KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

13-3818604
(I.R.S. Employer Identification No.)

10680 Treena St., Suite 600
San Diego, CA 92131
(858) 812-7300
(Address, including zip code, and telephone number, including area code, of Registrant’s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).   Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.  ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ☐ No ☑

Securities registered pursuant to Section 12(b) of the Act:

<table>
<thead>
<tr>
<th>Title of each class</th>
<th>Trading Symbols(s)</th>
<th>Name of each exchange on which registered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock, $0.001 par value</td>
<td>KTOS</td>
<td>The NASDAQ Global Select Market</td>
</tr>
</tbody>
</table>

As of May 3, 2019, 105,913,292 shares of the registrant’s common stock were outstanding.
<table>
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<tr>
<th>Item 1</th>
<th>Financial Statements</th>
</tr>
</thead>
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<td>Condensed Consolidated Balance Sheets at March 31, 2019 and December 30, 2018 (unaudited)</td>
</tr>
<tr>
<td></td>
<td>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three Months Ended March 31, 2019 and April 1, 2018 (unaudited)</td>
</tr>
<tr>
<td></td>
<td>Condensed Consolidated Statements of Stockholders’ Equity for the Three Months Ended March 31, 2019 and April 1, 2018 (unaudited)</td>
</tr>
<tr>
<td></td>
<td>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2019 and April 1, 2018 (unaudited)</td>
</tr>
<tr>
<td></td>
<td>Notes to Condensed Consolidated Financial Statements (unaudited)</td>
</tr>
</tbody>
</table>

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<td>Quantitative and Qualitative Disclosures About Market Risk</td>
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<td>Item 4</td>
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</tr>
</tbody>
</table>

<table>
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</thead>
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</tr>
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<td>Item 3</td>
<td>Defaults Upon Senior Securities</td>
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<td>Item 4</td>
<td>Mine Safety Disclosures</td>
</tr>
<tr>
<td>Item 5</td>
<td>Other Information</td>
</tr>
<tr>
<td>Item 6</td>
<td>Exhibits</td>
</tr>
</tbody>
</table>
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except par value and number of shares)

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2019 (Unaudited)</th>
<th>December 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$178.4</td>
<td>$182.7</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>—</td>
<td>$0.3</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>81.3</td>
<td>64.6</td>
</tr>
<tr>
<td>Unbilled receivables, net</td>
<td>158.0</td>
<td>172.8</td>
</tr>
<tr>
<td>Inventoried costs</td>
<td>69.2</td>
<td>46.8</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>13.3</td>
<td>8.9</td>
</tr>
<tr>
<td>Other current assets</td>
<td>9.6</td>
<td>10.3</td>
</tr>
<tr>
<td>Current assets of discontinued operations</td>
<td>7.3</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$517.1</td>
<td>494.7</td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>113.5</td>
<td>67.1</td>
</tr>
<tr>
<td>Operating lease right-of-use assets</td>
<td>38.1</td>
<td>—</td>
</tr>
<tr>
<td>Goodwill</td>
<td>459.4</td>
<td>425.7</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>34.4</td>
<td>16.1</td>
</tr>
<tr>
<td>Other assets</td>
<td>6.4</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$1,168.9</td>
<td>$1,010.1</td>
</tr>
</tbody>
</table>

|                      |                             |                   |
| **Liabilities and Stockholders’ Equity** |                   |
| Current liabilities: |                             |                   |
| Accounts payable     | $47.4                       | $46.6             |
| Accrued expenses     | 36.6                        | 38.1              |
| Accrued compensation | 37.2                        | 33.5              |
| Accrued interest     | 6.5                         | 1.6               |
| Billings in excess of costs and earnings on uncompleted contracts | 39.7  | 34.9  |
| Current portion of operating lease liabilities | 13.3  | —     |
| Other current liabilities | 9.3   | 4.7   |
| Current liabilities of discontinued operations | 5.3   | 5.3   |
| **Total current liabilities** | 195.3 | 164.7 |
| Long-term debt principal, net of current portion | 294.4 | 294.2 |
| Operating lease liabilities, net of current portion | 31.3  | —     |
| Other long-term liabilities | 73.5  | 25.5  |
| Long-term liabilities of discontinued operations | 6.5   | 6.4   |
| **Total liabilities** | 601.0                       | 490.8             |
| Commitments and contingencies |                   |
| Redeemable noncontrolling interest (Note 12) | 15.0  | —     |
| **Stockholders’ equity:** |                   |
| Preferred stock, $0.001 par value, 5,000,000 shares authorized, 0 shares outstanding at March 31, 2019 and December 30, 2018 | —     | —     |
| Common stock, $0.001 par value, 195,000,000 shares authorized; 105,885,792 and 103,766,899 shares issued and outstanding at March 31, 2019 and December 30, 2018, respectively | —     | —     |
| Additional paid-in capital | 1,275.0 | 1,244.5 |
| Accumulated other comprehensive loss | (0.7)  | (0.7) |
| Accumulated deficit | (721.4) | (724.5) |
| **Total stockholders’ equity** | 552.9  | 519.3 |
| **Total liabilities and stockholders’ equity** | $1,168.9 | $1,010.1 |

The accompanying notes are an integral part of these condensed consolidated financial statements.
<table>
<thead>
<tr>
<th>Service revenues</th>
<th>March 31, 2019</th>
<th>April 1, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 62.6</td>
<td>$ 46.0</td>
</tr>
<tr>
<td>Product sales</td>
<td>97.8</td>
<td>97.0</td>
</tr>
<tr>
<td>Total revenues</td>
<td>160.4</td>
<td>143.0</td>
</tr>
</tbody>
</table>

| Cost of service revenues         | 42.0          | 32.9          |
| Cost of product sales            | 73.5          | 69.3          |
| Total costs                      | 115.5         | 102.2         |

| Gross profit                    | 44.9          | 40.8          |

| Selling, general and administrative expenses | 31.5 | 29.8 |
| Merger and acquisition expenses    | 1.2 | — |
| Research and development expenses | 3.9 | 3.6 |

| Unused office space, restructuring expenses, and other | 0.1 | 0.4 |

| Operating income from continuing operations | 8.2 | 7.0 |

<table>
<thead>
<tr>
<th>Other income (expense):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense, net</td>
</tr>
<tr>
<td>Other income (expense), net</td>
</tr>
<tr>
<td>Total other expense, net</td>
</tr>
</tbody>
</table>

| Income from continuing operations before income taxes | 2.2 | 2.2 |
| Provision (benefit) for income taxes from continuing operations | (1.5) | 0.9 |
| Income from continuing operations                   | 3.7 | 1.3 |

<table>
<thead>
<tr>
<th>Discontinued operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss from operations of discontinued component</td>
</tr>
<tr>
<td>Income tax benefit (provision)</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
</tr>
<tr>
<td>Net income (loss)</td>
</tr>
</tbody>
</table>

| Less: Net loss attributable to noncontrolling interest | — | — |

| Net income (loss) attributable to Kratos | $ 3.1 | $ (2.2) |

<table>
<thead>
<tr>
<th>Basic income (loss) per common share attributable to Kratos:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from continuing operations</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
</tr>
<tr>
<td>Net income (loss) per common share</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Diluted income (loss) per common share attributable to Kratos:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from continuing operations</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
</tr>
<tr>
<td>Net income (loss) per common share</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weighted average common shares outstanding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
</tr>
<tr>
<td>Diluted</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comprehensive Income (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (loss) (from above)</td>
</tr>
<tr>
<td>Change in cumulative translation adjustment</td>
</tr>
<tr>
<td>Comprehensive income (loss)</td>
</tr>
</tbody>
</table>

| Less: Comprehensive loss attributable to noncontrolling interest | — | — |

| Comprehensive income (loss) attributable to Kratos | $ 3.1 | $ (2.3) |

The accompanying notes are an integral part of these condensed consolidated financial statements.
## KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
### CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY

Three Months ended April 1, 2018, and March 31, 2019
(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Redeemable Interest</th>
<th>Common Stock</th>
<th>Additional Paid-In Capital</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Accumulated Deficit</th>
<th>Total Stockholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance, December 31, 2017</strong></td>
<td>$ —</td>
<td>103.3$</td>
<td>$1,233.7$</td>
<td>$(1.4)$</td>
<td>$(720.8)$</td>
<td>$511.5$</td>
</tr>
<tr>
<td>Impact from the adoption of ASC 606</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>—</td>
<td>—</td>
<td>1.7</td>
<td>—</td>
<td>—</td>
<td>1.7</td>
</tr>
<tr>
<td>Issuance of common stock for employee stock purchase plan, options and warrants</td>
<td>—</td>
<td>0.2</td>
<td>1.8</td>
<td>—</td>
<td>—</td>
<td>1.8</td>
</tr>
<tr>
<td>Net loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(2.2)</td>
</tr>
<tr>
<td>Other comprehensive income (loss), net of tax</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(0.1)</td>
</tr>
<tr>
<td><strong>Balance, April 1, 2018</strong></td>
<td>$ —</td>
<td>103.5$</td>
<td>$1,237.2$</td>
<td>$(1.5)$</td>
<td>$(723.2)$</td>
<td>$512.5$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Redeemable Interest</th>
<th>Common Stock</th>
<th>Additional Paid-In Capital</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Accumulated Deficit</th>
<th>Total Stockholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance, December 30, 2018</strong></td>
<td>$ —</td>
<td>103.8$</td>
<td>$1,244.5$</td>
<td>$(0.7)$</td>
<td>$(724.5)$</td>
<td>$519.3$</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>—</td>
<td>—</td>
<td>2.6</td>
<td>—</td>
<td>—</td>
<td>2.6</td>
</tr>
<tr>
<td>Issuance of common stock for employee stock purchase plan, options and warrants</td>
<td>—</td>
<td>0.2</td>
<td>1.7</td>
<td>—</td>
<td>—</td>
<td>1.7</td>
</tr>
<tr>
<td>Restricted stock issued and related taxes</td>
<td>—</td>
<td>0.1</td>
<td>(0.8)</td>
<td>—</td>
<td>—</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Issuance of common stock for acquisitions</td>
<td>—</td>
<td>1.8</td>
<td>27.0</td>
<td>—</td>
<td>—</td>
<td>27.0</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3.1</td>
</tr>
<tr>
<td>Other comprehensive income (loss), net of tax</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Changes in noncontrolling interest</td>
<td>15.0</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Balance, March 31, 2019</strong></td>
<td>$ 15.0</td>
<td>105.9$</td>
<td>$1,275.0$</td>
<td>$(0.7)$</td>
<td>$(721.4)$</td>
<td>$552.9$</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these condensed consolidated financial statements.
## KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

<table>
<thead>
<tr>
<th>Operating activities:</th>
<th>Three Months Ended</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 31, 2019</td>
<td>April 1, 2018</td>
<td></td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>$3.1</td>
<td>$(2.2)</td>
<td></td>
</tr>
<tr>
<td>Less: Loss from discontinued operations</td>
<td>$(0.6)</td>
<td>$(3.5)</td>
<td></td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>3.7</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Adjustments to reconcile income from continuing operations to net cash provided by operating activities from continuing operations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>5.1</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>Amortization of lease right-of-use assets</td>
<td>3.7</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>2.6</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(3.4)</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Amortization of deferred financing costs</td>
<td>0.2</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Changes in assets and liabilities, net of acquisitions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(9.0)</td>
<td>16.4</td>
<td></td>
</tr>
<tr>
<td>Unbilled receivables</td>
<td>19.7</td>
<td>(14.2)</td>
<td></td>
</tr>
<tr>
<td>Inventoried costs</td>
<td>(10.8)</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>(1.1)</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Operating lease liabilities</td>
<td>2.8</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(0.8)</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>Accrued compensation</td>
<td>3.1</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(2.7)</td>
<td>(6.1)</td>
<td></td>
</tr>
<tr>
<td>Advance payments received on contracts</td>
<td>0.1</td>
<td>(0.6)</td>
<td></td>
</tr>
<tr>
<td>Accrued interest</td>
<td>4.9</td>
<td>4.9</td>
<td></td>
</tr>
<tr>
<td>Billings in excess of costs and earnings on uncompleted contracts</td>
<td>3.0</td>
<td>(3.7)</td>
<td></td>
</tr>
<tr>
<td>Income tax receivable and payable</td>
<td>1.4</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(6.5)</td>
<td>(1.0)</td>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities from continuing operations</td>
<td>16.0</td>
<td>6.5</td>
<td></td>
</tr>
<tr>
<td>Investing activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid for acquisitions, net of cash acquired</td>
<td>(17.6)</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(4.0)</td>
<td>(6.7)</td>
<td></td>
</tr>
<tr>
<td>Net cash used in investing activities from continuing operations</td>
<td>(21.6)</td>
<td>(6.7)</td>
<td></td>
</tr>
<tr>
<td>Financing activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt issuance costs</td>
<td>—</td>
<td>(0.1)</td>
<td></td>
</tr>
<tr>
<td>Proceeds (use) from the issuance of common stock</td>
<td>—</td>
<td>(1.1)</td>
<td></td>
</tr>
<tr>
<td>Repayment of debt</td>
<td>—</td>
<td>(0.2)</td>
<td></td>
</tr>
<tr>
<td>Payments under finance leases</td>
<td>(0.1)</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Proceeds from exercise of restricted stock units, employee stock options, and employee stock purchase plan</td>
<td>0.9</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Net cash provided by financing activities from continuing operations</td>
<td>0.8</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Net cash flows of continuing operations</td>
<td>(4.8)</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Net operating cash flows of discontinued operations</td>
<td>0.3</td>
<td>(3.1)</td>
<td></td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash, cash equivalents and restricted cash</td>
<td>(0.1)</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Net decrease in cash, cash equivalents and restricted cash</td>
<td>(4.6)</td>
<td>(2.7)</td>
<td></td>
</tr>
<tr>
<td>Cash, cash equivalents and restricted cash at beginning of period</td>
<td>183.0</td>
<td>130.9</td>
<td></td>
</tr>
<tr>
<td>Cash, cash equivalents and restricted cash at end of period</td>
<td>$178.4</td>
<td>$128.2</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these condensed consolidated financial statements.
Note 1. Summary of Significant Accounting Policies

All references to the “Company” and “Kratos” refer to Kratos Defense & Security Solutions, Inc., a Delaware corporation, and its subsidiaries.

(a) Basis of Presentation

The information as of March 31, 2019 and for the three months ended March 31, 2019 and April 1, 2018 is unaudited. The condensed consolidated balance sheet as of December 30, 2018 was derived from the Company’s audited consolidated financial statements at that date. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the interim periods presented. The results have been prepared in accordance with the instructions to Form 10-Q and do not necessarily include all information and footnotes necessary for presentation in accordance with accounting principles generally accepted in the U.S. (“GAAP”). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company’s audited annual consolidated financial statements for the fiscal year ended December 30, 2018, included in the Company’s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 28, 2019 (the “Form 10-K”). Interim operating results are not necessarily indicative of operating results expected in subsequent periods or for the year as a whole.

As discussed in “Acquisition” in Note 2, on February 27, 2019, the Company acquired 80.1% of the issued and outstanding shares of capital stock of Florida Turbine Technologies Inc. (“FTT Inc.”), and 80.1% of the membership interests in FTT CORE, LLC, (“FTT Core”) and, together with FTT Inc., “FTT”) for an aggregate purchase price of approximately $60 million. FTT is now Kratos Turbine Technologies Division (the “KTT Division”), which is focused on the development and production of small, affordable, high-performance, jet engines for the next generation of tactical weapon systems and tactical jet unmanned aerial systems (“UAS”). The KTT Division is included in the Kratos Government Solutions (“KGS”) Segment.

(b) Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its 100% owned and majority owned subsidiaries, FTT Inc. and FTT Core, each of which is 80.1% owned. All inter-company transactions have been eliminated in consolidation. Noncontrolling interest consists of the remaining 19.9% interest in FTT Inc. and FTT Core. See Note 12 for further information related to the redeemable noncontrolling interest.

(c) Fiscal Year

The Company has a 52/53 week fiscal year ending on the last Sunday of the calendar year. The three month periods ended March 31, 2019 and April 1, 2018 consisted of 13-week periods. There are 52 calendar weeks in the fiscal years ending on December 29, 2019 and December 30, 2018.

(d) Accounting Estimates

There have been no significant changes in the Company’s accounting estimates for the three months ended March 31, 2019 as compared to the accounting estimates described in the Form 10-K.
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(e) Accounting Standards Updates

In February 2016, the FASB issued ASU 2016-02 (“ASU 2016-02”), *Leases*, also referred to as “ASC 842”. ASU 2016-02 requires that lessees recognize assets and liabilities for the rights and obligations underlying leases with a lease term of more than one year. The amendments in this ASU are effective for annual periods beginning after December 15, 2018. In July 2018, the FASB issued ASU 2018-11, *Leases; Targeted Improvements*, which, among other things, allows a company to elect an optional transition method that applies the new lease requirements through a cumulative-effect adjustment in the period of adoption. The Company adopted this standard on December 31, 2018 using the optional transition method, and, as a result, did not recast prior period unaudited condensed comparative financial statements. All prior period amounts and disclosures are presented under Accounting Standards Codification Topic 840, *Leases* (“ASC 840”).

The Company has revised its controls and processes to address the new lease standard and has completed the implementation and data input for our lease accounting software tool. The Company is electing the package of practical expedients, which, among other things, allows carry-forward of prior lease classifications under the prior standard. However, the Company is not electing to adopt the hindsight practical expedient and is therefore maintaining the lease terms previously determined under the prior lease standard. For all new and modified leases after adoption of the ASU, the Company has taken the component election allowing the Company to account for lease components together with non lease components in the calculation of the lease asset and corresponding liability. Adoption of the new standard resulted in the recording of additional lease assets and lease liabilities on the unaudited condensed consolidated balance sheet. No cumulative-effect adjustment was recognized as the amount was not material, and the impact on the Company’s results of operations and cash flows was also not material. See Note 8 for additional disclosures.

In February 2018, the FASB issued ASU 2018-02 (“ASU 2018-02”), *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (“AOCI”). ASU 2018-02 provides entities the option to reclassify tax effects to retained earnings from AOCI which are impacted by the Tax Cuts and Jobs Act (“TCJA”). This ASU is effective for fiscal years beginning after December 15, 2018 but early adoption is permitted. The Company adopted this standard on December 31, 2018. The Company has a full valuation allowance for all tax benefits related to AOCI, and therefore, there are no tax effects to be reclassified to retained earnings.

(f) Fair Value of Financial Instruments

The carrying amounts and the related estimated fair values of the Company’s long-term debt financial instruments not measured at fair value on a recurring basis at March 31, 2019 and December 30, 2018 are presented in Note 10. The carrying value of all other financial instruments, including cash equivalents, accounts receivable, accounts payable, accrued expenses, billings in excess of cost and earnings on uncompleted contracts, income taxes payable and short-term debt, approximated their estimated fair values at March 31, 2019 and December 30, 2018 due to the short-term nature of these instruments.

Note 2. Acquisition

On February 27, 2019, the Company acquired 80.1% of the issued and outstanding shares of capital stock of FTT Inc., and 80.1% of the membership interests in FTT Core for an aggregate purchase price of approximately $60 million. The purchase price was $33 million in cash, with approximately $17.7 million paid at close and approximately $15.3 million to be paid over a three year period, subject to adjustments for transaction expenses, indebtedness, cash on hand, certain amounts payable or potentially payable to employees of FTT and post-closing working capital adjustments, and 1,825,406 shares of common stock (with a value of approximately $27 million).

FTT is a leading turbomachinery design and manufacturing company specializing in engineering, development, and testing of gas turbines, propulsion components, and systems for military and commercial applications. FTT is now the KTT Division, which is focused on the development and production of small, affordable, high-performance, jet engines for the next generation of tactical weapon systems and tactical jet UAS. The KTT Division is included in the KGS Segment.

The excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed in the acquisition was allocated to goodwill. The goodwill represents the value the Company expects to be created by enabling it to accelerate FTT’s small engine development programs, and facilitate integration of these leading-edge engine solutions with evolving Kratos tactical systems.

