and Biological Defense*

Defense Advanced Research Project Agency



➤ *Modeling and Simulation*

➤ *Plume Analysis*



# Kratos – C4ISR

## Representative Programs:

M1 Tank



Bradley Fighting Vehicle



KIOWA Helicopter



TOW Missile



Black Hawk Helicopter



Chaparral STA Missile



Kratos engineers, deploys and integrates C4ISR, training and integrated weapon systems on various platforms

# Kratos – C4ISR



Protecting Critical Infrastructure In The United States

# Kratos – C4ISR



## Command and Control Center Design, Engineering, Deployment & Operation, ISR Element Integration

### Integration of all critical elements of the C&C Environment

- Access Control – Biometrics
- Surveillance Systems
- Radiation, Chem/Bio Sensors
- Video Cameras
- Thermal Imaging Systems
- Video Walls and monitor clusters
- IT Integration
- Information Assurance/Cyber



### Representative Customers

- Dept of Defense
- Other Federal Agencies - Classified
- Command Center for the Brooklyn Battery Tunnel
- PATH HOBAN Train Control Center
- New transportation center in Jersey City, NJ

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# Kratos – C4ISR



Kratos designs and delivers ISR products, technologies and solutions for various deployed and in-development Weapon, Space Based and Unmanned Systems, including specialized sensor technologies such as Electro Optical/Infrared, Photonic, Other Exotic and Classified



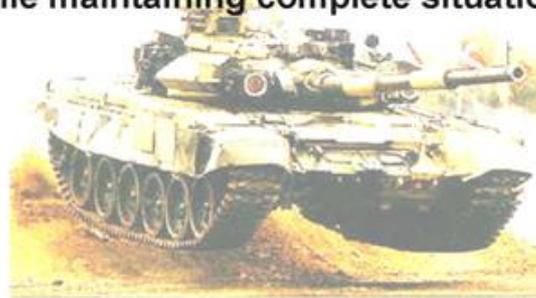
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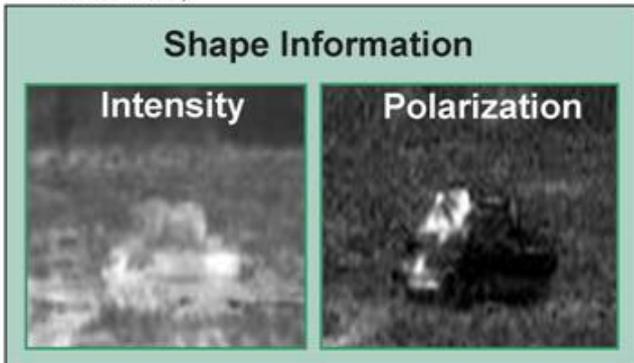
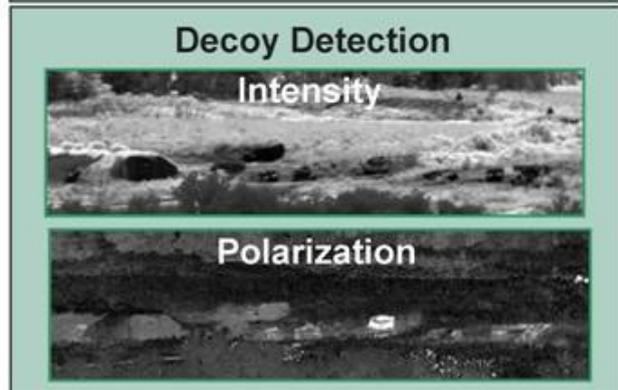
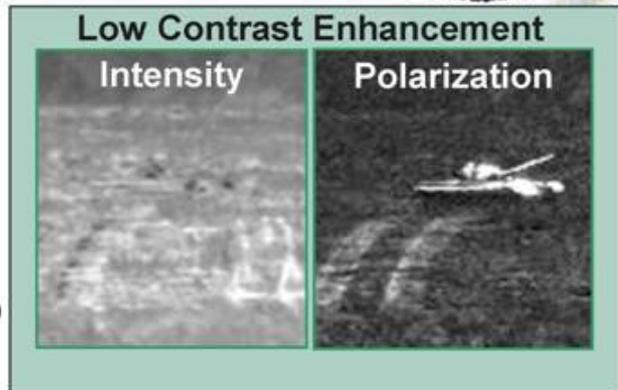
## Representative Kratos Sensor Programs:

- Flexible Membrane Optical Mirrors
- Utilization of electrical signals to adjust the shape of sensors' optical mirrors
- Adjust the focus and zoom level of an optical system with no moving mechanisms
- Objective is to change the zoom allowing sensor operators to track several targets simultaneously while maintaining complete situational awareness



## Examples of Photonic & Polarization Sensors:

- Polarization contrast may be present when contrast in conventional sensors is small
- Polarization aids material and shape discrimination
  - Man-made objects vs. natural backgrounds (different materials)
  - Real targets vs. 2-D decoys (different shape)
  - Real targets vs. inflatable decoys (different materials)



## Representative Kratos Programs:



Persistent Threat Detection System



Command Post Platform



Gorgon Stare



Extended-Range Multi-Purpose UAV



Classified Programs

# Kratos – C4ISR

Modeling & Simulation is used so that customers and engineers can easily and cost effectively calculate “performance trade-offs”, such as over all platform effectiveness for the identified mission versus platform cost



N-LOS



RQ-7 Shadow



MQ-12 Sky Warrior



Predator

A key Kratos differentiating capability is expertise in the integration of Weapon Systems with Unmanned Systems, and the Modeling & Simulation capabilities necessary to prove concepts prior to development

# Kratos – C4ISR



MQ-12 Sky Warrior



Gorgon Stare



RQ-7 Shadow



MQ-12 Shelter



Warrior Alpha



RQ-7 Air Vehicle Transport (AVT) Shelter



# Kratos – C4ISR

## Representative Kratos Program: Directed Energy and Electric Weapons Systems



### Navy Directed Energy Weapon Contract Aids Kratos Defense Restructuring Plan

By Michael Robinson in Naval under Defense Issues, Defense Technology. Featured. News with 28 comments



A former wireless infrastructure company that has set its sights on military contracts recently got a major boost in its corporate turnaround with an award supporting the U.S. Navy's Directed Energy and Electric Weapon Systems (DE&EWS) program.

Indeed, the \$11 million contract continues a string of significant wins for Kratos Defense & Security Solutions as it focuses on increasing its penetration of the federal defense market. Based in San Diego, Calif., Kratos is a fast-growing, acquisition-minded federal contractor that does business with every major unit of the DoD.

Kratos executives note they have supported the DE&EWS Program Office since 2004. DE&EWS is responsible for managing the research, development, integration and acquisition initiation of DE&EWS for the Navy's surface forces.

Navy officials foresee using laser weapons as next-generation systems capable of striking targets at the speed of light. During tests last year, a ship-based, directed-energy system knocked down several unmanned aerial vehicles.

**United States military laser and other weapons that provide for speed-of-light engagements, minimizing the use of expensive defensive missiles, to neutralize or terminate unmanned threats**



- Electromagnetic current accelerates projectile at Mach7
- Weapon system can hit targets hundreds of miles away in minutes

**Navy Sets World Record With Incredible, Sci-Fi Weapon**

By John R. Quin  
Published December 10, 2010  
| FoxNews.com



U.S. Navy video by John Williams  
U.S. Navy engineers at the Office of Naval Research prepared and test-fired a slug from their rail gun in a 2008 test firing. On Friday, December 9, the ONR will attempt to break its own record.



Kratos designs, builds and operates Networks for National Security Agencies in the world's most rigorous and security-conscious Military Intelligence and National Security related environments



**Kratos' proprietary NueralStar and DopplerVue software products provide and identify:**

- Network Intrusion Detection
- Network Intrusion Protection
- Command and Control of Network Infrastructure & IA
- A network Common Operational Picture (CONOPS)
- Real time network Situational Awareness





# Kratos – Ballistic Missile Defense

*Kratos is involved in many areas of the United States Ballistic Missile Defense System!*



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# Kratos – AEGIS Ballistic Missile Defense

Kratos designs, manufactures, delivers and launches AEGIS Readiness Assessment Vehicles (ARAVs) – Targets for various Missile Defense related missions



**AEGIS Capable Surface Combatant**  
Photos courtesy of U.S. Navy



**Aegis Readiness Assessment Vehicle – Primary Aegis Ballistic Missile Defense Target for Fleet Operational Readiness**

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# Kratos - Geographic Locations Strategically Aligned with Base Realignment and Closure (BRAC) and Our Customers



Vast majority of Kratos' employees located at/near customer sites or at secure facilities