Simultaneously with the execution of the Purchase Agreement among the Company and the Sellers (as defined in such agreement) (the “Purchase Agreement”) and completion of the acquisition, the Company, FTT Inc., FTT Core and the Sellers entered into an exchange agreement (the “Exchange Agreement”) pursuant to which, among other things, (i) FTT Core was
converted into a Delaware corporation, (ii) beginning in January 2024, the Holders (as defined in the Exchange Agreement) will have an annual right (the “Put Right”) to sell all of the minority interests in FTT Inc. and FTT Core (the “Minority Interests”) to the Company at a purchase price based on an assumed enterprise value of 12 times the trailing 12 months EBITDA of FTT Inc., FTT Core and each of their respective subsidiaries (the “Acquired Companies”), subject to adjustment as set forth in the Exchange Agreement (the “Minority Interest Purchase Price”) (provided, however, that following certain events, including a change of control, the Put Right will be accelerated and the Minority Interest Purchase Price will be increased to 14 times the trailing 12 months EBITDA of the Acquired Companies), and (iii) beginning in January 2025, the Company will have an annual right to purchase all of the Minority Interests from the Holders at the Minority Interest Purchase Price.

The transaction has been accounted for using the acquisition method of accounting, which requires, among other things, that the assets acquired, the liabilities assumed, and the noncontrolling interest be recognized at their fair values as of the acquisition date. The fair value measurements are based primarily on significant inputs not observable in the marketplace and thus represent Level 3 measurements. The following table summarizes the provisional allocation of the purchase price over the estimated fair values of the major assets acquired, liabilities assumed, and noncontrolling interest (in millions):

<table>
<thead>
<tr>
<th>Asset/Responsibility</th>
<th>Fair Value (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$7.3</td>
</tr>
<tr>
<td>Unbilled receivables</td>
<td>4.9</td>
</tr>
<tr>
<td>Inventoried costs</td>
<td>11.7</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1.3</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>9.7</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>19.8</td>
</tr>
<tr>
<td>Goodwill</td>
<td>29.3</td>
</tr>
<tr>
<td>Total identifiable net assets acquired</td>
<td>84.0</td>
</tr>
<tr>
<td>Total identifiable net liabilities assumed</td>
<td>(9.0)</td>
</tr>
<tr>
<td>Net assets before noncontrolling interest</td>
<td>75.0</td>
</tr>
<tr>
<td>Noncontrolling interest</td>
<td>(15.0)</td>
</tr>
<tr>
<td>Net assets acquired, excluding cash</td>
<td>$60.0</td>
</tr>
</tbody>
</table>

As of February 27, 2019, net liabilities include $7.7 million of current liabilities and $1.3 million of long-term liabilities. There was no contingent purchase consideration associated with the acquisition of an 80.1% majority interest in FTT. The amounts above represent the provisional fair value estimates as of March 31, 2019 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. If an adjustment to the provisional amounts recognized is subsequently identified during the measurement period, the Company will recognize the adjustment in the reporting period in which the adjustment amount is determined, including recording cumulative catch-up changes to depreciation, amortization, or other income statement effects recognized in completing the initial accounting. The provisional identifiable intangible asset estimates include customer relationships of $11.2 million with a useful life of 10 years, in-process research and development of $6.0 million that will commence amortization at the completion of the development project, backlog of $2.2 million with a useful life of 2 years, and trade name of $0.4 million with a useful life of 1 year. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill. The Company also established a deferred tax liability of $4.4 million for the increase in the financial statement basis of the acquired assets of FTT and a corresponding increase in goodwill. The goodwill recorded in this transaction is not expected to be tax-deductible.

The amounts of revenue and operating income of FTT included in the Company’s condensed consolidated statement of operations for the three months ended March 31, 2019 are $4.2 million and $0.1 million, respectively. Included in the unallocated corporate expense, net, for the three months ended March 31, 2019 is transaction expenses of $1.2 million related to the acquisition of FTT.
A summary of the consideration paid for the acquired ownership in FTT is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid</td>
<td>$20.7</td>
</tr>
<tr>
<td>Deferred purchase consideration</td>
<td>15.3</td>
</tr>
<tr>
<td>Common stock issued</td>
<td>27.0</td>
</tr>
<tr>
<td>Total consideration</td>
<td>$60.0</td>
</tr>
</tbody>
</table>

**Pro Forma Financial Information**

The following tables summarize the supplemental condensed consolidated statements of operations information on an unaudited pro forma basis as if the acquisition of FTT occurred on December 31, 2018 and include adjustments that were directly attributable to the foregoing transactions. There are no material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The pro forma results are for illustrative purposes only for the applicable period and do not purport to be indicative of the actual results that would have occurred had the transaction been completed as of the beginning of the period, nor are they indicative of results of operations that may occur in the future (all amounts, except per share amounts are in millions):

For the three months ended March 31, 2019 (in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pro forma revenues</td>
<td>$168.5</td>
</tr>
<tr>
<td>Pro forma net income before tax</td>
<td>$1.3</td>
</tr>
<tr>
<td>Pro forma net income</td>
<td>$2.2</td>
</tr>
<tr>
<td>Pro forma net income attributable to Kratos</td>
<td>$2.4</td>
</tr>
<tr>
<td>Basic pro forma income per share attributable to Kratos</td>
<td>$0.02</td>
</tr>
<tr>
<td>Diluted pro forma income per share attributable to Kratos</td>
<td>$0.02</td>
</tr>
</tbody>
</table>

The pro forma financial information reflects pro forma adjustments for the additional amortization of $0.5 million associated with finite-lived intangible assets acquired. The weighted average common shares used to calculate income per share also reflect the issuance of 1,825,406 shares of our common stock in conjunction with the acquisition.

**Note 3. Revenue Recognition**

The Company recognizes revenue in accordance with Accounting Standards Codification 606, Revenue from Contracts with Customers (“ASC 606”). Under ASC 606 revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to receive in exchange for these goods or services.

To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. The majority of the Company’s contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For contracts with multiple performance obligations, the Company allocates the contract’s transaction price to each
performance obligation using the best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected-cost-plus-margin approach, under which the Company forecasts the expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service.

Remaining Performance Obligations

The Company calculates revenues from remaining performance obligations as the dollar value of the remaining performance obligations on executed contracts. On March 31, 2019, the Company had approximately $620.2 million of remaining performance obligations. The Company expects to recognize approximately 57% of the remaining performance obligations as revenue in 2019, an additional 23% by 2020, and the balance thereafter.

Contract Estimates

Due to the nature of the work required to be performed on many performance obligations, the estimation of total revenue and cost at completion is complex, subject to many variables and requires significant judgment. It is common for the Company’s long-term contracts to contain award fees, incentive fees, or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. Variable consideration is estimated at the most likely amount to which the Company is expected to be entitled. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company’s anticipated performance and all information (historical, current and forecasted) that is reasonably available.

Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications are considered to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of the Company’s contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price, and the measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

There is a Company-wide standard and disciplined quarterly Estimate at Completion (EAC) process in which management reviews the progress and execution of outstanding performance obligations. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product) and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g., to estimate increases in wages and prices for materials and related support cost allocations), execution by subcontractors, the availability and timing of funding from customers and overhead cost rates, among other variables.

Based on this analysis, any quarterly adjustments to net sales, cost of sales, and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual performance obligations, if it is determined the Company will be successful in mitigating risks surrounding the technical, schedule and cost aspects of those performance obligations or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating income if it is determined the Company will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, cost of sales and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of the Company’s performance obligations. When estimates of total costs to be incurred on a performance obligation exceed total estimates of revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined. No adjustment on any one contract was material to the Company’s unaudited condensed consolidated financial statements for the three-month periods ended March 31, 2019, and April 1, 2018.
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Contract Assets and Liabilities

For each of the Company’s contracts, the timing of revenue recognition, customer billings, and cash collections results in a net contract asset or liability at the end of each reporting period. Fixed-price contracts are typically billed to the customer either using progress payments, whereby amounts are billed monthly as costs are incurred or work is completed, or performance based payments, which are based upon the achievement of specific, measurable events or accomplishments defined and valued at contract inception. Cost-type contracts are typically billed to the customer on a monthly or semi-monthly basis.

Contract assets consist of unbilled receivables, primarily related to long-term contracts where revenue recognized under the cost-to-cost method exceeds amounts billed to customers. Unbilled receivables are classified as current assets and, in accordance with industry practice, include amounts that may be billed and collected beyond one year due to the long term nature of many of the Company’s contracts. Accumulated contract costs in unbilled receivables include direct production costs, factory and engineering overhead, production tooling costs, and, for government contracts, recovery of allowable general and administrative expenses. Unbilled receivables also include certain estimates of variable consideration described above. These contract assets are not considered a significant financing component of the Company’s contracts as the payment terms are intended to protect the customer in the event the Company does not perform on its obligations under the contract.

Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of the Company’s performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract liabilities are not a significant financing component as they are generally utilized to pay for contract costs within a one-year period or are used to ensure the customer meets contractual requirements.

Net contract assets and liabilities are as follows (in millions):

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2019</th>
<th>December 30, 2018</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract assets</td>
<td>$158.0</td>
<td>$172.9</td>
<td>$(14.9)</td>
</tr>
<tr>
<td>Contract liabilities</td>
<td>$41.8</td>
<td>$37.0</td>
<td>$4.8</td>
</tr>
<tr>
<td>Net contract assets</td>
<td>$116.2</td>
<td>$135.9</td>
<td>$(19.7)</td>
</tr>
</tbody>
</table>

The change in the balances of the Company’s contract assets and liabilities primarily results from the advance payments from customers exceeding reductions from recognition of revenue as performance obligations were satisfied and related billings. There were no significant impairment losses related to any receivables or contract assets arising from the Company’s contracts with customers during the three months ended March 31, 2019. For the three months ended March 31, 2019, the Company recognized revenue of $15.9 million that was previously included in the beginning balance of contract liabilities.
Disaggregation of Revenue

The following series of tables presents the Company’s revenue disaggregated by several categories. For the majority of contracts, the customer obtains control or receives benefits as work is performed on the contract. Revenue by contract type was as follows (in millions):

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Three Months Ended</th>
<th>Three Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 31, 2019</td>
<td>April 1, 2018</td>
</tr>
<tr>
<td>Kratos Government Solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed price</td>
<td>$ 109.1</td>
<td>$ 101.8</td>
</tr>
<tr>
<td>Cost plus fee</td>
<td>9.2</td>
<td>7.2</td>
</tr>
<tr>
<td>Time and materials</td>
<td>7.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Total Kratos Government Solutions</td>
<td>125.5</td>
<td>115.2</td>
</tr>
<tr>
<td>Unmanned Systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed price</td>
<td>27.2</td>
<td>21.9</td>
</tr>
<tr>
<td>Cost plus fee</td>
<td>7.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Time and materials</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Total Unmanned Systems</td>
<td>34.9</td>
<td>27.8</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$ 160.4</td>
<td>$ 143.0</td>
</tr>
</tbody>
</table>

Revenue by customer was as follows (in millions):

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Three Months Ended</th>
<th>Three Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 31, 2019</td>
<td>April 1, 2018</td>
</tr>
<tr>
<td>Kratos Government Solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government (1)</td>
<td>$ 86.8</td>
<td>$ 76.8</td>
</tr>
<tr>
<td>International (2)</td>
<td>24.9</td>
<td>21.0</td>
</tr>
<tr>
<td>U.S. Commercial and other customers</td>
<td>13.8</td>
<td>17.4</td>
</tr>
<tr>
<td>Total Kratos Government Solutions</td>
<td>125.5</td>
<td>115.2</td>
</tr>
<tr>
<td>Unmanned Systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government (1)</td>
<td>30.1</td>
<td>24.2</td>
</tr>
<tr>
<td>International (2)</td>
<td>4.5</td>
<td>3.6</td>
</tr>
<tr>
<td>U.S. Commercial and other customers</td>
<td>0.3</td>
<td>—</td>
</tr>
<tr>
<td>Total Unmanned Systems</td>
<td>34.9</td>
<td>27.8</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$ 160.4</td>
<td>$ 143.0</td>
</tr>
</tbody>
</table>

(1) Sales to the U.S. Government include sales from contracts for which the Company is the prime contractor, as well as those for which the Company is a subcontractor and the ultimate customer is the U.S. Government. Each of the Company’s segments derives substantial revenue from the U.S. Government. These sales include foreign military sales contracted through the U.S. Government.

(2) International sales include sales from contracts for which the Company is the prime contractor, as well as those for which the Company is a subcontractor and the ultimate customer is an international customer. These sales include direct sales with governments outside the U.S. and commercial sales with customers outside the U.S.

Note 4. Discontinued Operations

On February 28, 2018, the Company entered into a Stock Purchase Agreement to sell the operations of Kratos Public Safety & Security Solutions, Inc., a Delaware corporation and wholly owned subsidiary of the Company (“PSS”), to Securitas Electronic Security, Inc., a Delaware corporation (“Buyer”). On June 11, 2018, the Company completed the sale of all of the issued and outstanding capital stock of PSS to Buyer for a purchase price of $69 million in cash, subject to a closing net working capital adjustment (the “Transaction”). The Company and the Buyer are currently in a dispute regarding the closing net working capital adjustment. The amount in dispute is approximately $8 million.
The Company currently expects to receive approximately $70 million of aggregate net cash proceeds from the Transaction, after taking into account amounts to be paid by the Company pursuant to a negotiated transaction services agreement between the Company and Buyer, receipt by the Company of approximately $7.0 million in net working capital retained by the Company, and associated transaction fees and expenses, excluding the impact of the final settlement and determination of the closing working capital adjustment. The Company currently expects that the net working capital retained by the Company will be settled in 2019 once certain legacy projects are completed and the project close-out process has been completed. Through March 31, 2019, approximately $1.0 million has been collected related to these legacy projects. The Company incurred approximately $2.7 million of transaction related costs, which was reflected in the loss from discontinued operations in the periods incurred. The Company currently expects to recognize a net break-even on the sale of the PSS business once the aggregate net proceeds described above have been collected, excluding the impact of the final settlement and determination of the closing net working capital adjustment. Any changes or adjustments to the expected net proceeds will be reflected in future periods.

The following table presents the results of discontinued operations (in millions):

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2019</th>
<th>April 1, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$ 0.1</td>
<td>$ 23.9</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>0.5</td>
<td>18.9</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>0.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Other expense</td>
<td>—</td>
<td>0.8</td>
</tr>
<tr>
<td>Loss from discontinued operations before income taxes</td>
<td>(0.5)</td>
<td>(3.9)</td>
</tr>
<tr>
<td>Income tax benefit (provision)</td>
<td>(0.1)</td>
<td>0.4</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
<td>$ (0.6)</td>
<td>$ (3.5)</td>
</tr>
</tbody>
</table>

Revenue and operating results for the three months ended March 31, 2019 reflected the work performed in relation to tasks on the legacy projects retained by the Company. Revenue and operating results for the three months ended April 1, 2018 were impacted by approximately $1.8 million and $2.0 million, respectively, of cost adjustments on certain security system deployment projects for a mass transit authority. Transaction expenses of $0.8 million primarily comprised of legal fees related to the pending disposition were included in Other expense for the three months ended April 1, 2018. Depreciation expense included in Selling, general and administrative expenses was $0.0 million and $0.1 million for the three months ended March 31, 2019 and April 1, 2018, respectively.

The following is a summary of the assets and liabilities of discontinued operations in the accompanying condensed consolidated balance sheets as of March 31, 2019 and December 30, 2018 (in millions):

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2019</th>
<th>December 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable, net and unbilled receivables, net</td>
<td>$ 7.2</td>
<td>$ 8.2</td>
</tr>
<tr>
<td>Other current assets</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Current assets of discontinued operations</td>
<td>$ 7.3</td>
<td>$ 8.3</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$ 0.3</td>
<td>$ 0.3</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>0.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Current liabilities of discontinued operations</td>
<td>$ 5.3</td>
<td>$ 5.3</td>
</tr>
<tr>
<td>Other long-term liabilities of discontinued operations</td>
<td>$ 6.5</td>
<td>$ 6.4</td>
</tr>
</tbody>
</table>
### Note 5. Goodwill and Intangible Assets

#### (a) Goodwill

The carrying amounts of goodwill as of March 31, 2019 and December 30, 2018 by reportable segment are as follows (in millions):

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2019</th>
<th></th>
<th>As of December 30, 2018</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Kratos Solutions</td>
<td>Unmanned Systems</td>
<td>Total</td>
<td>Kratos Solutions</td>
</tr>
<tr>
<td>Gross value</td>
<td>$ 601.6</td>
<td>$ 111.1</td>
<td>$ 712.7</td>
<td>$ 567.9</td>
</tr>
<tr>
<td>Less accumulated</td>
<td>239.5</td>
<td>13.8</td>
<td>253.3</td>
<td>239.5</td>
</tr>
<tr>
<td>impairment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net</td>
<td>$ 362.1</td>
<td>$ 97.3</td>
<td>$ 459.4</td>
<td>$ 328.4</td>
</tr>
</tbody>
</table>

#### (b) Purchased Intangible Assets

The following table sets forth information for finite-lived and indefinite-lived intangible assets (in millions):

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2019</th>
<th></th>
<th>As of December 30, 2018</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross Value</td>
<td>Accumulated Amortization</td>
<td>Net Value</td>
<td>Gross Value</td>
</tr>
<tr>
<td>Acquired finite-lived intangible assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer relationships</td>
<td>$ 63.8</td>
<td>$(51.1)</td>
<td>$ 12.7</td>
<td>$ 52.6</td>
</tr>
<tr>
<td>Contracts and backlog</td>
<td>32.1</td>
<td>(26.7)</td>
<td>5.4</td>
<td>29.9</td>
</tr>
<tr>
<td>Developed technology and technical know-how</td>
<td>25.0</td>
<td>(22.0)</td>
<td>3.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Trade names</td>
<td>1.8</td>
<td>(1.4)</td>
<td>0.4</td>
<td>1.4</td>
</tr>
<tr>
<td>In-process research and development</td>
<td>6.0</td>
<td>—</td>
<td>6.0</td>
<td>—</td>
</tr>
<tr>
<td>Total finite-lived intangible assets</td>
<td>128.7</td>
<td>(101.2)</td>
<td>27.5</td>
<td>108.9</td>
</tr>
<tr>
<td>Indefinite-lived trade names</td>
<td>6.9</td>
<td>—</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Total intangible assets</td>
<td>$ 135.6</td>
<td>$(101.2)</td>
<td>$ 34.4</td>
<td>$ 115.8</td>
</tr>
</tbody>
</table>

Consolidated amortization expense related to intangible assets subject to amortization was $1.5 million and $1.7 million for the three months ended March 31, 2019 and April 1, 2018, respectively.
Note 6. Inventoried Costs

Inventoried costs, net of progress payments, consisted of the following components (in millions):

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2019</th>
<th>December 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>$37.6</td>
<td>$34.7</td>
</tr>
<tr>
<td>Work in process</td>
<td>23.7</td>
<td>10.3</td>
</tr>
<tr>
<td>Finished goods</td>
<td>8.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Subtotal inventoried costs</td>
<td>69.3</td>
<td>46.8</td>
</tr>
<tr>
<td>Less: Customer advances and progress payments</td>
<td>(0.1)</td>
<td>—</td>
</tr>
<tr>
<td>Total inventoried costs</td>
<td>$69.2</td>
<td>$46.8</td>
</tr>
</tbody>
</table>

Note 7. Net Income (Loss) per Common Share

The Company calculates net income (loss) per share in accordance with FASB Accounting Standards Codification Topic 260, Earnings per Share (Topic 260). Under Topic 260, basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted net income (loss) per common share reflects the effects of potentially dilutive securities.

Shares from stock options and awards, excluded from the calculation of diluted net income (loss) per share because their inclusion would have been antidilutive, were $0.3 million for the three months ended April 1, 2018.

Note 8. Leases

The Company leases certain facilities, office space, vehicles and equipment. Lease assets and lease liabilities are recognized at the commencement of an arrangement where it is determined at inception that a lease exists. Lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using an incremental borrowing rate generally applicable to the location of the lease asset, unless the implicit rate is readily determinable. Lease assets also include any upfront lease payments made and exclude lease incentives. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. The Company has operating lease arrangements with lease and non-lease components. The non-lease components in these arrangements are not significant when compared to the lease components. For all operating leases, the Company accounts for the lease and non-lease components as a single component.