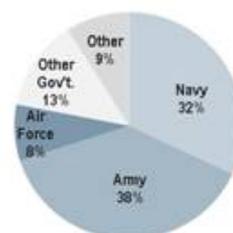
**Top Secret Facility Clearances**

# Kratos - Diverse Revenue Base with Low Concentration



## Top 10 Contracts by Revenue, 90% + Recompete Win Rate

Contract	Division	Contract Type	Customer	Award Date	2009 Revenue*	% of Total Rev.*
SeaPort-Enhanced – NSWC Dahlgren	DES	CPFF	Navy	1994	\$19.9M	4.1%
Basic Expeditionary Airfield Resources (BEAR)	WSS (Gichner)	FFP	Air Force	2008	19.8	4.1%
CECOM Rapid Response (R2)	WSS	FFP	Army	2003	15.6	3.2%
TACOM Order 627	WSS (Gichner)	FFP	Army	2009	15.5	3.2%
SE21 V702	DES	CPFF	Navy	2008	14.6	3.0%
Integrated Test and Analysis Contract (ITAC)	WSS	T&M	Army	2007	13.4	2.8%
DDG-1000	WSS (Gichner)	FFP	Navy	2007	13.4	2.8%
Command Post Platform (CPP)	WSS (Gichner)	FFP	Army	2004	12.5	2.6%
NASA-Marshall Space Flight Contract	WSS	FFP	NASA	2005	12.4	2.6%
Space and Missile Defense Command (SMDC)	WSS	CPFF	Army	2007	10.6	2.2%



Kratos has a Diverse Base of Contracts with No Contract Representing Greater than ~5% of Revenue  
 Bid and Proposal Pipeline ~\$2.5 billion  
 Backlog ~\$700 million (includes no amounts for IDIQ, GWAC, GSA Schedules, etc.)

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# Kratos – Summary of Financial Information



	Actual	Forecast	
	2009	2010 Prelim	2011
Revenue	\$334.5M	\$408M - \$410M	\$550M - \$560M
GAAP EBITDA	\$24.7M	\$39.3M - \$39.8M	\$60M - \$62M
EBITDA Rate	7.4%	9.6% - 9.8%	10.4% - 10.7%
Cash Flow From Operations	\$26.2M	~\$28M	\$26M - \$28M
FCF*	\$18M	~\$25M	\$22M - \$24M
Pro Forma Adjusted LTM EBITDA**	--	\$52M - \$54M	\$60M - \$62M

\*FCF and Cash Flow from Operations after interest expense on all debt and after all income taxes paid, and before acquisition expenses, FCF can vary due to W/C and ultimate financing interest rate

\*\*Includes all 2010 acquisitions as if acquired on January 1, 2010 calculated in accordance with Senior Notes Agreement

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## Kratos – Competitive and Value Added Differentiators



- There is a fundamental shift in the timing of procurement cycles due to the speed at which threats are evolving
  - Kratos can be more agile than its larger peers in reacting to this evolving procurement environment
- We believe that there is fundamental secular growth in key Kratos focus areas
  - Command and Control
  - Intelligence, Surveillance & Reconnaissance
  - Unmanned Systems
  - Cyber Security and Situational Awareness
  - Modeling & Simulation
  - Strategic Asset and Critical Infrastructure Security
  - AEGIS Ballistic Missile Defense

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## Kratos Investment Thesis



- Kratos is a specialized National Security Company aligned with Mission Critical National Security priorities, focused on niche market areas
- Geographically positioned with customers, funding and priority areas
- No customer, program or contract concentration
- Focused organic growth strategy and recent major contract wins: Alliant, MiDAESS, Dahlgren, Chaparral and Cyber Warfare
- Improving financial performance
- Experienced and Proven Management Team with a demonstrated history of success

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**KRATOS**  
FROM STRENGTH TO SUCCESS

Kratos Defense & Security Solutions, Inc.