Variable lease payments are generally expensed as incurred and include certain index-based changes in rent, certain non-lease components, such as maintenance and other services provided by the lessor, and other charges included in the lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and the expense for these short-term leases is recognized on a straight-line basis over the lease term.

The depreciable life of lease assets and leasehold improvements is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

As a result of a lease modification for our expanded facilities in Colorado, the Company was required to reassess the classification of the lease which previously had been accounted for as an operating lease. This reassessment resulted in the recording of a $39.3 million finance lease, which includes a 5 year renewal option.
The components of lease expense were as follows (in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization of right of use assets - finance leases</td>
<td>$0.5</td>
</tr>
<tr>
<td>Interest on lease liabilities - finance leases</td>
<td>$0.6</td>
</tr>
<tr>
<td>Operating lease cost (cost resulting from lease payments)</td>
<td>$3.0</td>
</tr>
<tr>
<td>Short-term lease cost</td>
<td>$0.1</td>
</tr>
<tr>
<td>Variable lease cost (cost excluded from lease payments)</td>
<td>—</td>
</tr>
<tr>
<td>Sublease income</td>
<td>(0.8)</td>
</tr>
<tr>
<td><strong>Total lease cost</strong></td>
<td><strong>$3.4</strong></td>
</tr>
</tbody>
</table>

The components of leases on the balance sheet were as follows (in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Leases:</strong></td>
<td></td>
</tr>
<tr>
<td>Operating lease right-of-use assets</td>
<td>$38.1</td>
</tr>
<tr>
<td>Current portion of operating lease liabilities</td>
<td>$13.3</td>
</tr>
<tr>
<td>Operating lease liabilities, net of current portion</td>
<td>$31.3</td>
</tr>
<tr>
<td><strong>Finance leases:</strong></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>$39.1</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>$0.5</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>$38.9</td>
</tr>
<tr>
<td><strong>Cash paid for amounts included in the measurement of lease liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Finance lease - cash paid for interest</td>
<td>$0.6</td>
</tr>
<tr>
<td>Finance lease - financing cash flows</td>
<td>$0.1</td>
</tr>
<tr>
<td>Operating lease - operating cash flows (fixed payments)</td>
<td>$3.3</td>
</tr>
</tbody>
</table>

Other supplemental information (in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating lease right-of-use assets obtained in exchange for new lease liabilities</td>
<td>$41.2</td>
</tr>
<tr>
<td>Finance lease right-of-use assets obtained in exchange for new lease liabilities</td>
<td>$39.6</td>
</tr>
<tr>
<td><strong>Weighted-average remaining lease term (in years):</strong></td>
<td></td>
</tr>
<tr>
<td>Operating leases</td>
<td>5.1</td>
</tr>
<tr>
<td>Finance leases</td>
<td>19.6</td>
</tr>
<tr>
<td><strong>Weighted-average discount rate:</strong></td>
<td></td>
</tr>
<tr>
<td>Operating leases</td>
<td>6.50%</td>
</tr>
<tr>
<td>Finance leases</td>
<td>6.53%</td>
</tr>
</tbody>
</table>

17
The maturity of lease liabilities is (in millions):

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Leases</th>
<th>Finance Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 (1)</td>
<td>$11.8</td>
<td>$2.3</td>
</tr>
<tr>
<td>2020</td>
<td>11.4</td>
<td>3.1</td>
</tr>
<tr>
<td>2021</td>
<td>7.2</td>
<td>3.2</td>
</tr>
<tr>
<td>2022</td>
<td>5.6</td>
<td>3.3</td>
</tr>
<tr>
<td>2023</td>
<td>5.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Thereafter</td>
<td>11.7</td>
<td>57.3</td>
</tr>
</tbody>
</table>

Total lease payments: $52.9 million for Operating Leases and $72.5 million for Finance Leases.

Less: imputed interest

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Leases</th>
<th>Finance Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(8.3)</td>
<td>(33.1)</td>
</tr>
</tbody>
</table>

Total present value of lease liabilities: $44.6 million for Operating Leases and $39.4 million for Finance Leases.

(1) Excludes the three months ended March 31, 2019.

Rental expense for operating leases classified under ASC 840 for the three months ended April 1, 2018 was approximately $3.8 million net of sublease income of approximately $0.8 million. As of December 30, 2018, future minimum lease payments under operating leases, which does not include $4.3 million in sublease income on the Company’s operating leases as classified under ASC 840, were as follows (in millions):

<table>
<thead>
<tr>
<th>Year ending December 30, 2018</th>
<th>Operating Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$16.5</td>
</tr>
<tr>
<td>2020</td>
<td>12.0</td>
</tr>
<tr>
<td>2021</td>
<td>9.6</td>
</tr>
<tr>
<td>2022</td>
<td>8.1</td>
</tr>
<tr>
<td>2023</td>
<td>7.9</td>
</tr>
<tr>
<td>Thereafter</td>
<td>63.1</td>
</tr>
</tbody>
</table>

Total minimum lease payments: $117.2 million.

Note 9. Income Taxes

A reconciliation of the income tax expense (benefit) from continuing operations computed by applying the statutory federal income tax rate of 21% to income from continuing operations before income taxes to the income tax provision for the three months ended March 31, 2019 and for the three months ended April 1, 2018 was as follows (in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>March 31, 2019</th>
<th>April 1, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax expense at federal statutory rate</td>
<td>$0.5</td>
<td>$0.5</td>
</tr>
<tr>
<td>State and foreign taxes, net of federal tax benefit and valuation allowance</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Release of valuation allowance due to FTT acquisition</td>
<td>(3.4)</td>
<td>—</td>
</tr>
<tr>
<td>GILTI</td>
<td>—</td>
<td>0.1</td>
</tr>
<tr>
<td>Nondeductible expenses and other</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Impact of deferred tax liabilities for indefinite-lived assets</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Increase in reserves for uncertain tax positions</td>
<td>1.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Decrease in federal valuation allowance</td>
<td>(0.6)</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Total income tax (benefit) provision</td>
<td>$ (1.5)</td>
<td>$ 0.9</td>
</tr>
</tbody>
</table>

In assessing the Company’s ability to realize deferred tax assets, management considers, on a periodic basis, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As such, management has determined that it is appropriate to maintain a full valuation allowance against the Company’s U.S. federal, combined state and certain foreign deferred tax assets, with the exception of an amount equal to its deferred tax liabilities, which can be expected to reverse over a definite life.
Federal and state income tax laws impose restrictions on the utilization of NOLs and tax credit carryforwards in the event that an “ownership change” occurs for tax purposes, as defined by Section 382 of the Internal Revenue Code of 1986, as amended (“Section 382”). In general, an ownership change occurs when shareholders owning 5% or more of a “loss corporation” (a corporation entitled to use NOLs or other loss carryovers) have increased their ownership of stock in such corporation by more than 50 percentage points during any three-year period. The annual base Section 382 limitation is calculated by multiplying the loss corporation’s value at the time of the ownership change by the greater of the long-term tax-exempt rate determined by the Internal Revenue Service in the month of the ownership change or the two preceding months. This base limitation is subject to adjustments, including an increase for built-in gains recognized in the five-year period after the ownership change.

In March 2010, an “ownership change” occurred that will limit the utilization of NOL carryforwards. In July 2011, another “ownership change” occurred. The March 2010 ownership change limitation is more restrictive. In prior years, the Company acquired corporations with NOL carryforwards at the date of acquisition (“Acquired NOLs”). The Acquired NOLs are subject to separate limitations that may further restrict the use of Acquired NOLs. As a result, the Company’s federal annual utilization of NOL carryforwards was limited to $27.0 million a year for the five years succeeding the March 2010 ownership change and $11.6 million for each year thereafter subject to separate limitations for Acquired NOLs. If the entire limitation amount is not utilized in a year, the excess can be carried forward and utilized in future years.

In March 2010, an “ownership change” occurred that will limit the utilization of NOL carryforwards. In July 2011, another “ownership change” occurred. The March 2010 ownership change limitation is more restrictive. In prior years, the Company acquired corporations with NOL carryforwards at the date of acquisition (“Acquired NOLs”). The Acquired NOLs are subject to separate limitations that may further restrict the use of Acquired NOLs. As a result, the Company’s federal annual utilization of NOL carryforwards was limited to $27.0 million a year for the five years succeeding the March 2010 ownership change and $11.6 million for each year thereafter subject to separate limitations for Acquired NOLs. If the entire limitation amount is not utilized in a year, the excess can be carried forward and utilized in future years.

For the three months ended March 31, 2019, there was no impact of such limitations on the income tax provision, since the amount of taxable income did not exceed the annual limitation amount. However, future equity offerings or acquisitions that have equity as a component of the purchase price could also cause an “ownership change.” If and when any other “ownership change” occurs, utilization of the NOLs or other tax attributes may be further limited.

As discussed elsewhere, deferred tax assets relating to the NOL and credit carryforwards are offset by a full valuation allowance. In addition, utilization of state tax loss carryforwards is dependent upon sufficient taxable income apportioned to the states.

The Company is subject to taxation in the U.S. and various state and foreign tax jurisdictions. The Company’s tax years for 2000 and later are subject to examination by the U.S. and state tax authorities due to the existence of the NOL carryforwards. Generally, the Company’s tax years for 2002 and later are subject to examination by various foreign tax authorities as well.

During 2018 the Company was notified by the Internal Revenue Service that its federal income tax return for the calendar year ending December 27, 2015 had been selected for examination. The Company is currently in the process of responding to the information requested.

As of December 30, 2018, the Company had $17.7 million of unrecognized tax benefits that, if recognized, would impact the Company’s effective income tax rate, subject to possible offset by an increase in the deferred tax asset valuation allowance. During the three months ended March 31, 2019, unrecognized tax benefits increased by $1.7 million relating to various current year positions.

The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. For the three months ended March 31, 2019 and April 1, 2018, the Company recorded an expense for interest and penalties of $0.1 million. For the three months ended March 31, 2019 and April 1, 2018, there was no material benefit recorded related to the removal of interest and penalties. The Company believes that it is reasonably possible that as much as $0.4 million of the liabilities for uncertain tax positions will expire within twelve months of March 31, 2019 due to the expiration of various applicable statutes of limitations.
(a) Issuance of 6.5% Senior Secured Notes due 2025

In November 2017, the Company issued and sold $300 million aggregate principal amount of 6.5% Senior Secured Notes due 2025 (the “6.5% Notes”) in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the “Act”). The Company incurred debt issuance costs of $6.6 million associated with the new 6.5% Notes. The Company utilized the net proceeds from the sale of the 6.5% Notes, as well as cash from its recent equity offering to extinguish the outstanding 7% Notes (as defined below). The total reacquisition price of the 7% Notes was $385.2 million, including a $12.0 million call premium, and $0.3 million of accrued interest.

The 6.5% Notes are governed by the Indenture, dated as of November 20, 2017 (the “Indenture”), among the Company, the Company’s existing and future domestic subsidiaries parties thereto (the “Subsidiary Guarantors”) and Wilmington Trust, National Association, as trustee and collateral agent. A Subsidiary Guarantor can be released from its guarantee if (a) all of the capital stock issued by such Subsidiary Guarantor or all or substantially all of the assets of such Subsidiary Guarantor are sold or otherwise disposed of; (b) the Company designates such Subsidiary Guarantor as an Unrestricted Subsidiary (as defined in the Indenture); (c) the Company exercises its legal defeasance option or its covenant defeasance option; or (d) upon satisfaction and discharge of the Indenture or payment in full in cash of the principal of, premium, if any, and accrued and unpaid interest on the 6.5% Notes.

The 6.5% Notes bear interest at a rate of 6.5% per year from the date of original issuance or from the most recent payment date on which interest has been paid or provided for. Interest on the 6.5% Notes is payable in arrears on May 30 and November 30 of each year, beginning on May 30, 2018. The 6.5% Notes are fully and unconditionally guaranteed by the Subsidiary Guarantors.

The 6.5% Notes and the guarantees (as set forth in the Indenture) are the Company’s senior secured obligations and are equal in right of payment with all other senior obligations of the Subsidiary Guarantors’ existing and future secured debt to the extent of the assets securing that secured debt. The Company’s obligations under the 6.5% Notes are secured by a first priority lien on substantially all of the Company’s assets and the assets of the Subsidiary Guarantors, except with respect to accounts receivable, inventory, deposit accounts, securities accounts, cash, securities and general intangibles (other than intellectual property), on which the holders of the 6.5% Notes have a second priority lien, junior to the lien securing the Company’s obligations under the Credit Agreement (as defined below).

The 6.5% Notes will be redeemable, in whole or in part, at any time on or after November 30, 2020 at the respective redemption prices specified in the Indenture. In addition, the Company may redeem up to 40% of the 6.5% Notes before November 30, 2020 with the net proceeds of certain equity offerings. The Company may also redeem some or all of the 6.5% Notes before November 30, 2020 at a redemption price of 103.000% of the principal amount thereof plus accrued and unpaid interest, to, but excluding, the redemption date, if any, plus a “make whole” premium. In addition, during each 12-month period commencing on the issue date and ending on or prior to November 30, 2020, the Company may redeem up to 10% of the original aggregate principal amount of the 6.5% Notes issued under the Indenture at a redemption price of 103.000% of the principal amount thereof, plus accrued and unpaid interest, to, but excluding, the date of redemption, if any. The Company may also be required to make an offer to purchase the 6.5% Notes upon a change of control and certain sales of its assets.

The Indenture contains covenants limiting, among other things, the Company’s ability and the Subsidiary Guarantors’ ability to: (a) pay dividends on or make distributions or repurchase or redeem the Company’s capital stock or make other restricted payments; (b) incur additional debt and guarantee debt; (c) prepay, redeem or repurchase certain debt; (d) issue certain preferred stock or similar equity securities; (e) make loans and investments; (f) sell assets; (g) incur liens; (h) consolidate, merge, sell or otherwise dispose of all or substantially all of the Company’s assets; (i) enter into transactions with affiliates; and (j) enter into agreements restricting the Company’s ability and certain of its subsidiaries’ ability to pay dividends. These covenants are subject to a number of exceptions. As of March 31, 2019, the Company was in compliance with the covenants contained in the Indenture governing the 6.5% Notes.

The terms of the Indenture require that the net cash proceeds from asset dispositions be either utilized to (i) repay or prepay amounts outstanding under the Credit Agreement unless such amounts are reinvested in similar collateral, (ii) permanently reduce other indebtedness, (iii) make an investment in assets that replace the collateral of the 6.5% Notes or (iv) a combination of (i), (ii) and (iii). To the extent there are any remaining net proceeds from the asset disposition after application of (i), (ii) and (iii), such amounts are required to be utilized to repurchase the 6.5% Notes at par.
The Indenture also provides for events of default which, if any such event occurs, would permit or require the principal, premium, if any, interest, if any, and any other monetary obligations on all the then-outstanding 6.5% Notes to become or to be declared due and payable immediately.

As of March 31, 2019, there was $300.0 million of 6.5% Notes outstanding.

(b) Other Indebtedness

Credit Agreement

On November 20, 2017, the Company entered into an amended and restated credit and security agreement (the “Credit Agreement”), with the lenders from time to time party thereto, SunTrust Bank, as Agent (the “Agent”), PNC Bank, National Association (“PNC Bank”), as Joint Lead Arranger and Documentation Agent, and SunTrust Robinson Humphrey, Inc. (“SunTrust”), as Joint Lead Arranger and Sole Book Runner. The Credit Agreement established a five-year senior secured revolving credit facility in the aggregate principal amount of $90.0 million (subject to a potential increase of the aggregate principal amount to $115.0 million, subject to the Agent’s and applicable lenders’ approval as described therein), consisting of a subline for letters of credit in an amount not to exceed $50.0 million, as well as a swingline loan in an aggregate principal amount at any time outstanding not to exceed $10.0 million. The obligations under the Credit Agreement are secured by (i) a first priority lien on the Company’s accounts receivable, inventory, deposit accounts, securities accounts, cash, securities and general intangibles (other than intellectual property) and (ii) a second priority lien, junior to the lien securing the Company’s 6.5% Notes, on all of the Company’s other assets.

Borrowings under the revolving credit facility may take the form of a base rate revolving loan, Eurodollar revolving loan or swingline loan. Base rate revolving loans and swingline loans will bear interest at a rate per annum equal to the sum of the Applicable Margin (as defined in the Credit Agreement) from time to time in effect plus the highest of (i) the Agent’s prime lending rate, as in effect at such time, (ii) the federal funds rate, as in effect at such time, plus 0.50% per annum and (iii) the Adjusted LIBO Rate (as defined in the Credit Agreement) determined at such time for an interest period of one month, plus 1.00% per annum. Eurodollar revolving loans will bear interest at a rate per annum equal to the sum of the Applicable Margin from time to time in effect plus the Adjusted LIBO Rate. The Applicable Margin varies between 1.00%-1.50% for base rate revolving loans and swingline loans and 2.00%-2.50% for Eurodollar loans, and is based on several factors including the Company’s then-existing borrowing base and the lenders’ total commitment amount and revolving credit exposure. The calculation of the Company’s borrowing base takes into account several items relating to the Company and its subsidiaries, including amounts due and owing under billed and unbilled accounts receivable, then held eligible raw materials inventory, work-in-process inventory, and applicable reserves.

The Credit Agreement contains certain covenants, which include, but are not limited to, restrictions on indebtedness, liens, and investments, and limits on other various payments, as well as a financial covenant relating to a minimum fixed charge coverage ratio. Events of default under the terms of the Credit Agreement include, but are not limited to: failure of the Company to pay any principal of any loans in full when due and payable; failure of the Company to pay any interest on any loan or any fee or other amount payable under the Credit Agreement within three business days after the date when due and payable; failure of the Company or any of its subsidiaries to comply with certain covenants and agreements, subject to applicable grace periods and/or notice requirements; any representation, warranty or statement made in or pursuant to the Credit Agreement or any related writing or any other material information furnished by the Company or any of its subsidiaries to the Agent or the lenders proving to be false or erroneous; and the occurrence of an event or condition having or reasonably likely to have a material adverse effect, which includes a material adverse effect on the business, operations, condition (financial or otherwise) or prospects of the Company or the ability of the Company to repay its obligations. Where an event of default arises from certain bankruptcy events, the commitments will automatically and immediately terminate the principal of, and interest then outstanding on, all of the loans will become immediately due and payable. Subject to certain notice requirements and other conditions, upon the occurrence of an event of default, including the occurrence of a condition having or reasonably likely to have a material adverse effect, commitments may be terminated and the principal of, and interest then outstanding on, all of the loans may become immediately due and payable. As of March 31, 2019, no event of default had occurred and the Company believes that events or conditions having a material adverse effect, giving rise to an acceleration of any amounts outstanding under the Credit Agreement, have not occurred and the likelihood of such events or conditions occurring is remote.

The measurement of a minimum fixed charge coverage ratio under the Credit Agreement was modified in November 2017 to require measurement if Excess Availability (as defined in the Credit Agreement) is less than 50% of the lesser of the borrowing base or the total commitment amount.

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On June 11, 2018, the Company entered into a first amendment (the “First Amendment”) to the amended and restated Credit Agreement. Among other things, the First Amendment permitted the sale of the PSS business, provided that certain conditions, including application of the proceeds in accordance with the terms of documents governing the Company’s outstanding indebtedness, were satisfied.

As of March 31, 2019, there were no borrowings outstanding on the Credit Agreement and $5.7 million was outstanding on letters of credit, resulting in net borrowing base availability of $65.4 million. The Company was in compliance with the financial covenants of the Credit Agreement and its amendments as of March 31, 2019.

Fair Value of Long-term Debt

Carrying amounts and the related estimated fair values of the Company’s long-term debt financial instruments not measured at fair value on a recurring basis at March 31, 2019 and December 30, 2018 are presented in the following table:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>As of March 31, 2019</th>
<th>As of December 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>Carrying Amount</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Total long-term debt including current portion</td>
<td>$300.0</td>
<td>$294.4</td>
</tr>
</tbody>
</table>

The fair value of the Company’s long-term debt was based upon actual trading activity (Level 1, Observable inputs -quoted prices in active markets).

As of March 31, 2019, the difference between the carrying amount of $294.4 million and the principal amount of $300.0 million presented in the table above is the unamortized debt issuance costs of $5.6 million, which are being accreted to interest expense over the term of the related debt. As of December 30, 2018, the difference between the carrying amount of $294.2 million and the principal amount of $300.0 million presented in the table above is the unamortized debt issuance costs of $5.8 million, which are being accreted to interest expense over the term of the related debt.

Note 11. Segment Information

The Company operates in two reportable segments. The KGS reportable segment is comprised of an aggregation of KGS operating segments, including the microwave electronic products, satellite communications, modular systems, defense and rocket support services, and turbine technologies operating segments. The Unmanned Systems (“US”) reportable segment consists of its unmanned aerial system and unmanned ground and seaborne system businesses. The KGS and US segments provide products, solutions and services for mission critical national security programs. KGS and US customers primarily include national security related agencies, the U.S. Department of Defense (the “DoD”), intelligence agencies and classified agencies, and to a lesser degree, international government agencies and domestic and international commercial customers.

The Company organizes its reportable segments based on the nature of the products, solutions and services offered. Transactions between segments are generally negotiated and accounted for under terms and conditions similar to other government and commercial contracts. This presentation is consistent with the Company’s operating structure. In the following table total operating income from continuing operations of the reportable business segments is reconciled to the corresponding consolidated amount. The reconciling item “unallocated corporate expense, net” includes costs for certain stock-based compensation programs (including stock-based compensation costs for stock options, employee stock purchase plan and restricted stock units), the effects of items not considered part of management’s evaluation of segment operating performance, merger and acquisition expenses, corporate costs not allocated to the segments, and other miscellaneous corporate activities.
Revenues, depreciation and amortization, and operating income generated by the Company’s reportable segments for the three month periods ended March 31, 2019 and April 1, 2018 are as follows (in millions):

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2019</th>
<th>April 1, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kratos Government Solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service revenues</td>
<td>$62.6</td>
<td>$46.0</td>
</tr>
<tr>
<td>Product sales</td>
<td>62.9</td>
<td>69.2</td>
</tr>
<tr>
<td><strong>Total Kratos Government Solutions</strong></td>
<td>125.5</td>
<td>115.2</td>
</tr>
<tr>
<td>Unmanned Systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service revenues</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Product sales</td>
<td>34.9</td>
<td>27.8</td>
</tr>
<tr>
<td><strong>Total Unmanned Systems</strong></td>
<td>34.9</td>
<td>27.8</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$160.4</td>
<td>$143.0</td>
</tr>
<tr>
<td><strong>Depreciation &amp; amortization:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kratos Government Solutions</td>
<td>$3.9</td>
<td>$3.6</td>
</tr>
<tr>
<td>Unmanned Systems</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total depreciation and amortization</strong></td>
<td>$5.1</td>
<td>$4.5</td>
</tr>
<tr>
<td><strong>Operating income from continuing operations:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kratos Government Solutions</td>
<td>$11.4</td>
<td>$7.9</td>
</tr>
<tr>
<td>Unmanned Systems</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total segment operating income</strong></td>
<td>12.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Unallocated corporate expense, net</td>
<td>(3.8)</td>
<td>(1.7)</td>
</tr>
<tr>
<td><strong>Total operating income from continuing operations</strong></td>
<td>$8.2</td>
<td>$7.0</td>
</tr>
</tbody>
</table>

Included in the unallocated corporate expense, net, for the three months ended March 31, 2019 is transaction expenses of $1.2 million related to the acquisition of FTT.

**Note 12. Redeemable Noncontrolling Interest**

As discussed in “Acquisition” in Note 2, in connection with the Company’s acquisition of FTT, the Holders have certain rights (“Put Rights”), (i) beginning in January 2024, the Holders will have an annual Put Right to sell all of the Minority Interests to the Company at a purchase price based on an assumed enterprise value of 12 times the trailing 12 months EBITDA of FTT Inc., FTT Core and each of their respective subsidiaries (the “Acquired Companies”), subject to adjustment as set forth in the Exchange Agreement (provided, however, that following certain events, including a change of control, the Put Right will be accelerated and the Minority Interest Purchase Price will be increased to 14 times the trailing 12 months EBITDA of the Acquired Companies); and (ii) beginning in January 2025, the Company will have an annual right to purchase all of the Minority Interests from the Holders at the Minority Interest Purchase Price. As of March 31, 2019, the management estimate of the Redemption Amount (“Redemption Amount”) of these Put Rights that the Company could be required to pay is approximately $15.0 million. The actual Redemption Amount will likely be different.

**Note 13. Significant Customers**

Revenue from the U.S. Government, which includes foreign military sales, includes revenue from contracts for which the Company is the prime contractor as well as those for which the Company is a subcontractor and the ultimate customer is the U.S. Government. The KGS and US segments have substantial revenue from the U.S. Government. Sales to the U.S. Government amounted to approximately $116.9 million and $100.9 million, or 73% and 71% of total Kratos revenue, for the three months ended March 31, 2019 and April 1, 2018, respectively.

**Note 14. Commitments and Contingencies**

In addition to commitments and obligations in the ordinary course of business, the Company is subject to various claims, pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of the Company’s business. The Company assesses contingencies to determine the
degree of probability and range of possible loss for potential accrual in its condensed consolidated financial statements. An estimated loss contingency is accrued in the condensed consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing litigation contingencies is highly subjective and requires judgments about future events. When evaluating contingencies, the Company may be unable to provide a meaningful estimate due to a number of factors, including but not limited to the procedural status of the matter in question, the presence of complex or novel legal theories, and the ongoing discovery and development of information important to the matters. In addition, damage amounts claimed in litigation against it may be unsupported, exaggerated or unrelated to possible outcomes and, as such, are not meaningful indicators of its potential liability. The Company regularly reviews contingencies to determine the adequacy of its accruals and related disclosures. The amount of ultimate loss may differ from these estimates. It is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies. Whether any losses finally determined in any claim, action, investigation or proceeding could reasonably have a material effect on the Company’s business, financial condition, results of operations or cash flows will depend on a number of variables, including the timing and amount of such losses; the structure and type of any remedies; the monetary significance any such losses, damages or remedies may have on the condensed consolidated financial statements; and the unique facts and circumstances of the particular matter that may give rise to additional factors.

**Legal and Regulatory Matters**

**U.S. Government Cost Claims**

The Company’s contracts with the DoD are subject to audit by the Defense Contract Audit Agency (“DCAA”). As a result of these audits, from time to time the Company is advised of claims concerning potential disallowed, overstated or disputed costs. For example, during the course of recent audits of the Company’s contracts, the DCAA is closely examining and questioning certain of the established and disclosed practices that it had previously audited and accepted. The Company’s personnel regularly scrutinizes costs incurred and allocated to contracts with the U.S. Government for compliance with regulatory standards. For those Company subsidiaries and fiscal years which have not yet been audited by the DCAA or for those audits which are in process which have not been completed by the DCAA, the Company cannot reasonably estimate the range of loss, if any, that may result from audits and reviews in which it is currently involved given the inherent difficulty in predicting regulatory action, fines and penalties, if any, and the various remedies and levels of judicial review available to the Company in the event of an adverse finding. As a result, the Company has not recorded any liability related to these matters.

**Other Litigation Matters**

The Company is subject to normal and routine litigation arising from the ordinary course and conduct of business and, at times, as a result of acquisitions and dispositions. Such disputes include, for example, commercial, employment, intellectual property, environmental and securities matters. The aggregate amounts accrued related to these matters are not material to the total liabilities of the Company. The Company intends to defend itself in any such matters and does not currently believe that the outcome of any such matters will have a material adverse impact on the Company’s financial condition, results of operations or cash flows.
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains “forward-looking statements” relating to our future financial performance, the market for our services and our expansion plans and opportunities. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue,” the negative of such terms or other comparable terminology. These forward-looking statements reflect our current beliefs, expectations and projections, are based on assumptions, and are subject to known and unknown risks and uncertainties that could cause our actual results or achievements to differ materially from any future results or achievements expressed in or implied by our forward-looking statements. Many of these factors are beyond our ability to control or predict. As a result, you should not place undue reliance on forward-looking statements. Important risks and uncertainties that could cause our actual results or achievements to differ materially from the results or achievements reflected in our forward-looking statements include, but are not limited to: changes or cutbacks in spending or the appropriation of funding by the federal government, including the U.S. Department of Defense (the “DoD”), which could cause delays, cancellations or reductions of key government contracts; bid protests; changes in the scope or timing of our projects; the timing, rescheduling or cancellation of significant customer contracts and agreements, or consolidation by or the loss of key customers; risks of adverse regulatory action or litigation; risks associated with debt leverage; failure to successfully achieve our integration, cost reduction or divestiture strategies; risks related to security breaches, cybersecurity attacks or other significant disruptions of our information systems; and competition in the marketplace, which could reduce revenues and profit margins, as well as the additional risks and uncertainties described in this Quarterly Report, in “Item 1A-Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018 filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 28, 2019 (the “Form 10-K”), and in other reports that we have filed with the SEC. These forward-looking statements reflect our views and assumptions only as of the date such forward-looking statements are made. Except as required by law, we assume no responsibility for updating any forward-looking statements, whether as a result of new information, future events or otherwise.

All references to “us,” “we,” “our,” the “Company” and “Kratos” refer to Kratos Defense & Security Solutions, Inc., a Delaware corporation, and its subsidiaries.

Overview

Kratos is a government contractor at the forefront of the DoD’s recapitalization of strategic weapon systems to address peer and near peer threats and its related Rapid Innovation Initiatives. Kratos is a leading technology, intellectual property, proprietary product and system company focused on the U.S. and its allies’ national security. Kratos is a recognized industry leader in the rapid development, demonstration and fielding of high technology systems and products at an affordable cost. A key element of our business plan is to make Company-funded investments related to key platforms, products and systems, so that we own the related intellectual property, providing us designed in, sole and single source positions with our offerings. We are an industry leader in high performance, jet powered, unmanned aerial drone target systems used to test weapon systems and to train the warfighter and a provider of high performance unmanned combat aerial systems for force multiplication and amplification. We are also an industry leader in space and satellite communications, microwave electronics, cyber security/warfare, missile defense, CSISR and training systems. Our workforce is primarily engineering and technically oriented with a significant number of employees holding national security clearances. Much of our work is performed at customer locations, or in a secure facility. Our primary end customers are national and homeland security related agencies. We believe that our technology, intellectual property, proprietary products and designed-in positions on our customers’ programs, platforms and systems, and our ability to rapidly develop, demonstrate and field affordable leading technology systems gives us a competitive advantage and creates a high barrier to entry into our markets. Our entire organization is focused on executing our strategy of becoming the leading technology and intellectual property based company in our industry.

Industry Update

On February 9, 2018, Congress approved and the President signed the Bipartisan Budget Act of 2018, which provided that:

1. spending limits created by the Budget Control Act of 2011 (“BCA”) would be increased by approximately $300 billion over the next two years;
2. defense spending would be increased by $80 billion in FY (as defined below) 2018 and by $85 billion in the current FY, to approximately $700 billion and $705 billion, respectively;
3. domestic spending would be increased by $63 billion in FY 2018 and by $68 billion in the current FY; and
4. Congress would suspend the debt limit through March 2019.
The U.S. Government’s fiscal year ("FY") ends September 30. On September 28, 2018, full-year appropriations for FY 2019 were enacted representing over half of discretionary federal spending. For FY 2019, Congress appropriated approximately $716 billion for national security, including approximately $647 billion for base discretionary funding and approximately $69 billion in Overseas Contingency Operations funding. Continuing resolutions provided funding for certain agencies (including NASA and other civil agencies) through December 21, 2018. On December 22, 2018, U.S. Government agencies that had not yet received full-year appropriations and did not otherwise have funding entered into a temporary shutdown. On January 25, 2019, a third continuing resolution was enacted, which funded these agencies through February 15, 2019. On February 15, 2019, a spending bill was enacted to fund these agencies for the remainder of FY 2019. The federal budget and debt ceiling are expected to continue to be the subject of considerable debate, which could have a significant impact on defense spending broadly and the Company’s programs in particular.

On March 12, 2019, the DOD submitted a FY 2020 budget request of $718 billion, which represents a $33 billion, or five percent increase over the FY 2019 DoD budget enacted by Congress. However, the budget environment, including budget caps mandated by the BCA for fiscal years 2020 and 2021, and uncertainty surrounding the debt ceiling and the appropriations process, remain significant short and long-term risks. Considerable uncertainty exists regarding how future budget and program decisions will unfold, including the defense spending priorities of the Administration and Congress, what challenges budget reductions (required by the BCA and otherwise) will present for the defense industry and whether annual appropriations bills for all agencies will be enacted for FY 2020. If annual appropriations bills are not timely enacted for FY 2020 or beyond, the U.S. Government may again operate under a continuing resolution, restricting new contract or program starts, presenting resource allocation challenges and placing limitations on some planned program budgets, and we may face another government shutdown of unknown duration. If a prolonged government shutdown of the DoD were to occur, it could result in program cancellations, disruptions and/or stop work orders and could limit the U.S. Government’s ability to effectively progress programs and to make timely payments, and our ability to perform on our U.S. Government contracts and successfully compete for new work.

Additionally, funding for certain programs in which we participate may be reduced, delayed or cancelled, and budget cuts globally could adversely affect the viability of our subcontractors and suppliers, and our employee base. While we believe that our business is well-positioned in areas that the DoD and other customers have indicated are areas of focus for future defense spending, the long-term impact of the BCA, other defense spending cuts, challenges in the appropriations process, the debt ceiling and the ongoing fiscal debates remain uncertain.

Significant delays or reductions in appropriations; long-term funding under a continuing resolution; an extended debt ceiling breach or government shutdown; and/or future budget and program decisions, among other items, may negatively impact our business and programs and could have a material adverse effect on our financial position, results of operations and/or cash flows.

Reportable Segments

The Company operates in two reportable segments. The Kratos Government Solutions (“KGS”) reportable segment is comprised of an aggregation of KGS operating segments, including our microwave electronic products, space and satellite communications, training systems, modular systems, defense and rocket support services, and turbine technologies operating segments. The Unmanned Systems (“US”) reportable segment consists of our unmanned aerial system and unmanned ground and seaborne system businesses.

We organize our business segments based primarily on the nature of the products, solutions and services offered. Transactions between segments are negotiated and accounted for under terms and conditions similar to other government and commercial contracts, and these intercompany transactions are eliminated in consolidation. For additional information regarding our reportable segments, see Note 11 of the accompanying Notes to Condensed Consolidated Financial Statements. From a customer and solutions perspective, we view our business as an integrated whole, leveraging skills and assets wherever possible.

Key Financial Statement Concepts

Effective December 31, 2018, we adopted the requirements of ASU 2016-02, Leases, also referred to as “ASC 842”, utilizing the optional transition method, as discussed in Note 1 to the accompanying Condensed Consolidated Financial Statements. Other than the adoption of ASC 842, there have been no changes to our key financial statement concepts for the three months ended March 31, 2019. For a complete description of our business and a discussion of our critical
Comparison of Results for the Three Months Ended March 31, 2019 to the Three Months Ended April 1, 2018

Revenues. Revenues by operating segment for the three months ended March 31, 2019 and April 1, 2018 are as follows (dollars in millions):

<table>
<thead>
<tr>
<th>Segment</th>
<th>March 31, 2019</th>
<th>April 1, 2018</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kratos Government Solutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service revenues</td>
<td>$ 62.6</td>
<td>$ 46.0</td>
<td>$ 16.6</td>
<td>36.1%</td>
</tr>
<tr>
<td>Product sales</td>
<td>62.9</td>
<td>69.2</td>
<td>(6.3)</td>
<td>(9.1)%</td>
</tr>
<tr>
<td>Total Kratos Government</td>
<td>125.5</td>
<td>115.2</td>
<td>10.3</td>
<td>8.9%</td>
</tr>
<tr>
<td>Systems product sales</td>
<td>34.9</td>
<td>27.8</td>
<td>7.1</td>
<td>25.5%</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$ 160.4</td>
<td>$ 143.0</td>
<td>$ 17.4</td>
<td>12.2%</td>
</tr>
<tr>
<td>Total service revenues</td>
<td>$ 62.6</td>
<td>$ 46.0</td>
<td>$ 16.6</td>
<td>36.1%</td>
</tr>
<tr>
<td>Total product sales</td>
<td>97.8</td>
<td>97.0</td>
<td>0.8</td>
<td>0.8%</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$ 160.4</td>
<td>$ 143.0</td>
<td>$ 17.4</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

Revenues increased $17.4 million to $160.4 million for the three months ended March 31, 2019 from $143.0 million for the three months ended April 1, 2018. Revenues in our KGS segment increased $10.3 million due to increases related to the acquisition of FTT, which contributed approximately $4.2 million, and increases in our training systems, ballistic missile target, and modular systems businesses, offset partially by reductions in our legacy government services business of $1.7 million. Revenues in our US segment increased primarily due to increased production of the U.S. Air Force AFSAT 167 targets and our SSAT/177 aerial targets for the U.S. Navy.

Product sales increased $0.8 million to $97.8 million for the three months ended March 31, 2019 from $97.0 million for the three months ended April 1, 2018 primarily due to increased production in our US business, offset by reductions in our microwave products business due to timing of production and deliveries. As a percentage of total revenue, product sales were 61.0% for the three months ended March 31, 2019 as compared to 67.8% for the three months ended April 1, 2018. Service revenues increased by $16.6 million to $62.6 million for the three months ended March 31, 2019 from $46.0 million for the three months ended April 1, 2018. The increase was primarily related to work performed in the Company’s recently acquired FTT business as well increased work in the training solutions and ballistic missile targets businesses.

Cost of Revenues. Cost of revenues increased $13.3 million to $115.5 million for the three months ended March 31, 2019 from $102.2 million for the three months ended April 1, 2018. The increase in cost of revenues was primarily a result of the increase in revenues discussed above.

Gross margin decreased to 28.0% for the three months ended March 31, 2019 from 28.5% for the three months ended April 1, 2018. Margins on services increased to 32.9% for the three months ended March 31, 2019 from 28.5% for the three months ended April 1, 2018, due primarily to a more favorable mix of revenues, primarily in the Company’s space and satellite communications business. Margins on products decreased to 24.8% for the three months ended March 31, 2019 from 28.6% for the three months ended April 1, 2018, primarily due to the mix of products produced. Margins in the KGS segment increased to 30.3% for the three months ended March 31, 2019 from 29.8% for the three months ended April 1, 2018. Margins in the US segment decreased to 19.8% for the three months ended March 31, 2019 from 23.4% for the three months ended April 1, 2018, primarily due to a less favorable mix of products being produced during the three months ended March 31, 2019.

Selling, General and Administrative (“SG&A”) Expenses. SG&A expense was $31.5 million for the three months ended March 31, 2019 and $29.8 million for the three months ended April 1, 2018. As a percentage of revenues, SG&A decreased to 19.6% at March 31, 2019 from 20.8% at April 1, 2018, which is primarily due to the leverage on the fixed SG&A infrastructure as revenues have increased, as well as the impact of cost reduction actions taken during 2018.

Research and Development (“R&D”) Expenses. R&D expenses increased $0.3 million to $3.9 million for the three months ended March 31, 2019 from $3.6 million for the three months ended April 1, 2018, with the primary increases in the Company’s unmanned systems business. As a percentage of revenues, R&D decreased to 2.4% for the three months ended March 31, 2019 from 2.5% of revenues in the three months ended April 1, 2018. R&D expenditures are primarily related to
investments we are making in conjunction with our customers, with the objectives of the Company’s products being the new platform for or “designed-in” to certain new long-term program opportunities and the Company owning certain intellectual property rights for products that support these programs as well as technology upgrades and refresh activities that are necessary for the next generation of our existing product lines specifically in our space and satellite communications business.

Unused Office Space, Restructuring Expenses, and Other. The expense of $0.1 million for the three months ended March 31, 2019 was primarily due to employee termination costs related to personnel reduction actions taken in the first quarter of 2019. The expense of $0.4 million for the three months ended April 1, 2018 was primarily due to employee termination costs related to personnel reduction actions taken in the first quarter of 2018.