Acquisition of Herley



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# Kratos Acquisition of Herley



Herley is a leading provider of electronic systems, subsystems and components specializing in microwave and millimeter wave technology serving the global defense industry



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# Kratos Acquisition of Herley



Herley's products are critical to United States National Security:

- Electronic Warfare Systems
- Electronic Attack Systems
- EW Threat and Radar Simulators
- Command and Control Networks
- Insertion of Viruses into Enemy Command Networks
- Air Launched Cyber Attacks
- Neutralization of Adversaries' Electronic Warfare Systems

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## Kratos Acquisition of Herley

**The majority of Herley's business is entrenched, single-source and positioned on established mission-critical platforms**

- Single-source provider on ~ 60 percent of revenue/business base

### **High Barriers to Entry**

- Leading edge engineering expertise and technological capabilities
- Long development cycle
- High risk/cost to customer to replace Herley, Herley products
- 45 years of experience

## Kratos Acquisition of Herley

### Strategic Rationale:

Herley's business is primarily focused on providing products to National Security and Weapons platforms that Kratos is working on, supporting or familiar with:

- Manned and unmanned aircraft
- Tactical and ballistic missiles
- Sensor and radar platforms
- Representative Threat Targets
- Simulation and testing
- Electronic Warfare Systems
- Electronic Attack Systems
- Command and Control Systems

## Kratos Acquisition of Herley

### Strategic Rationale:

Herley's existing products primarily support fielded systems that are established, solidly funded and will be in the U.S. and FMS customers inventory for the foreseeable future:



A collage of five images representing defense assets: F-16 fighter jets, EA-18 electronic attack aircraft, AMRAAM air-to-air missiles on a truck, F-18 fighter jets, and a Trident ballistic missile on a launch vehicle.

- Electronic Attack
- Electronic Warfare
- Radar/Threat Simulation
- Threat Neutralization

## Kratos Acquisition of Herley



### Strategic Rationale:

Herley is one of the few major electronic warfare, electronic attack providers in the market space with decades of proven performance

- Majority of contracts are sole-source or single-source, relying on Herley intellectual property
- Limited competition due to the nature of the work
- High barriers to market entry from potential competitors
- Well funded, high priority, mission critical National Security areas – C4ISR

## Kratos Acquisition of Herley



### Strategic Rationale - Growth Opportunities:

Herley has a strong new business pipeline for their products:

- Next Generation Intelligence, Surveillance and Reconnaissance Airborne System
- Unmanned Autonomous Air Vehicle - ISR
- UAS System for Persistent ISR Data Collection
- Electronic Warfare Jammer - Next Generation
- Electronic Attack – Next Generation
- Electronic Cyber Attack
- Foreign Military Sales and Direct International Sales



# Kratos Acquisition of Herley

- Diversified customer base
- Direct supplier to all service branches of U.S. Military
- First-tier supplier to all of the defense primes
- Herley products embedded on over 120 individual platforms
- No one Herley program makes up great than ~3% of combined company revenue

## Selected Major Platforms



EA-18G



Trident



F-16



LAMPS



AMRAAM



F-18



EA-6B



AFSAT



CALCM



IFF



F-15



SSST



SPEWS II



## Kratos Acquisition of Herley

### Strategic Rationale – Organization & Integration

- Herley will be integrated into Kratos' Weapon Systems Solutions Division
- WSS Division is Kratos' primary products and technology business unit
- WSS is where Kratos currently works with weapons and other platforms the same or similar to Herley
  - Manned & Unmanned Aircraft
  - Sensors & Radar Platforms
  - Targets
  - Tactical & Ballistic Missiles
- Kratos' international/FMS business is in WSS and we see significant new business and growth opportunities in this area
  - India
  - Japan
  - South Korea
  - Saudi Arabia
- All six key Herley Division Presidents are expected to accept employment with Kratos

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## Kratos Acquisition of Herley

### Kratos' purchase price per HRLY share \$19.00

- Total enterprise value paid for business ~ \$270 million, excluding financing, fees, costs, etc.
- Total purchase price multiple for the business, enterprise value/pro forma EBITDA ~ 6.5x, excluding financing, fees, costs, etc.
- Total cost of transaction including all fees, financing costs, severance, etc., ~ \$305 million
- Total purchase price multiple for the business, including all costs and expenses ~ 7.3x
- Kratos' ~ \$200 million Net Operating Loss carry forward
  - Forecasted to utilize ~ \$140 million of Kratos' NOLs over next five years virtually eliminating federal income taxes paid by combined business
  - Kratos' NOLs expire in 2027
  - Estimated transaction Close Q2 2011

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## Kratos Acquisition of Herley

- Transaction is accretive to virtually all Kratos' financial matrices, with accretion expansion in subsequent years
- Transaction will immediately increase or be accretive to Kratos':
  - GAAP EPS
  - Pro Forma EPS
  - EBITDA Margins
  - Cash flow from operations
  - PV and utilization of Kratos' ~ \$200M NOL