Other Expense, Net. Other expense, net increased to $6.0 million from $4.8 million for the three months ended March 31, 2019 and April 1, 2018, respectively. The increase in expense of $1.2 million is primarily related to foreign transaction gains and losses, which changed from a transaction gain of $0.3 million in the three months ended April 1, 2018 to a transaction loss of $0.5 million in the three months ended March 31, 2019, as well as due to an increase of $0.5 million in the three months ended March 31, 2019 related to interest expense on finance type lease liabilities.

Provision (Benefit) for Income Taxes from Continuing Operations. Income taxes from continuing operations changed from a provision of $0.9 million in the three months ended April 1, 2018 to a benefit of $1.5 million for the three months ended March 31, 2019. For the three months ended April 1, 2018, the expense was a function of the estimated effective tax rate for the year. The estimated effective tax rate is driven by estimated foreign taxes, estimated federal and state taxes, permanent book/tax differences, tax amortization of intangible assets that have an indefinite life under accounting principles generally accepted in the U.S. and the projected income or loss for the year. The benefit for the three months ended March 31, 2019 was primarily related to the acquisition of FTT. In accordance with ASC Topic 805, we established deferred tax liabilities of approximately $4.4 million for the increase in the financial statement basis of the acquired assets of FTT. As a result of our ability to recognize deferred tax assets for these deferred tax liabilities, we released valuation allowance against our deferred tax assets and recognized an income tax benefit of $3.4 million. This benefit was partially offset by current federal, foreign and state taxes of $0.3 million and uncertain tax position liabilities of $1.6 million.

Loss from Discontinued Operations. The loss from discontinued operations was $0.6 million for the three months ended March 31, 2019, primarily reflecting the work performed in relation to outstanding tasks on legacy projects retained by the Company following the sale of the PSS business. The loss from discontinued operations was $3.5 million for the three months ended April 1, 2018 which includes a $2.0 million increase in contract costs on certain security system deployment projects for a metropolitan transit authority and $0.8 million of transaction expenses related to the disposition.

Backlog

On March 31, 2019, we had approximately $620.2 million of total backlog, of which $539.5 million was funded. We expect to recognize approximately 57% of the remaining total backlog as revenue in 2019, an additional 23% by 2020 and the balance thereafter.

Total backlog is our estimate of the amount of revenue expected to be realized over the remaining life of awarded contracts and task orders that we have in hand as of the measurement date. Total backlog can include award fees, incentive fees, or other variable consideration estimated based on the most likely amount the Company is expected to be entitled to receive, to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur. Total backlog can include both funded and unfunded future revenue under government contracts. Total backlog does not include orders for which neither party has performed and which each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party. As such, total backlog generally does not include options for additional performance obligations which have not been executed unless they are considered a material right of the base agreement/contract. For indefinite delivery or indefinite quantity contracts, only awarded or funded task orders are included for backlog purposes.

We define funded backlog as estimated future revenue under government contracts and task orders for which funding has been appropriated by Congress and authorized for expenditure by the applicable agency, plus an estimate of the future revenue expected to be realized from commercial contracts that are under firm orders. Funded backlog does not include the full potential value of the Company’s contracts because Congress often appropriates funds to be used by an agency for a particular program of a contract on a yearly or quarterly basis even though the contract may call for performance over a number of years. As a result, contracts typically are only partially funded at any point during their term, and all or some of the work to be performed under the contracts may remain unfunded unless and until Congress makes subsequent appropriation and the procuring agency allocates funding to the contract.
Contracts undertaken by us may extend beyond one year. Accordingly, portions are carried forward from one year to the next as part of backlog. Because many factors affect the scheduling of projects, no assurance can be given as to when revenue will be realized on projects included in our backlog. Although funded backlog represents only business that is considered to be firm, we cannot guarantee that cancellations or scope adjustments will not occur. The majority of funded backlog represents contracts with terms that would entitle us to all or a portion of our costs incurred and potential fees upon cancellation by the customer.

A significant number of the programs that Kratos’ systems, products and solutions support are multi-year/multi-decade in nature. Accordingly, based on historical customer usage or operational tempo, the Company has reasonable expectations or visibility of what ultimate orders for Kratos’ systems, products and solutions will be. The Company does not include these expected amounts in its backlog until a related contract award is received.

Management believes that year-to-year comparisons of backlog are not necessarily indicative of future revenues. The actual timing of receipt of revenues, if any, on projects included in backlog could change because many factors affect the scheduling of projects. In addition, cancellations or adjustments to contracts may occur. Backlog is typically subject to large variations from quarter-to-quarter as existing contracts are renewed or new contracts are awarded. Additionally, all U.S. Government contracts included in backlog, whether or not funded, may be terminated at the convenience of the U.S. Government.

Liquidity and Capital Resources

As of March 31, 2019, we had cash and cash equivalents of $178.4 million compared with cash and cash equivalents of $182.7 million as of December 30, 2018, which includes $17.1 million and $12.0 million, respectively, of cash and cash equivalents held by our foreign subsidiaries. We are not presently aware of any restrictions on the repatriation of these funds, however, earnings of these foreign subsidiaries are essentially considered permanently invested in these foreign subsidiaries. If these funds were needed to fund our operations or satisfy obligations in the U.S. they could be repatriated, and their repatriation into the U.S. may cause us to incur additional foreign withholding taxes. We do not currently intend to repatriate these earnings.

Our total debt, including principal due on our Notes, increased from $294.2 million at December 30, 2018 to $294.4 million at March 31, 2019, due to the amortization of the discount on our Notes and the amortization of deferred financing costs.

We use our operating cash flow to finance trade accounts receivable, fund necessary increases in inventory, fund capital expenditures, our internal research and development investments and our ongoing operations, service our debt and make strategic acquisitions. Financing trade accounts receivable is necessary because, on average, our customers do not pay us as quickly as we pay our vendors and employees for their goods and services since a number of our receivables are contractually billable and due to us only when certain contractual milestones are achieved. Financing increases in inventory balances is necessary to fulfill shipment requirements to meet delivery schedules of our customers. Cash from continuing operations is primarily derived from our customer contracts in progress and associated changes in working capital components. Our days sales outstanding (“DSO”) have increased from 131 days as of December 30, 2018 to 136 days at March 31, 2019, primarily as a result of certain contractual billing milestones which have not yet been achieved. Our DSOs are impacted by the achievement of contractual billing milestones such as equipment shipments and deliveries on certain products, and for certain flight requirements that must be fulfilled on certain aerial target programs, or final billings which are due until completion on certain projects, and therefore we are unable to contractually bill for amounts outstanding related to those milestones at this time. We are currently in dispute with an international customer in our US segment over approximately $11.2 million in unbilled receivables outstanding as of March 31, 2019. The dispute concerns the completion of flight requirements and contractual milestones.
A summary of our net cash provided by (used in) operating activities from continuing operations, investing activities from continuing operations, and financing activities from continuing operations and our cash flows from discontinued operations from our condensed consolidated statements of cash flows is as follows (in millions):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 31, 2019</td>
</tr>
<tr>
<td>Net cash provided by operating activities from continuing operations</td>
<td>$16.0</td>
</tr>
<tr>
<td>Net cash used in investing activities from continuing operations</td>
<td>(21.6)</td>
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<tr>
<td>Net cash provided by financing activities from continuing operations</td>
<td>0.8</td>
</tr>
<tr>
<td>Net operating cash flows of discontinued operations</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities from continuing operations for the three months ended March 31, 2019 was positively impacted by increased operating income as compared to the three months ended April 1, 2018, partially offset by changes in working capital accounts. The net use in working capital accounts for the three months ended March 31, 2019 includes approximately $0.6 million of internal development investments we are making related to the Low Cost Attritable Unmanned Aerial System Demonstration (“LCASD”).

Net cash used in investing activities from continuing operations for the three months ended March 31, 2019 is comprised of the acquisition of FTT and capital expenditures, which consist primarily of investments in machinery, computer hardware and software and improvement of our physical properties in order to maintain suitable conditions in which to conduct our business. Net cash used in investing activities for the three months ended April 1, 2018 is comprised of capital expenditures, which consist primarily of investment in machinery, computer hardware and software and improvement of our physical properties in order to maintain suitable conditions in which to conduct our business. During the three months ended March 31, 2019, capital expenditures of approximately $1.7 million were incurred in our US business, primarily related to our unmanned combat target initiative. We expect our capital expenditures for FY 2019 to continue to be significant for investments we are making in our US business totaling approximately $15 to $18 million, including approximately $4 to $6 million for capital aerial targets and related support equipment and tooling that we are building and approximately $6 to $8 million related to investments we are making to build-out our new Oklahoma manufacturing facility and a new secured facility for our US business.

Net cash provided by financing activities from continuing operations was $0.8 million for the three months ended March 31, 2019. Net cash provided by financing activities from continuing operations was $0.4 million for the three months ended April 1, 2018.

The operating cash flows from discontinued operations for the three month period ended March 31, 2019 is substantially related to the discontinued operations of our PSS business unit. During the three month period ended March 31, 2019, approximately $1.0 million was collected on amounts due related to the legacy projects retained by the Company. The operating cash flows from discontinued operations for the three month period ended April 1, 2018 is substantially related to the discontinued operations of our PSS business unit, including transaction expenses incurred related to the divestiture of this business.

**Contractual Obligations and Commitments**

**Issuance of 6.5% Senior Secured Notes due 2025**

In November 2017, we issued and sold $300 million aggregate principal amount of 6.5% Senior Secured Notes due 2025 (the “6.5% Notes”) in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the “Act”). We incurred debt issuance costs of $6.6 million associated with the new 6.5% Notes. We utilized the net proceeds from the sale of the 6.5% Notes, as well as cash from its recent equity offering to extinguish the outstanding 7% Notes. The total reacquisition price of the 7% Notes was $385.2 million, including a $12.0 million call premium, and $0.3 million of accrued interest.

The 6.5% Notes are governed by the Indenture, dated as of November 20, 2017 (the “Indenture”), among the Company, our existing and future domestic subsidiaries parties thereto (the “Subsidiary Guarantors”) and Wilmington Trust, National Association, as trustee and collateral agent. A Subsidiary Guarantor can be released from its guarantee if (a) all of the capital stock issued by such Subsidiary Guarantor or all or substantially all of the assets of such Subsidiary Guarantor are sold or otherwise
disposed of; (b) we designate such Subsidiary Guarantor as an Unrestricted Subsidiary (as defined in the Indenture); (c) we exercise our legal defeasance option or our covenant defeasance option; or (d) upon satisfaction and discharge of the Indenture or payment in full in cash of the principal of, premium, if any, and accrued and unpaid interest on the 6.5% Notes.

The 6.5% Notes bear interest at a rate of 6.5% per year from the date of original issuance or from the most recent payment date on which interest has been paid or provided for. Interest on the 6.5% Notes is payable in arrears on May 30 and November 30 of each year, beginning on May 30, 2018. The 6.5% Notes are fully and unconditionally guaranteed by the Subsidiary Guarantors.

The 6.5% Notes and the guarantees (as set forth in the Indenture) are our senior secured obligations and are equal in right of payment with all other senior obligations of the Subsidiary Guarantors’ existing and future secured debt to the extent of the assets securing that secured debt. Our obligations under the 6.5% Notes are secured by a first priority lien on substantially all of our assets and the assets of the Subsidiary Guarantors, except with respect to accounts receivable, inventory, deposit accounts, securities accounts, cash, securities and general intangibles (other than intellectual property), on which the holders of the 6.5% Notes have a second priority lien, junior to the lien securing our obligations under the Credit Agreement (as defined below).

The 6.5% Notes will be redeemable, in whole or in part, at any time on or after November 30, 2020 at the respective redemption prices specified in the Indenture. In addition, we may redeem up to 40% of the 6.5% Notes before November 30, 2020 with the net proceeds of certain equity offerings. We may also redeem some or all of the 6.5% Notes before November 30, 2020 at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest, to, but excluding, the redemption date, if any, plus a “make whole” premium. In addition, during each 12-month period commencing on the issue date and ending on or prior to November 30, 2020, we may redeem up to 10% of the original aggregate principal amount of the 6.5% Notes issued under the Indenture at a redemption price of 103.000% of the principal amount thereof, plus accrued and unpaid interest, to, but excluding, the date of redemption, if any. We may also be required to make an offer to purchase the 6.5% Notes upon a change of control and certain sales of its assets.

The Indenture contains covenants limiting, among other things, our ability and the Subsidiary Guarantors’ ability to: (a) pay dividends on or make distributions or repurchase or redeem our capital stock or make other restricted payments; (b) incur additional debt and guarantee debt; (c) prepay, redeem or repurchase certain debt; (d) issue certain preferred stock or similar equity securities; (e) make loans and investments; (f) sell assets; (g) incur liens; (h) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; (i) enter into transactions with affiliates; and (j) enter into agreements restricting our ability and certain of its subsidiaries’ ability to pay dividends. These covenants are subject to a number of exceptions. As of March 31, 2019, we were in compliance with the covenants contained in the Indenture governing the 6.5% Notes.

The terms of the Indenture require that the net cash proceeds from asset dispositions be either utilized to (i) repay or prepay amounts outstanding under the Credit Agreement unless such amounts are reinvested in similar collateral, (ii) permanently reduce other indebtedness, (iii) make an investment in assets that replace the collateral of the 6.5% Notes or (iv) a combination of (i), (ii) and (iii). To the extent there are any remaining net proceeds from the asset disposition after application of (i), (ii) and (iii), such amounts are required to be utilized to repurchase the 6.5% Notes at par.

The Indenture also provides for events of default which, if any such event occurs, would permit or require the principal, premium, if any, interest, if any, and any other monetary obligations on all the then-outstanding 6.5% Notes to become or to be declared due and payable immediately.

As of March 31, 2019, there was $300.0 million of 6.5% Notes outstanding.

Other Indebtedness

Credit Agreement

On November 20, 2017, we entered into an amended and restated credit and security agreement (the “Credit Agreement”), with the lenders from time to time party thereto, SunTrust Bank, as Agent (the “Agent”), PNC Bank, National Association ("PNC Bank"), as Joint Lead Arranger and Documentation Agent, and SunTrust Robinson Humphrey, Inc. ("SunTrust"), as Joint Lead Arranger and Sole Book Runner. The Credit Agreement established a five-year senior secured revolving credit facility in the aggregate principal amount of $90.0 million (subject to a potential increase of the aggregate principal amount to $115.0 million, subject to the Agent’s and applicable lenders’ approval as described therein), consisting of a subline for letters of credit in an amount not to exceed $50.0 million, as well as a swingline loan in an aggregate principal amount at any time outstanding not to exceed $10.0 million. The obligations under the Credit Agreement are secured by (i) a first priority lien on our accounts receivable, inventory, deposit accounts, securities accounts, cash, securities and general intangibles (other than intellectual property)and (ii) a second priority lien, junior to the lien securing our 6.5% Notes, on all of our other assets.
Borrowings under the revolving credit facility may take the form of a base rate revolving loan, Eurodollar revolving loan or swingline loan. Base rate revolving loans and swingline loans will bear interest at a rate per annum equal to the sum of the Applicable Margin (as defined in the Credit Agreement) from time to time in effect plus the highest of (i) the Agent’s prime lending rate, as in effect at such time, (ii) the federal funds rate, as in effect at such time, plus 0.50% per annum and (iii) the Adjusted LIBO Rate (as defined in the Credit Agreement) determined at such time for an interest period of one month, plus 1.00% per annum. Eurodollar revolving loans will bear interest at a rate per annum equal to the sum of the Applicable Margin from time to time in effect plus the Adjusted LIBO Rate. The Applicable Margin varies between 1.00%-1.50% for base rate revolving loans and swingline loans and 2.00%-2.50% for Eurodollar loans, and is based on several factors including our then-existing borrowing base and the lenders’ total commitment amount and revolving credit exposure. The calculation of our borrowing base takes into account several items relating to us and our subsidiaries, including amounts due and owing under billed and unbilled accounts receivable, then held eligible raw materials inventory, work-in-process inventory, and applicable reserves.

The Credit Agreement contains certain covenants, which include, but are not limited to, restrictions on indebtedness, liens, and investments, and limits on other various payments, as well as a financial covenant relating to a minimum fixed charge coverage ratio. Events of default under the terms of the Credit Agreement include, but are not limited to: failure of the Company to pay any principal of any loans in full when due and payable; failure of the Company to pay any interest on any loan or any fee or other amount payable under the Credit Agreement within three business days after the date when due and payable; failure of the Company or any of its subsidiaries to comply with certain covenants and agreements, subject to applicable grace periods and/or notice requirements; any representation, warranty or statement made in or pursuant to the Credit Agreement or any related writing or any other material information furnished by us or any of our subsidiaries to the Agent or the lenders proving to be false or erroneous; and the occurrence of an event or condition having or reasonably likely to have a material adverse effect, which includes a material adverse effect on the business, operations, condition (financial or otherwise) or our prospects or our ability to repay our obligations. Where an event of default arises from certain bankruptcy events, the commitments will automatically and immediately terminate and the principal of, and interest then outstanding on, all of the loans will become immediately due and payable. Subject to certain notice requirements and other conditions, upon the occurrence of an event of default, including the occurrence of a condition having or reasonably likely to have a material adverse effect, commitments may be terminated and the principal of, and interest then outstanding on, all of the loans may become immediately due and payable. As of March 31, 2019, no event of default had occurred and we believe that events or conditions having a material adverse effect, giving rise to an acceleration of any amounts outstanding under the Credit Agreement, have not occurred and the likelihood of such events or conditions occurring is remote.

The measurement of a minimum fixed charge coverage ratio under the Credit Agreement was modified in November 2017 to require measurement if Excess Availability (as defined in the Credit Agreement) is less than 50% of the lesser of the borrowing base or the total commitment amount.

On June 11, 2018, the Company entered into a first amendment (the “First Amendment”) to the amended and restated Credit Agreement. Among other things, the First Amendment permitted the sale of the PSS business, provided that certain conditions, including application of the proceeds in accordance with the terms of documents governing the Company’s outstanding indebtedness, were satisfied.

As of March 31, 2019, there were no borrowings outstanding on the Credit Agreement and $5.7 million was outstanding on letters of credit, resulting in net borrowing base availability of $65.4 million. We were in compliance with the financial covenants of the Credit Agreement and its amendments as of March 31, 2019.

Other Liquidity Matters

We believe that our cash on hand, together with funds available under the Credit Agreement and cash expected to be generated from operating activities, will be sufficient to fund our anticipated working capital and other cash needs for at least the next 12 months.

As discussed in Part I, Item 1A, “Risk Factors” of the Form 10-K, our quarterly and annual operating results have fluctuated in the past and may vary in the future due to a variety of factors, many of which are external to our control. If the conditions in our industry deteriorate or our customers cancel or postpone projects or if we are unable to sufficiently increase our revenues or further reduce our expenses, we may experience, in the future, a significant long-term negative impact to our financial results and cash flows from operations. In such a situation, we could fall out of compliance with our financial and other covenants, which, if not waived, could limit our liquidity and capital resources.
Critical Accounting Principles and Estimates

The foregoing discussion of our financial condition and results of operations is based on the condensed consolidated financial statements included in this Quarterly Report. The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and the related disclosures of contingencies. We base these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

Effective December 31, 2018, we adopted the requirements of ASC 842 utilizing the optional transition method as discussed in Note 1 to the accompanying Condensed Consolidated Financial Statements. Other than the adoption of ASC 842, there have been no significant changes to our “Critical Accounting Policies or Estimates” as compared to the significant accounting policies described in the Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Since December 30, 2018, there have been no material changes in the quantitative or qualitative aspects of our market risk profile. For additional information regarding the Company’s exposure to certain market risks, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” included in the Form 10-K.

Item 4. Controls and Procedures.

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) promulgated under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report.

Based on the foregoing, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2019.

Changes in Internal Control Over Financial Reporting

We operate under the COSO (Committee of Sponsoring Organizations) 2013 Framework. There was no change in our internal control over financial reporting during the three months ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.
PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 14 of the Notes to the Condensed Consolidated Financial Statements contained within this Quarterly Report for a discussion of our legal proceedings.