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## Kratos Acquisition of Herley

- Utilization of Kratos' \$200 million NOL
  - Significantly accelerated by the transaction due to combined business profitability, increasing PV of ~ \$80 million tax asset
  - Significantly Enhances Kratos':
    - Cash flow from operations
    - Free cash flow
    - Accelerated and rapid delevering due to significantly increased cash flow

There will be significant transaction, acquisition and financing related costs and expenses in 2011 directly related to the acquisition that will impact 2011 GAAP EPS, FASB ASC Topic No. 805, etc. 2011 forecasted information noted above is pro forma to exclude the non-recurring amounts

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## Kratos Acquisition of Herley

**KRATOS**  
FROM STRENGTH TO SUCCESS



### Herley reports record revenues of ~ \$49 million for quarter ended October 31, 2010

- EBITDA reported of \$7.3 million
- Pro forma adjusted EBITDA of ~ \$9.3 million
- Gross margin of 32.2% highest since 2004
- Backlog ~ \$172 million
- Strong bid and proposal pipeline

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## Kratos – Summary of Financial Information

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	Forecast Kratos 2011	Pro Forma Forecast Combined With Herley	
		2011	2012
Revenue	\$550M - \$560M	\$750M - \$760M	\$770M - \$805M
Pro Forma Adjusted EBITDA*	\$60M - \$62M	\$102M-\$105M	\$106M-\$110M
EBITDA Rate	10.4% - 10.7%	13% - 13.8%	13.2% - 14%
Earnings Per Share**	\$.75 - \$.79	\$.85 - \$.90	\$1.05 - \$1.20
Earnings Per Share Excluding Amortization***	\$1.10 - \$1.20	\$1.60 - \$1.70	\$1.75 - \$1.85
FCF	\$22M - \$24M	\$30M - \$35M	\$40M - \$45M
Total Number of Shares	19.0M	23.9M	24.3M

\*Pro forma adjusted EBITDA reflects acquisition of Herley as if acquired January 1, 2011

\*\*Earnings per share reflects pre tax income, less the expected cash to be paid for income taxes due to the benefit of Kratos' approximate \$200 million in net operating loss carry forwards which expire in 2027

\*\*\*EPS excluding amortization reflects EPS\*\* above, less the amortization of purchased intangibles resulting from acquisitions, including the acquisition of Herley, less the expected cash to be paid for income taxes

Note: All estimated amounts exclude impact of transaction related expenses

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# Kratos Acquisition of Herley

**KRATOS**  
FROM STRENGTH TO SUCCESS



**STRONG CASH FLOW AND NOL UTILIZATION RESULTS IN RAPID DELEVERING**

	<u>Pro Forma Combined with Herley</u>			
	Forecast 12/31/10	Forecast Estimated@ Transaction Close	Forecast 12/31/11	Forecast 12/31/12
Total Debt*	\$225M	\$455M	\$455M	\$455M
Cash on Balance Sheet	\$10M	\$15M	\$35M	\$70M
Net Debt	\$215M	\$440M	\$420M	\$385M
Pro Forma Adjusted EBITDA**	\$52M-\$54M	\$91M-\$93M	\$102M-\$105M	\$106M-\$110M
Net Leverage	~4.1x	~4.9x	~4.0x	~3.6X
Undrawn Line of Credit	\$35M	\$35M	\$35M	\$35M

(See next page for notes)



## Kratos Acquisition of Herley

- Cash paid for income taxes forecast of \$3M - \$5M per year
- Low forecasted annual capital expenditures of approximately \$10M - \$12M, as large amount of Kratos' CapEx is government furnished/funded
- Tax planning strategy to continue to minimize income taxes paid with NOLs

\*Senior Notes at face value (excludes estimated premium)

\*\*Pro forma Adjusted EBITDA reflects Kratos' previous acquisitions as if acquired on 1/1/10 and Pro Forma Combined with Herley reflects Herley acquisition as if acquired on 1/1/11, calculated in accordance with Senior Notes Agreement

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## Kratos Acquisition of Herley

### Leading Provider of Electronic Systems

- Electronic Warfare
- Command and Control
- EW Threat Simulators
- Electronic Attack
- Radar
- E Command Network Attack
- Established positions on leading, deployed, well funded defense programs
- Sole-source/single-source provider on 60 percent of business/revenues
- High barriers to entry
- Strategic fit with Kratos
- Forecasted to be strongly financially accretive

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