Item 1A. Risk Factors.

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report, as well as the risk factors disclosed in Item 1A. to Part I of the Form 10-K, and other reports that we have filed with the SEC. Any of the risks discussed in such reports, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations, financial condition or prospects. There have been no material changes in our risk factors as previously disclosed in the Form 10-K during the period covered by this Quarterly Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Except as previously disclosed in the Company’s Current Report on Form 8-K filed with the SEC on February 28, 2019, there were no unregistered sales of the Company’s equity securities during the three-month period ended March 31, 2019.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.
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<tr>
<th>Exhibit Number</th>
<th>Exhibit Description</th>
<th>Form</th>
<th>Filing Date/Period End Date</th>
<th>Exhibit</th>
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<tr>
<td>2.2#</td>
<td>Stock Purchase Agreement, dated February 28, 2018, among Kratos Defense &amp; Security Solutions, Inc., Kratos Public Safety &amp; Security Solutions, Inc. and Securitas Electronic Security, Inc.</td>
<td>10-Q</td>
<td>05/10/2018 (001-34460)</td>
<td>2.2</td>
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<tr>
<td>2.3#*</td>
<td>Purchase Agreement, dated February 27, 2019, by and among Kratos Defense &amp; Security Solutions, Inc., Shirley Brostmeyer (&quot;SB&quot;), Joseph Brostmeyer (&quot;JB&quot;), certain trusts established by SB, JB and members of their immediate family, and JB, as the Sellers Representative.</td>
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<td>3.1</td>
<td>Amended and Restated Certificate of Incorporation of Kratos Defense &amp; Security Solutions, Inc., as amended.</td>
<td>10-K</td>
<td>02/27/2017 (001-34460)</td>
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<td>3.2</td>
<td>Second Amended and Restated Bylaws of Kratos Defense &amp; Security Solutions, Inc., as amended.</td>
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<td>02/27/2017 (001-34460)</td>
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<td>02/27/2017 (001-34460)</td>
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<td>4.2</td>
<td>Indenture, dated as of November 20, 2017, among Kratos Defense &amp; Security Solutions, Inc., as Issuer, the Guarantors party thereto, and Wilmington Trust, National Association, as Trustee and Collateral Agent.</td>
<td>8-K</td>
<td>11/21/2017 (001-34460)</td>
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<tr>
<td>4.3</td>
<td>First Supplemental Indenture, dated as of December 21, 2017, among Kratos Defense &amp; Security Solutions, Inc., as Issuer, the Guarantor as party thereto, and Wilmington Trust, National Association, as Trustee.</td>
<td>10-K</td>
<td>02/28/2018 (001-34460)</td>
<td>4.5</td>
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<tr>
<td>10.1</td>
<td>Amended and Restated Lease Agreement, dated as of January 1, 2019, by and between STORE Capital Acquisitions, LLC and Kratos RT Logic, Inc.</td>
<td>10-K</td>
<td>02/28/2019 (001-34460)</td>
<td>10.34</td>
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<td>31.1</td>
<td>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</td>
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<tr>
<td>31.2</td>
<td>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</td>
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</table>
32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Eric M. DeMarco.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Deanna Lund.

101 Financial statements from the Quarterly Report on Form 10-Q of Kratos Defense & Security Solutions, Inc. for the quarter ended March 31, 2019 formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Notes to the Condensed Consolidated Financial Statements.
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, thereunto duly authorized.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

By: /s/ ERIC M. DEMARCO

Eric M. DeMarco

Chief Executive Officer, President

(Principal Executive Officer)

By: /s/ DEANNA H. LUND, CPA

Deanna H. Lund

Executive Vice President, Chief Financial Officer

(Principal Financial Officer)

By: /s/ MARIA CERVANTES DE BURGREEN, CPA

Maria Cervantes de Burgreen

Vice President and Corporate Controller

(Principal Accounting Officer)

Date: May 8, 2019

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PURCHASE AGREEMENT

among:

Kratos Defense & Security Solutions, Inc.,
a Delaware corporation,

Shirley Brostmeyer,

Joseph Brostmeyer,

The Shirley C. Brostmeyer Revocable Trust u/a/d August 25, 2002,
as amended and restated August 13, 2014,
a Florida revocable trust,

The Shirley Brostmeyer 2018 Family Trust u/a/d December 17, 2018,
a Florida irrevocable trust,

The Joseph D. Brostmeyer Revocable Trust u/a/d August 25, 2002,
as amended and restated August 13, 2014,
a Florida revocable trust,

The Joseph D. Brostmeyer 2018 Irrevocable Trust u/a/d December 17, 2018,
a Florida irrevocable trust,

and

Joseph Brostmeyer,
as Sellers Representative

Dated as of February 27, 2019
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<table>
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<tr>
<th>ARTICLE 1. PURCHASE</th>
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<tr>
<td>1.1 Purchase and Sale of the Purchased Interests</td>
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PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT is made and entered into as of February 27, 2019, by and among KRATOS DEFENSE & SECURITY SOLUTIONS, INC., a Delaware corporation ("Acquiror"), Shirley Brostmeyer, an individual ("SB"), Joseph Brostmeyer, an individual ("JB"), Shirley C. Brostmeyer and Joseph D. Brostmeyer as Trustees of The Shirley C. Brostmeyer Revocable Trust, u/a/d August 25, 2002, as amended and restated August 13, 2014, a Florida revocable trust ("SB Trust"), Joseph D. Brostmeyer and Sara J. Brostmeyer as Trustees of The Shirley Brostmeyer 2018 Family Trust, u/a/d December 17, 2018, a Florida irrevocable trust ("2018 SB Trust"), Joseph D. Brostmeyer and Shirley C. Brostmeyer as Trustees of The Joseph D. Brostmeyer Revocable Trust, u/a/d August 25, 2002, as amended and restated August 13, 2014, a Florida revocable trust ("JB Trust"), Shirley C. Brostmeyer and Julia A. Brostmeyer as Trustees of The Joseph D. Brostmeyer 2018 Irrevocable Trust, u/a/d December 17, 2018, a Florida irrevocable trust ("2018 JB Trust") (SB, JB, SB Trust, 2018 SB Trust, JB Trust and 2018 JB Trust are each a “Seller” and, collectively, the “Sellers”), and Joseph Brostmeyer, as the Sellers Representative. Except as otherwise set forth herein, capitalized terms used herein have the meanings set forth in Exhibit A.

RECITALS

WHEREAS, the Sellers (other than SB and JB) own, collectively, all of the membership interests of FTT CORE, LLC, a Delaware limited liability company (the “Company”), which are expressed in terms of percentages of the whole, each such membership interest entitling the holder thereof to its pro rata rights or interests in all matters of company governance, profits, losses, revenue, expenses, and distributions (the “Company Units”);

WHEREAS, the Sellers (other than SB and JB) own, collectively, all of the outstanding shares of capital stock (the “Shares”) of FLORIDA TURBINE TECHNOLOGIES, INC., a Florida corporation (“FTT Inc.”);

WHEREAS, SB and JB and members of their family are beneficiaries of the other Sellers which are party hereto and will, accordingly, directly benefit from the Contemplated Transactions;

WHEREAS, the Sellers desire to sell to Acquiror, and Acquiror desires to purchase from the Sellers, (i) 80.1%, on a fully diluted basis, of the issued and outstanding Company Units, and (ii) 80.1%, on a fully diluted basis, of the issued and outstanding Shares (together, the “Purchased Interests”), subject to the terms and conditions set forth in this Agreement (the “Purchase”);

WHEREAS, upon the consummation of the Purchase, Acquiror will own 80.1% of each of the total issued and outstanding Company Units and Shares, and the Sellers will collectively own 19.9% of each of the total issued and outstanding Company Units and Shares; and

WHEREAS, this Agreement, the Related Agreements and the Contemplated Transactions have been approved by the respective boards of directors of Acquiror and FTT Inc. and by the board of managers of the Company.
NOW, THEREFORE, in consideration of the foregoing and the respective covenants, agreements and representations and warranties set forth herein, the parties to this Agreement, intending to be legally bound, agree as follows:

ARTICLE 1.
PURCHASE

1.1 Purchase and Sale of the Purchased Interests. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, each Seller shall sell, assign, transfer, convey and deliver to Acquiror, free and clear of any and all Liens, and Acquiror shall purchase from each Seller, the Purchased Interests set forth opposite each Seller’s name on Schedule A hereto, which interests, upon the consummation of the Contemplated Transactions, shall represent 80.1% of each of the issued and outstanding Company Units and Shares on a fully diluted basis.

1.2 Closing. The consummation of the transactions contemplated by Section 1.1 (the “Closing”) shall take place at the offices of Paul Hastings LLP, 4747 Executive Drive, 12th Floor, San Diego, California 92121, at 11:00 a.m. Pacific Time on the date hereof. The date on which the Closing takes place is referred to in this Agreement as the “Closing Date.”

1.3 Closing Consideration. The aggregate consideration (the “Purchase Price”) to be paid for the Purchased Interests is $60,000,000. The Purchase Price shall consist of $33,000,000 payable in cash (the “Cash Purchase Price”) and $27,000,000 payable in shares of Acquiror Common Stock (the “Stock Purchase Price”). The Cash Purchase Price will be subject to adjustment, as provided in Section 1.4(a), Section 1.5 and Section 2.2. The Stock Purchase Price will be subject to adjustment, as provided in Section 1.4(b).

1.4 Payment of Closing Consideration to the Sellers. At the Closing:

(a) Acquiror shall pay to each Seller an amount of cash equal to the Closing Cash Payment multiplied by the Percentage Interest applicable to such Seller. For purposes of this Agreement, the “Closing Cash Payment” shall mean an aggregate amount of cash equal to (i) the Cash Purchase Price, plus (ii) the Estimated Closing Cash, minus (iii) the Escrow Amount, minus (iv) the Cash Incentive Amount, minus (v) the Bonus Pool Amount, minus (vi) Transaction Expenses, minus (vii) any Company Indebtedness outstanding as of immediately prior to the Closing, and minus (viii) the Sellers Representative Amount, by wire transfer of cash in immediately available funds pursuant to written instructions provided by the Sellers to Acquiror at least two Business Days prior to the Closing.

(b) Acquiror shall deliver, or shall cause to be delivered, to each Seller, that number of shares of Acquiror Common Stock equal to the Closing Stock Payment multiplied by the Percentage Interest applicable to such Seller. For purposes of this Agreement, (i) the “Closing Stock Amount” shall mean the Stock Purchase Price, minus the Minority Stock Payment and (ii) the “Closing Stock Payment” shall mean the Closing Stock Amount divided by the Issue Price. Each Seller shall receive his, her or its Percentage Interest of the Closing Stock Payment by issuance of a duly executed stock certificate and Acquiror shall ensure that, at Closing, the books and records of Acquiror, including its stock transfer ledger, shall reflect such
ownership. In the event that the foregoing calculation results in a Seller being entitled to receive a fractional share of Acquiror Common Stock, in lieu of such fractional share, Acquiror shall pay to such Seller an amount in cash equal to the value of such fractional share based upon the Issue Price. Notwithstanding the foregoing, in no event shall the aggregate number of shares of Acquiror Common Stock issuable pursuant to Article 1 of this Agreement exceed 19.99% of the outstanding shares of Acquiror Common Stock as of immediately prior to the Closing Date; provided that any reduction in Acquiror Common Stock issued as a result of the foregoing clause shall require a corresponding increase in the Closing Cash Payment.

(c) By execution hereof, each of the Sellers hereby expressly acknowledges and agrees (i) that he, she or it understands the Purchase Price mechanics set forth herein (including the manner in which his, her or its Percentage Interest will be calculated) and (ii) to the deductions from the Cash Purchase Price and the Stock Purchase Price for the items referenced herein, including the establishment of the Escrow Account, the retention of the Escrow Amount for such account, and the distribution and use of those funds pursuant to the terms of this Agreement and the Escrow Agreement.

1.5 Earn Out Consideration.

(a) In addition to the Purchase Price described in Section 1.3, on each of the one-year, two-year, and three-year anniversary of the Closing Date, the Sellers shall be entitled to receive the aggregate amount of cash potentially payable to recipients (the “PPA Recipients”) under the Profit Participation Agreements listed on Schedule 4.4(b) of the Disclosure Schedules on such anniversary date, less the sum of (a) the aggregate amount of cash actually paid to such recipients pursuant to the Profit Participation Agreements (the “PPA Payments”) on such anniversary date plus (b) the Incremental Employer PPA Payroll Amount paid or due to any Governmental Body with respect to such PPA Payments.

(b) In addition to the Purchase Price described in Section 1.3, on the three-year anniversary of the Closing Date, the Sellers shall be entitled to receive the Bonus Pool Amount, less the sum of (a) any bonuses actually paid out to Business Employees (the “Bonus Recipients”) after the Closing Date from the Bonus Pool Amount (the “Bonus Payments”) plus (b) the Incremental Employer Bonus Payroll Amount paid or due to any Governmental Body with respect to such Bonus Payments.

(c) For the avoidance of doubt, no amounts shall be payable pursuant to this Section 1.5 unless and until such time as the Sellers are entitled to receive the payments under Section 1.5(a) or Section 1.5(b), respectively (together, the “Earn Out Consideration”). Each Seller shall receive from Acquiror an amount in cash equal to his, her or its Percentage Interest in the Earn Out Consideration, if any, within five Business Days of each respective anniversary of the Closing Date. Acquiror and Sellers agree that for federal, state and local income tax purposes, the Earn Out Consideration shall be additional consideration for the Purchased Interests to the extent paid to the Sellers pursuant to this Section 1.5. PPA Payments and Bonus Payments shall not be consideration for the sale of the Purchased Interests but shall be compensation, or deferred compensation, to the recipients for services. Acquiror and the Sellers shall cause the Earn Out Consideration to be reported in good faith in accordance with this Section 1.5.
1.6 Escrow Account; Sellers Representative Amount.

(a) Escrow Account. At the Closing, the Sellers Representative (solely in his capacity as the representative of the Sellers and the PPA Recipients), Acquiror and Wilmington Trust, National Association, as escrow agent (the “Escrow Agent”), shall enter into an escrow agreement in substantially the form of Exhibit B hereto (the “Escrow Agreement”). At the Closing, Acquiror shall withhold the Escrow Amount and deliver such cash to the Escrow Agent. The Escrow Amount shall be held by the Escrow Agent pursuant to the provisions of this Agreement and the Escrow Agreement as collateral to secure the rights of the Acquiror Indemnitees under Article 9 and Section 2.3 hereof (the “Escrow Account”). All fees and costs associated with the Escrow Account shall be paid by the Sellers.

(b) Sellers Representative Amount. At the Closing, Acquiror shall withhold an amount equal to $700,000 in cash (the “Sellers Representative Amount”) and deliver such amount to the Sellers Representative, which will be held for the purpose of funding any expenses of the Sellers Representative arising in connection with the administration of the Sellers Representative’s duties in connection with this Agreement.

1.7 Payment of Company Indebtedness and Transaction Expenses. At the Closing, Acquiror shall pay and discharge (or cause to be paid and discharged), on behalf of the Acquired Companies, all Company Indebtedness and outstanding Transaction Expenses owed by the Acquired Companies and due at Closing, in each case as evidenced on the Closing Certificate (other than the sum of any capital lease obligations) by wire transfer of immediately available funds pursuant to written instructions provided to Acquiror by the Sellers concurrently with the delivery of the Closing Certificate. Prior to the Closing Date, the Sellers provided Acquiror with customary payoff letters from all holders of such Company Indebtedness to be so paid in a form reasonably satisfactory to Acquiror and the applicable holder, and have made arrangements reasonably satisfactory to Acquiror for such holders to provide to Acquiror recordable form lien releases, cancelled notes, trademark and patent assignments and other documents reasonably requested by Acquiror simultaneously with the Closing.

1.8 Transfer Taxes. All sales and transfer Taxes, deed Taxes, conveyance fees and recording charges and similar Taxes, fees and charges imposed by the state, county or municipality where the Real Property is located, as a result of the Contemplated Transactions (collectively, the “Transfer Taxes”), together with any interest, penalties or additions to such Transfer Taxes, shall be paid timely one-half by Acquiror and one-half by the Sellers. The Sellers, the Acquired Companies and Acquiror shall cooperate in timely making all filings, returns, reports and forms as necessary or appropriate to comply with the provisions of all Applicable Laws in connection with the payment of such Transfer Taxes, and shall cooperate in good faith to minimize, to the fullest extent possible under such Laws, the amount of any such Transfer Taxes payable in connection therewith.

1.9 Further Action. If, at any time after the Closing Date, any further action is reasonably determined by Acquiror to be necessary or desirable to carry out the purposes of this Agreement and the Related Agreements or to vest Acquiror or its Affiliates with full right, title and possession of the Company Units and the Shares and to all rights and property of the
Acquired Companies, the officers and directors of Acquiror and its Affiliates shall be fully authorized (in the name of the Acquired Companies and otherwise) to take such action.

1.10 Withholding. Notwithstanding anything to the contrary in this Agreement, Acquiror or any other withholding agent, including any Acquired Company, shall be entitled to deduct and withhold from any amounts payable pursuant to this Agreement any withholding Taxes or other amounts required under the Code or any applicable Tax Law to be deducted and withheld; provided, however, that, except for any taxes remitted to any Taxing Authority with respect to the PPA Payments or Bonus Payments and to the extent each Seller has provided a valid Form W-9, before making any such deduction or withholding, Acquiror shall provide to the Sellers written notice of any applicable payor’s intention to make such deduction or withholding, and Acquiror shall provide the Sellers at least a commercially reasonable period of time before such deduction or withholding is required in order for the Sellers to obtain reduction of or relief from such deduction or withholding from the applicable Taxing Authority or execute and deliver to or file with such Taxing Authority or Acquiror such affidavits, certificates and other documents to afford to the Sellers reduction of or relief from such deduction or withholding, to the extent permitted under Applicable Law. To the extent that any such amounts are so deducted or withheld, each such payor shall timely remit any such amounts to the appropriate Taxing Authority in accordance with Applicable Law, and such amounts will be treated for all purposes of this Agreement as having been paid to the Person in respect of whom such deduction and/or withholding was made.

1.11 Tax Matters.

(a) Tax Returns.

(i) The Sellers shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Acquired Companies that relate solely to taxable period ending before the Closing Date and that are not due prior to the Closing Date (taking into account any extensions thereof). All costs and expenses of preparing and filing such Tax Returns shall be borne by the Sellers. The Sellers shall (A) provide Acquiror with a copy of each such Tax Return at least 30 calendar days prior to the earlier of (1) the date such Tax Return is filed and (2) the due date for filing such Tax Return (taking into account any extensions thereof) and (B) promptly deliver such additional information regarding each such Tax Return as may reasonably be requested by Acquiror. The Sellers shall reflect any revisions to such Tax Returns as are reasonably and timely requested by Acquiror. The Sellers shall timely pay to the appropriate Taxing Authority any Taxes shown as due on any such Tax Returns.

(ii) Acquiror shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Acquired Companies that relate to any Straddle Period. All costs and expenses of preparing and filing such Tax Returns shall be borne by the Acquiror. Acquiror shall (A) provide the Sellers with a copy of each such Tax Return at least 30 calendar days prior to the earlier of (1) the date such Tax Return is filed and (2) the due date for filing such Tax Return (taking into account any extensions thereof) and (B) promptly deliver such additional information regarding each such Tax Return as may reasonably be requested by the Sellers. Acquiror shall reflect any revisions to such Tax Returns as are reasonably and timely requested.
by the Sellers. The Sellers shall timely pay to Acquiror, at least ten days prior to the due date thereof, any Covered Taxes shown as due on any such Tax Return.

(iii) For U.S. federal income Tax purposes (and any conforming state income Tax purposes), (A) Acquiror’s acquisition of the Acquired Companies will result in the termination of the S corporation election of the Company and FTT Inc., and an S termination year for the Company and FTT Inc. as such term is defined in Section 1362(c)(4) of the Code, (B) the taxable year of the Company and FTT Inc. shall end on the day immediately preceding the Closing Date (the “Short S Corporation Tax Period”), (C) Section 1362(e)(6)(D) of the Code shall apply for purposes of preparing U.S. federal and relevant state income Tax Returns in respect of the taxable years of the Company and FTT Inc. ending on the day immediately preceding the Closing Date and beginning on the Closing Date, respectively, and (D) the Company, FTT Inc., and any eligible Subsidiaries thereof will become part of Acquiror’s Affiliated Group as of and including the Closing Date. Each of Acquiror, the Sellers, the Acquired Companies, and their respective Affiliates shall report the transactions contemplated by this Agreement (including, for the avoidance of doubt, all Tax Returns) in a manner consistent with, and will not take any position during the course of any Proceeding inconsistent with, the immediately preceding sentence, except as otherwise required by a change in Applicable Law or pursuant to a final determination of a Taxing Authority. To the extent permitted by Applicable Law, the Sellers shall include any income, gain, loss, deduction or other Tax items for Pre-Closing Tax Periods (including the Short S Corporation Tax Period) on their Tax Returns in a manner consistent with the Schedules K-1 furnished to the Sellers for such periods.

(b) Pre-Closing Tax Periods. Except as otherwise required by Applicable Law or in connection with the resolution of any Tax Contest in accordance with Section 1.11(c), Acquiror shall not, and shall cause its Affiliates not to, take any of the following actions without the prior written consent of the Sellers (not to be unreasonably withheld, conditioned or delayed) if such action would reasonably be expected to result in an increase in Covered Taxes: (i) make or change any Tax election of the Acquired Companies with respect to any Pre-Closing Tax Period (it being further understood and agreed that Acquiror shall not be permitted to make or file a Tax election under Section 338 or 336 of the Code with respect to any Acquired Company), or (ii) amend, refile or otherwise modify (or grant an extension of any applicable statute of limitations with respect to) any Tax Return of or that includes the Acquired Companies that includes a Pre-Closing Tax Period or Straddle Period (except as permitted in Section 1.11(a)).

(c) Tax Contests. Acquiror shall promptly notify the Sellers following receipt of any notice of audit or other Proceeding with respect to, and the Sellers, at the Sellers’ sole cost and expense, shall have the right to control the conduct of, any Proceeding relating to Taxes of the Acquired Companies that relate solely to a taxable period ending before the Closing Date and that could give rise to an indemnification claim under this Agreement (collectively, a “Tax Contest”); provided, however, that (i) the failure to give such prompt notice shall not affect the Sellers’ indemnification obligations under this Agreement except to the extent the Sellers are materially prejudiced thereby, (ii) the Sellers must provide written notice to Acquiror of their election to control such Tax Contest within 20 days of receiving notice from Acquiror thereof (each, a “Seller Tax Contest”), otherwise Acquiror, at its sole cost and expense, shall control such Tax Contest (each, an “Acquiror Tax Contest”), (iii) Acquiror shall be entitled to
participate in any such Seller Tax Contest at its sole cost and expense (including having the opportunity to consult with the Sellers regarding significant actions and the opportunity to review and comment on significant written materials furnished in connection with such actions), (iv) the Sellers shall be entitled to participate in any such Acquiror Tax Contest at its sole cost and expense (including having the opportunity to consult with Acquiror regarding significant actions and the opportunity to review and comment on significant written materials furnished in connection with such actions), (v) the Sellers shall not settle, compromise or abandon any such Seller Tax Contest without obtaining the prior written consent of Acquiror (which shall not be unreasonably withheld, delayed or conditioned), and (vi) Acquiror shall not settle, compromise or abandon any such Acquiror Tax Contest without obtaining the prior written consent of the Sellers (which shall not be unreasonably withheld, delayed or conditioned). The Sellers shall be liable for any Damages resulting from any Tax Contest whether or not such Tax Contest results in any adjustment of the Acquired Companies' liability for Taxes. In the event of any conflict between the provisions of this Section 1.11(c) and Section 9.8 with respect to any Tax claim, audit, examination, or Proceeding with respect to the Acquired Companies, the provisions of this Section 1.11(c) shall control. For the avoidance of doubt, if a Tax Contest does not relate solely to a taxable period ending before the Closing Date but nonetheless could give rise to an indemnification claim under this Agreement, such Tax Contest shall be an Acquiror Tax Contest and Sellers shall have the same participation and consent rights in such Tax Contest as provided in this Section 1.11(c).

(d) **Cooperation.** Acquiror and the Sellers and their respective Affiliates shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns and any Tax Contest. Such cooperation shall include the retention and (upon the other party's reasonable request) the provision of records and information which are reasonably relevant to any such filing or Tax Contest and within such party’s possession or obtainable without material cost or expense, and making employees or other representatives available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder.

(e) **Tax Liability.**

(i) The Sellers shall pay and be responsible for any Tax liability of the Acquired Companies solely attributable to any Pre-Closing Tax Period, including any Taxes of any Person imposed on any Acquired Company as a result of being a member of any Affiliated Group before the Closing Date, pursuant to Treasury Regulation Section 1.1502-6 or any similar state, local, or foreign Law, and any Taxes of any Person for which any Acquired Company is or becomes liable as a transferee or successor, by Contract, pursuant to any Law, or otherwise, to the extent such Taxes relate to an event or transaction occurring before the Closing Date (collectively, the “Covered Taxes”). For the avoidance of doubt, the Sellers shall not be responsible for any Tax liability of the Acquired Companies on and after the Closing Date as the result of the use of the cash method of accounting before the Closing Date (including, for the avoidance of doubt, resulting from an acceleration of income upon a change from the cash to the accrual method of accounting).

(ii) With respect to Taxes for any Straddle Period, Covered Taxes shall be deemed to include such Taxes attributable to the portion of any Straddle Period that ends
before the Closing Date. For all purposes under this Agreement, the allocation of Taxes for any Straddle Period shall be determined (A) in the case of Taxes imposed upon or measured by income, sales, payroll, or receipts, based on an interim closing of the books as of 11:59 p.m. Eastern Time on the day before the Closing Date, (B) with respect to all other Taxes (including those imposed on a periodic basis or measured by the level of any item), determined based on the amount of such Taxes for the entire Straddle Period multiplied by a fraction, (1) the numerator of which is the number of calendar days in the period beginning before, and ending at the end of the day before the Closing Date, and (2) the denominator of which is the number of calendar days in the entire Straddle Period, and (C) in the case of any Tax due and owing by any Acquired Company with respect to an interest in an entity treated as a CFC, partnership, or disregarded entity for purposes of the Code, be determined as if the taxable year of such CFC, partnership, or disregarded entity ended at the end of the day before the Closing Date.

(f) Termination of Tax Sharing Agreements. Any and all existing Tax sharing, Tax indemnification, or Tax allocation agreements binding upon any Acquired Company (other than commercial contracts not primarily related to Taxes entered into in the ordinary course of business) shall be terminated as of the day before the Closing Date, and none of Acquiror or any Acquired Company shall have any further rights or Liabilities thereunder.

(g) Tax Deductions. All payments to Business Employees in respect of their Profit Participation Agreements which have been funded or paid by the Acquired Companies before the Closing Date shall be allocated to, and deducted in, Pre-Closing Tax Periods of the Acquired Companies for the benefit of the Sellers.

ARTICLE 2.
WORKING CAPITAL MATTERS

2.1 Estimates of Company Indebtedness, Closing Cash and Transaction Expenses. Prior to the Closing Date, the Sellers delivered to Acquiror (i) an itemized good faith estimate of Company Indebtedness as of the Closing Date (separately listing each item of Company Indebtedness and the related creditor, but without giving effect to the Closing) (the “Estimated Company Indebtedness”), (ii) a good faith estimate of the aggregate Cash of the Acquired Companies as of the Closing Date (the “Estimated Closing Cash”), (iii) an itemized schedule of the Transaction Expenses owed by the Acquired Companies as of the Closing Date (separately listing each Transaction Expense and the related creditor, but without giving effect to the Closing) (the “Schedule of Transaction Expenses”), (iv) an itemized schedule of the Cash Incentive Amount potentially payable under the Profit Participation Agreements (the “Schedule of Profit Participation Amounts”), and (v) a certificate (the “Closing Certificate”) of the Chief Executive Officers and the Chief Financial Officers of the Company and FTT Inc. certifying the Cash Incentive Amount, and the amount of Estimated Company Indebtedness, Estimated Closing Cash and Transaction Expenses, and that each of the Estimated Company Indebtedness, Estimated Closing Cash, Schedule of Transaction Expenses and Schedule of Profit Participation Amounts were prepared in good faith in accordance with this Agreement and the Accounting Methodology.
2.2 Determination of Final Working Capital.

(a) Within the later of (i) 120 days following the end of the month in which the Closing Date occurs and (ii) 30 days after the completion of the audited financial statements for the Acquired Companies for the year ending December 31, 2018, Acquiror shall prepare and deliver to the Sellers (1) a final consolidated balance sheet of the Acquired Companies as of the Closing Date (the "Closing Date Balance Sheet"), (2) an itemized schedule of actual Working Capital as of the Closing Date (including the balances of each line item included within the definition of Working Capital) ("Closing Date Working Capital"), and (3) the actual aggregate amount of Cash of the Acquired Companies as of the Closing Date ("Closing Cash"). Each of the Closing Date Balance Sheet, Closing Cash and schedule of Closing Date Working Capital (together, the "Final Determination Documents") shall be prepared by Acquiror in good faith in accordance with this Agreement and the Accounting Methodology (but without giving effect to the Closing). From and after Acquiror’s delivery of the Final Determination Documents to the Sellers until such time as Final Working Capital and Final Closing Cash shall have been finally determined pursuant to this Agreement, Acquiror shall, and shall cause the Acquired Companies and their respective Affiliates to, provide the Sellers and their Representatives with such information as they may reasonably request, including, without limitation, the opportunity to examine such supporting schedules, analyses and work papers, including any underlying records or documentation under the possession or control of Acquiror or the Acquired Companies that is necessary and appropriate to verify the amounts reflected in the Final Determination Documents.

(b) If, within 30 days following delivery of the Final Determination Documents to the Sellers, the Sellers have not delivered to Acquiror written notice (the "Objection Notice") of their objections to the calculation of the Closing Cash and/or schedule of Closing Date Working Capital, including a statement describing in reasonable detail the basis of such objections, then the Closing Cash and Closing Date Working Capital, as set forth in such schedule, each shall be deemed final and conclusive and shall be, respectively, the "Final Closing Cash" and the "Final Working Capital". If the Sellers deliver the Objection Notice within such 30 day period, then Acquiror and the Sellers shall endeavor in good faith to resolve the objections, for a period not to exceed 15 Business Days from the date of delivery of the Objection Notice. If at the end of the 15 Business Day period there are any objections that remain in dispute, then the remaining objections in dispute shall be submitted to an independent accounting firm (the "Independent Auditor"), mutually agreeable to Acquiror and the Sellers, which firm shall resolve any objections that remain in dispute. Acquiror and the Sellers shall use all commercially reasonable efforts to select the Independent Auditor within 10 days of the expiration of such period and to cause the Independent Auditor to resolve all disagreements as soon as practicable, but in any event within 30 days after submission of the dispute to the Independent Auditor. The Independent Auditor may review only the items and calculations set forth in the Final Determination Documents that remain in dispute between Acquiror and Sellers and resolve the remaining items in dispute based on the Accounting Methodology and in accordance with the requirements of this Section 2.2; and the Independent Auditor is not to make any other determination, including not making any determination as to whether the agreed upon dollar amount of the Working Capital Target is correct or appropriate. In connection with the resolution of a dispute hereunder, the Independent Auditor will allow Acquiror and the Sellers to present in writing their respective positions regarding the Final Determination Documents and items and calculations that remain in dispute (the "Final Submissions"). The Independent...
Auditor may, in its discretion, conduct a conference concerning the items in dispute, at which conference Acquiror and Sellers may present additional documents, materials and other information and have present their respective advisors, counsel and accountants. In connection with the resolution of such dispute, there may be no other hearings or oral examinations, testimony, depositions, discovery or other similar Proceedings. The parties hereto will make available to each other and the Independent Auditor all relevant documents, books and records and other information that any party or the Independent Auditor reasonably requests to review the Final Submissions and resolve the dispute.

(c) The determination by the Independent Auditor shall be binding on the parties and shall represent the Final Closing Cash and the Final Working Capital. The fees and expenses of the Independent Auditor shall be borne by the Sellers, on the one hand, and Acquiror, on the other hand, in the same proportion that the aggregate amount of the disputed portion of items unsuccessfully disputed by each (as finally determined by the Independent Auditor) bears to the aggregate amount of the disputed portion of the items submitted to the Independent Auditor for review and resolution. The parties will otherwise pay their own respective expenses.

2.3 Working Capital Adjustments. If Final Working Capital as determined pursuant to Section 2.2 is less than the Lower Threshold (the dollar amount of such deficiency, the “Working Capital Deficiency”), the Escrow Agent shall release to Acquiror from the Escrow Account, within 10 days after the Final Determination Date, an amount in cash equal to the lesser of (a) the Working Capital Deficiency and (b) the total amount of cash remaining in the Escrow Account; provided, however, that if the dollar amount of the Working Capital Deficiency exceeds the value of the Escrow Account, such amount (the amount by which the Working Capital Deficiency exceeds the value of the Escrow Account, the “Adjustments Deficiency”) shall constitute Damages for which Acquiror is entitled to indemnification pursuant to Article 9. The Sellers hereby agree to promptly execute joint written instructions in order to facilitate the foregoing release of cash to the Acquiror. If Final Working Capital exceeds the Upper Threshold (the dollar amount of such excess, the “Excess Working Capital”), then Acquiror will deliver to Sellers Representative, for further distribution to the Sellers, within 10 days after the Final Determination Date, an amount in cash, without interest, equal to the Excess Working Capital, less the aggregate amount of cash paid to the PPA Recipients pursuant to the Profit Participation Agreements with respect to such Excess Working Capital payment, and less the Incremental Employer PPA Payroll Amount paid or due with respect to such PPA Payments.

2.4 Cash Adjustments. If Final Closing Cash as determined pursuant to Section 2.2 is less than the Estimated Closing Cash (the dollar amount of such deficiency, the “Closing Cash Deficiency”), the Escrow Agent shall release to Acquiror from the Escrow Account, within 10 days after the Final Closing Cash has been determined, an amount in cash equal to the lesser of (a) the Closing Cash Deficiency and (b) the total amount of cash remaining in the Escrow Account; provided, however, that if the dollar amount of the Closing Cash Deficiency exceeds the value of the Escrow Account, such amount (the amount by which the Closing Cash Deficiency exceeds the value of the Escrow Account, the “Cash Adjustments Deficiency”) shall constitute Damages for which Acquiror is entitled to indemnification pursuant to Article 9. The Sellers hereby agree to promptly execute joint written instructions in order to facilitate the foregoing release of cash to the Acquiror. If Final Closing Cash exceeds the
Estimated Closing Cash (the dollar amount of such excess, the “Excess Closing Cash”), then Acquiror will deliver to Sellers Representative for further distribution to the Sellers, within 10 days after the Final Closing Cash has been determined, an amount in cash, without interest, equal to the Excess Closing Cash, less the aggregate amount of cash paid to the PPA Recipients pursuant to the Profit Participation Agreements with respect to such Excess Closing Cash payment, and less the Incremental Employer PPA Payroll Amount paid or due with respect to such PPA Payments.

ARTICLE 3.
REPRESENTATIONS AND WARRANTIES OF THE SELLERS

Each Seller hereby severally, and not jointly, represents and warrants to Acquiror as of the date hereof as follows:

3.1 Authorization. Such Seller has all requisite power and authority to execute, deliver and perform its obligations under this Agreement and each of the Related Agreements to which it is a party and to consummate the Contemplated Transactions. The execution and delivery of this Agreement and the Related Agreements to which such Seller is a party, the performance by such Seller of its obligations hereunder and thereunder and the consummation by such Seller of the Contemplated Transactions have been duly authorized. This Agreement and the Related Agreements to which such Seller is a party have been duly executed and delivered by such Seller and constitute the legal, valid and binding obligation of such Seller, enforceable against it in accordance with their respective terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting the rights of creditors generally and the availability of equitable remedies.

3.2 No Violation. The execution, delivery and performance by such Seller of this Agreement and the Related Agreements to which such Seller is a party and the consummation of the Contemplated Transactions will not:

(a) if such Seller is an Entity, violate, contravene or conflict with any provision of the operating agreement, certificate of formation, certificate of incorporation, bylaws, trust deed or similar organizational documents of such Seller;

(b) violate, contravene or conflict with any Law or Order applicable to such Seller; or

(c) contravene, conflict with, result in the violation or breach of any of the terms or conditions of, or constitute (with or without notice or lapse of time or both) a default under or an Event which would, or could reasonably be expected to give rise to, any right of notice, modification, acceleration, payment, withdrawal, suspension, cancellation or termination under, or in any manner release any party thereto from any obligation under, or otherwise affect any rights of any Seller under, any Contract or other instrument or obligation of any kind or nature, in any case whether written or oral, by which any Seller or any of its assets may be bound or affected, except, in the case of clauses (b) and (c) of this Section 3.2, for any such violations, conflicts, defaults or violations that would not reasonably be expected to have a material adverse effect on the ability of such Seller to consummate the Contemplated Transactions.
3.3 Consents and Approvals. No consent, approval, license, Permit, Order or authorization of, or registration, declaration or filing with, or notice to, any Governmental Body or other Person is required to be made or obtained by such Seller in connection with the authorization, execution, delivery and performance of this Agreement and the Related Agreements, or the consummation of the Contemplated Transactions, except for consents, approvals, licenses, Permits, Orders or authorizations of, or registrations, declarations or filings with, or notices to, any Governmental Body or other Person the failure of which to be obtained or made would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of such Seller to consummate the Contemplated Transactions.

3.4 Title. Such Seller has the sole voting power and sole power of disposition with respect to all of the Company Units and Shares held by such Seller with no limitations, qualifications or restrictions on such rights and powers. The Company Units and the Shares owned by such Seller will be transferred to Acquiror pursuant to this Agreement free and clear of any Liens. Such Seller is not subject to any agreements, arrangements, options, warrants, calls, rights, commitments or other restrictions relating to the sale, transfer, purchase, redemption or voting of its Company Units or its Shares (all items enumerated in this sentence, collectively, “Rights”).

3.5 Litigation. There are no Proceedings pending or, to such Seller’s Knowledge, threatened against such Seller that would reasonably be expected to have a material adverse effect on the ability of Seller to consummate the Contemplated Transactions.

3.6 Certain Investment Representations.

(a) Each Seller is an “accredited investor” as that term is defined in Rule 501(a) of Regulation D promulgated by the SEC under the Securities Act. Each such Seller will execute and deliver to Acquiror such documents as Acquiror may reasonably request in order to confirm the accuracy of the foregoing.

(b) Each Seller is acquiring the Acquiror Common Stock for investment for the Seller’s own account and not with a view to, or for resale in connection with, the distribution or other disposition thereof except as permitted by Law, including securities Laws. No Seller has any present intent to resell or distribute all or any part of the Acquiror Common Stock.

(c) Each Seller acknowledges and agrees that the shares of Acquiror Common Stock are characterized as “restricted securities” under the securities Laws inasmuch as they are being acquired from the Acquiror in a transaction not involving a public offering and that under such Laws and applicable regulations the Acquiror Common Stock may be resold without registration under the Securities Act only in certain limited circumstances. In this respect, each Seller represents that it is familiar with Rule 144 promulgated under the Securities Act, as presently in effect, and understands the resale limitations imposed thereby and otherwise by the Securities Act.

(d) Each Seller has had the opportunity to review Acquiror’s filings with the SEC and has had the opportunity to ask questions of Acquiror and its Representatives and to obtain information from such Representatives as necessary to evaluate the merits and risks of
acquiring shares of Acquiror Common Stock and no representations concerning such matters or any other matters related to such investment have been made to the Seller except as set forth in this Agreement. Each Seller has consulted its own attorney, accountant or investment advisor with respect to the investment contemplated hereby and its suitability for the Seller, including the tax and other economic considerations related to the investment.

(e) Each Seller: (i) understands and acknowledges that the Seller’s investment in the shares of Acquiror Common Stock involves a high degree of risk; (ii) has knowledge and experience in financial and business matters such that the Seller is capable of evaluating the merits and risks of the acquisition of the Acquiror Common Stock as contemplated by this Agreement; and (iii) is able to bear the economic risk of the investment in the Acquiror Common Stock for an indefinite period of time and can afford to suffer a complete loss of the investment in the Acquiror Common Stock.

3.7 No Brokers or Finders. Except for KAL Capital Markets LLC, neither such Seller nor any Affiliate thereof has retained any broker or finder, agreed to pay or made any statement or representation to any Person that would entitle such Person to, any broker’s, finder’s or similar fees or commissions in connection with the Contemplated Transactions.

ARTICLE 4.
REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE ACQUIRED COMPANIES

Except as set forth in the corresponding sections or subsections of the Disclosure Schedules attached hereto (collectively, the “Disclosure Schedules”) (each of which shall qualify only the specifically identified sections or subsections hereof to which such Disclosure Schedule relates and any other section or subsection where it is readily apparent on the face of such disclosure that such disclosure is applicable to such other section or subsection and shall not qualify any other provision of this Agreement or any Related Agreement), the Sellers jointly and severally represent and warrant to Acquiror as of the date hereof as follows:

4.1 Organization and Qualification; Authorization. Each Acquired Company is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its formation, which jurisdiction is listed on Schedule 4.1 of the Disclosure Schedules, and has all requisite power and authority to own, lease and operate its assets and properties and to carry on its business as now being conducted. Each Acquired Company is duly qualified or otherwise authorized as a foreign entity to transact business in each jurisdiction listed on Schedule 4.1 of the Disclosure Schedules. Each Acquired Company is duly qualified or otherwise authorized as a foreign entity to transact business in each jurisdiction in which the nature of such Acquired Company’s business or assets requires such Acquired Company to so qualify, except where the failure to be so qualified would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect. Complete and correct copies of the charter documents, bylaws or similar organizational documents of each Acquired Company and all amendments thereto have been made available to Acquiror. None of the Acquired Companies is in violation of any of the provisions of its operating agreement, certificate of formation, certificate of incorporation, bylaws or similar organizational documents. To the Knowledge of the Acquired Companies, the minute books and resolutions of each Acquired Company previously made available to Acquiror contain true, complete and accurate records of all
meetings and accurately reflect in all material respects all corporate action of the equity holders and board of directors or board of managers, as applicable, (including committees thereof) of such Acquired Companies. The membership interests, books and transfer ledgers of each Acquired Company previously made available to Acquiror are true, complete and accurate in all material respects.

4.2 No Violation. Except as set forth on Schedule 4.2 of the Disclosure Schedules, the execution, delivery and performance by the Sellers and the Acquired Companies of this Agreement and the Related Agreements, and the consummation of the Contemplated Transactions do not and will not:

(a) violate, contravene or conflict with any provision of the operating agreement, certificate of formation, certificate of incorporation, bylaws or similar organizational documents of any Acquired Company;

(b) violate, contravene or conflict with any resolution adopted by the members or stockholders of any Acquired Company or the board of managers, board of directors or similar governing body of any Acquired Company;

(c) violate, contravene or conflict with any Law or Order applicable to any Acquired Company or any assets owned or used by any Acquired Company;

(d) except as set forth on Schedule 4.2(d) of the Disclosure Schedules, violate, contravene, conflict with or result in the breach of any of the terms or conditions of, or constitute (with or without notice or lapse of time or both) a default under or an Event which would, or could reasonably be expected to give rise to, any right of notice, modification, acceleration, payment, suspension, withdrawal, cancellation or termination under, or otherwise affect any rights of any Acquired Company under, any Material Contract or Material Permit or other material instrument or obligation of any kind or nature, in any case whether written or oral, by which any Acquired Company or any of the Assets may be bound or affected; or

(e) result in the creation or imposition of any Lien (other than Permitted Liens) upon the Equity Securities of any Acquired Company or any of the Assets.

4.3 Consents and Approvals. Except as set forth on Schedule 4.3 of the Disclosure Schedules, no consent, approval, license, Permit, Order or authorization of, or registration, declaration or filing with, or notice to, any Governmental Body or other Person is required to be made or obtained by any Acquired Company in connection with the authorization, execution, delivery and performance of this Agreement or any Related Agreement, or the consummation of the Contemplated Transactions, except where the failure to obtain such consent, approval, authorization or action or to make such filing or notification would not be reasonably expected to be material to any of the Acquired Companies taken as a whole.

4.4 Capitalization.

(a) Schedule 4.4(a) of the Disclosure Schedules sets forth the entire authorized Equity Securities of each Acquired Company and a complete and correct list of the issued and outstanding Equity Securities of each Acquired Company, including the name of the
record and beneficial owner thereof and the number of Equity Securities held thereby. All of the outstanding Equity Securities of each Acquired Company have been duly authorized, validly issued and are fully paid and non-assessable. Except as set forth on Schedule 4.4(a) of the Disclosure Schedules, no Acquired Company has any outstanding Equity Securities or other securities directly or indirectly convertible into or exchangeable for its Equity Securities, no Acquired Company has any outstanding agreements, options, warrants or rights to directly or indirectly subscribe for or purchase, or that directly or indirectly require it to issue, transfer or sell, its Equity Securities or any securities directly or indirectly convertible into or exchangeable for its Equity Securities, and there are no agreements containing profit participation or phantom equity features with respect to any Acquired Company. Except as set forth on Schedule 4.4(a) of the Disclosure Schedules, no Acquired Company owns or otherwise holds, directly or indirectly, any stock, membership interest, partnership interest, joint venture interest or other equity interest in any Person. No Acquired Company is subject to any obligation (contingent or otherwise) to redeem, repurchase or otherwise acquire or retire any of its Equity Securities or any warrants, options, calls, preemptive rights, subscriptions, restricted stock awards, restricted unit awards, convertible securities or other rights to acquire its Equity Securities. Except as set forth on Schedule 4.4(a) of the Disclosure Schedules, there are no voting agreements, voting trusts or other agreements, commitments or understandings with respect to the voting or transfer of Equity Securities or other securities of any Acquired Company. Except as set forth on Schedule 4.4(a) of the Disclosure Schedules, each Seller is the record and beneficial owner of all of the Equity Securities listed opposite such Seller’s name on Schedule 4.4(a) of the Disclosure Schedules, and holds such Equity Securities free and clear of any and all Liens. No Acquired Company has violated any applicable federal or state securities Laws in connection with the offer, sale or issuance of any of its Equity Securities or any warrants, options or other rights to acquire its Equity Securities. No Equity Securities of any Acquired Company are subject to, nor have been issued in violation of, preemptive or similar rights. There are no accrued but unpaid dividends payable by the Company on any Equity Securities of the Company.

(b) Schedule 4.4(b) of the Disclosure Schedules sets forth a true, complete and accurate list of all Profit Participation Agreements in effect on the date of this Agreement indicating for each: (i) the name of the PPA Recipient; (ii) the Profit Points (as defined in the Profit Participation Agreement) assigned to such PPA Recipient; (iii) any applicable Threshold Values (as defined in the Profit Participation Agreement); (iv) the applicable Participation Percentage (as defined in the Profit Participation Agreement); (v) the dates and amounts of any cash distributions paid pursuant to such Participation Agreement prior to the Closing of the Contemplated Transactions; (vi) the cash amount due to the PPA Recipient upon the closing of the Contemplated Transactions; and (vii) the PPA Recipient’s percentage share of any post-Closing cash payments made to the Sellers in respect of Excess Working Capital, Excess Closing Cash or release from the Escrow Account. True, complete and accurate copies of all Profit Participation Agreements have been provided or made available to Acquiror.

4.5 Financial Statements.

(a) Attached as Schedule 4.5(a) of the Disclosure Schedules are copies of the following financial statements of the Acquired Companies (collectively, the “Financial Statements”:)

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(i) the audited combined balance sheets of FTT, Inc. and those Subsidiaries of the Company set forth on Schedule 4.5(a)(i) of the Disclosure Schedules as of the Audit Date and the related audited statements of operations, changes in stockholders’ equity and cash flows for the year then ended (the “Audited Financial Statements”);

(ii) the unaudited combined balance sheets of FTT, Inc. and those Subsidiaries of the Company set forth on Schedule 4.5(a)(ii) of the Disclosure Schedules as of December 31, 2016 and the related unaudited statements of operations, changes in stockholders’ equity and cash flows for the year then ended, and the unaudited financial statements of FTT Deutschland GmbH as of December 31, 2016; and

(iii) the unaudited combined balance sheet of FTT, Inc. and those Subsidiaries of the Company set forth on Schedule 4.5(a)(i) of the Disclosure Schedules as of December 31, 2018 (together, the “Balance Sheet”), and the related unaudited income statement for the twelve month period then ended (together with the Balance Sheet, the “2018 Financial Statements”).

(b) The Audited Financial Statements (including the notes thereto) and, to the Knowledge of the Acquired Companies, the other Financial Statements (including the notes thereto) (i) have been prepared in accordance with GAAP consistently applied (except to the extent disclosed therein) throughout the periods covered thereby, except that the 2018 Financial Statements are subject to normal year-end adjustments (which will not be material individually or in the aggregate) and lack footnotes required by GAAP, (ii) fairly present in all material respects the assets, Liabilities and the financial condition of the Acquired Companies included in the applicable Financial Statements as of such dates and the results of operations of Acquired Companies included in the applicable Financial Statements for such periods, and (iii) were prepared in accordance with the books and records of the Acquired Companies included in the applicable Financial Statements (which books and records are correct and complete in all material respects). Except as set forth on Schedule 4.5(b) of the Disclosure Schedules, since the Audit Date, there has been no change in any accounting principles, policies, methods or practices, including any change with respect to reserves (whether for bad debt, contingent Liabilities or otherwise) of the Acquired Companies.

(c) Except as set forth on Schedule 4.5(c) of the Disclosure Schedules, the Acquired Companies have established and maintain, in all material respects, a system of internal accounting controls sufficient to reasonably ensure (i) the reliability of financial reporting and the preparation of the financial statements of the Acquired Companies and (ii) that: (A) all transactions are executed in accordance with management’s general or specific authorizations; (B) all transactions are recorded when and as necessary to maintain asset accountability and to permit preparation of financial statements in conformity with GAAP applied using the same accounting practices, policies, principles and methodologies, with consistent classifications, judgments and valuation and estimation accrual methodologies, used in the preparation of the Audited Financial Statements; and (C) all accounts, notes and other receivables are recorded accurately, and proper and adequate procedures are implemented to effect the collection thereof on a current and timely basis.
(d) The Acquired Companies have established and maintain, in all material respects, disclosure controls sufficient to reasonably ensure that material information relating to the Acquired Companies (including any deficiencies or weaknesses in the design or operation of the Acquired Companies’ internal controls and any fraud that involves management or other Service Providers of any Acquired Company) is made known to management of the Acquired Companies, by others within such entities and disclosed to such entities’ directors, managers and outside auditors. The Acquired Companies have provided to Acquiror a summary of any of the foregoing disclosures made to the directors, managers or outside auditors of any of the Acquired Companies.

(e) No attorney representing the Acquired Companies, whether or not employed by the Acquired Companies, has reported to the Sellers or the board of managers or directors of any of the Acquired Companies, or to the General Counsel or Chief Executive Officer of any Acquired Company, evidence of a violation of securities Laws, breach of fiduciary duty or similar violation by the Acquired Companies or any of their respective officers, managers, directors, employees or agents to the board of managers or any committee thereof or to the general counsel or chief executive officer of any Acquired Company pursuant to the rules of the SEC adopted under Section 307 of the Sarbanes-Oxley Act, except, in each case, as has not been, and would not reasonably be expected to be, individually or in the aggregate, materially adverse to the Acquired Companies, taken as a whole.

4.6 Absence of Undisclosed Liabilities. Except as set forth on Schedule 4.6 of the Disclosure Schedules, no Acquired Company has any Liabilities required to be set forth on a balance sheet prepared in accordance with GAAP, except (a) as and to the extent specifically accrued for or reserved against in the Balance Sheet, (b) material Liabilities which have arisen after the date of the Balance Sheet in the ordinary course of business consistent with past practice (none of which results from, arises out of, relates to, is in the nature of, or was caused by any breach of contract, breach of warranty, tort, infringement or violation of Law), (c) executory obligations under Contracts (other than material Liabilities relating to any breach, or any fact or circumstance that, with notice, lapse of time or both, would result in a breach, thereof by any Acquired Company) and (d) material Liabilities specifically set forth in the Disclosure Schedules.

4.7 Accounts and Notes Receivable; Accounts Payable. All accounts and notes, and other receivables of the Acquired Companies that are recorded on the Balance Sheet, are (a) valid receivables arising from bona fide transactions entered into by an Acquired Company involving the sale of goods or the rendering of services in the ordinary course of business, (b) to the Knowledge of the Acquired Companies, are not subject to any setoff or counterclaims, and (c) are current and collectible subject to the reserve for bad debts set forth on the Balance Sheet. Schedule 4.7 of the Disclosure Schedules sets forth the aging of accounts receivable of the Acquired Companies as of the date of the Balance Sheet. The accounts payable and accruals of the Acquired Companies that are recorded on the Financial Statements have arisen in bona fide arm’s-length transactions in the ordinary course of business, and each Acquired Company has been paying its accounts payable as and when due.

4.8 Inventory. The inventory of the Acquired Companies as reflected on the Balance Sheet was procured or manufactured and has been maintained, in all material respects,
in the ordinary course of business consistent with past practice. Such inventory is of a quantity, quality and condition useable for its intended purpose and salable in the ordinary course of business consistent with past practice, subject to the reserve for inventory write-down set forth on the Balance Sheet. Except as set forth on Schedule 4.8 of the Disclosure Schedules, all such inventory is owned by the Acquired Companies free and clear of any Liens (other than Permitted Liens), and no inventory is held on a consignment basis.

4.9 Absence of Changes or Events.

(a) Except as disclosed in the applicable subsection of Schedule 4.9(a) of the Disclosure Schedules, or as otherwise required or contemplated by this Agreement, since the Audit Date, each of the Acquired Companies has conducted its business only in the ordinary course consistent with past practice and no Acquired Company has:

(i) suffered any loss, Damage, destruction or other casualty affecting any of its material Assets, whether or not covered by insurance;

(ii) amended or otherwise changed its certificate of incorporation or bylaws or equivalent organizational documents or altered through merger, liquidation, reorganization, restructuring or in any other fashion its corporate structure or ownership, or created or formed any Subsidiary;

(iii) issued, granted, sold, transferred, delivered, pledged, promised, disposed of or encumbered, or altered or modified the rights or obligations of its Equity Securities or any options, warrants, convertible or exchangeable securities or other rights of any kind to acquire its capital stock, membership interests or partnership interests or any other ownership interests or equity-based rights of the Acquired Companies;

(iv) redeemed, purchased or otherwise acquired, directly or indirectly, any of the Equity Securities of any Acquired Company;

(v) declared, set aside or paid any dividend or other distribution in respect of any of their Equity Securities;

(vi) effected any recapitalization, reclassification, stock split, reverse stock split or like change in capitalization;

(vii) sold, transferred, delivered, leased, licensed, sublicensed, mortgaged, pledged, encumbered, impaired or otherwise disposed of (in whole or in part), or created, incurred, suffered to exist, assumed or caused to be subjected to any Lien (other than Permitted Liens) on, any of its material Assets (including any Intellectual Property or accounts receivable), except for sales of inventory or licenses of Intellectual Property in the ordinary course of business consistent with past practice;

(viii) (A) acquired (by merger, consolidation, acquisition of stock or assets or otherwise) or organized any Person, joint venture or any business organization or division thereof, (B) acquired any rights, assets or properties other than in the ordinary course of business consistent with past practice, or (C) acquired any Equity Securities of any Person;
(ix) (A) incurred, forgiven, guaranteed or modified any Indebtedness (other than draws under revolving lines of credit in the ordinary course of business consistent with past practice), (B) entered into any off-balance sheet financing arrangement, (C) made any loans or advances, except to Company employees for expenses incurred in the ordinary course of business consistent with past practice, or (D) entered into any other material financial commitments other than in the ordinary course of business consistent with past practice;

(x) made any material capital expenditures or entered into any Contract to make material capital expenditures outside of the ordinary course of business consistent with past practice or failed to make any material capital expenditure reflected in any budget provided or made available to Acquiror;

(xi) (A) increased the compensation or materially increased the fringe benefits of any Service Provider (except for increases in salary for employees in the ordinary course of business consistent with past practice), (B) hired or offered to hire any new Service Providers or terminated or encouraged any Service Provider to resign (except for new hires made in the ordinary course of business consistent with past practice all of whom shall be “at-will” employees who can be terminated at any time for any reason without any monetary or other obligations on the part of the Acquired Companies (other than obligations required by Law), (C) granted any severance or termination pay (in cash or otherwise) to any current or former Service Provider, except pursuant to any Contract or Employee Benefit Plan in effect on the date hereof in connection with the termination of any such Service Provider or increased severance or termination pay, (D) established, adopted, entered into, amended or terminated (or granted any waiver or consent under) any Employee Benefit Plan, except for any amendments required by ERISA or the Code or other Applicable Law, or (E) granted any equity or equity-based awards or stock-based rights or accelerated the vesting schedule of any such awards or rights;

(xii) entered into or amended any collective bargaining agreements;

(xiii) modified, amended, extended or supplemented in any material respect, transferred or terminated or failed to renew any Contract listed on Schedule 4.12 of the Disclosure Schedules or waived, released or assigned any material rights or claims thereto or thereunder;

(xiv) (A) made or changed any material Tax election or changed any method of tax accounting, (B) settled or compromised any federal, state, local or foreign Tax Liability, (C) filed any amended Tax Return, (D) entered into any closing agreement relating to any Tax, (E) agreed to an extension of a statute of limitations, or (F) surrendered any right to claim a Tax refund (excluding any right that expired at the end of the applicable statute of limitations as a result of the passage of time);

(xv) other than in the ordinary course of business consistent with past practices, paid, discharged, satisfied, settled or otherwise compromised any Proceeding or waived, assigned or released any material rights or claims;

(xvi) commenced a lawsuit;
(xvii) entered into or modified or amended any agreement, Contract, transaction or other arrangement with, directly or indirectly, any Related Party;

(xviii) terminated, amended or failed to renew or preserve any Material Permit;

(xix) [Reserved];

(xx) permitted the lapse of any existing insurance policy relating to the business or Assets of the Acquired Companies;

(xxii) made any material changes to its practices and policies relating to manufacturing, purchasing, inventory management, marketing, selling or pricing;

(xxiii) commenced any proceeding for any voluntary liquidation, dissolution, or winding up or initiated any bankruptcy proceedings; or

(b) Since the Audit Date, no Event has occurred that, individually or in combination with any other Events, has had or could reasonably be expected to have a Material Adverse Effect.

4.10 Assets.

(a) Except as set forth on Schedule 4.10 of the Disclosure Schedules, the Acquired Companies own, and immediately following the Closing will continue to own, good and marketable title to, or a valid right to use, all of the tangible and intangible assets and property used or held in connection with their businesses (the “Assets”), free and clear of any and all Liens (other than Permitted Liens).

(b) The Assets owned or leased by the Acquired Companies are all of the assets and property that are necessary to enable the businesses of the Acquired Companies to be conducted immediately after the Closing in substantially the same manner as the businesses of the Acquired Companies have been conducted immediately prior to the Closing.

(c) All material items of tangible personal property owned or leased by any Acquired Company are in good operating condition and repair, ordinary wear and tear excepted. None of the personal or movable property constituting Assets is located other than at the Real Property.

4.11 Intellectual Property.

(a) Schedule 4.11(a) of the Disclosure Schedules contains a true, complete and accurate description and list of all (i) patented or registered Intellectual Property owned by any Acquired Company, (ii) pending patent and trademark applications and applications for other registrations of Intellectual Property owned by any Acquired Company, (iii) registered
domain names owned by any Acquired Company (the Intellectual Property scheduled at Schedule 4.11(a)(i), (ii) (but excluding any immaterial Intellectual Property knowingly and intentionally abandoned or permitted to lapse or expire) and (iii), the “Registered Intellectual Property”) and (iv) any unregistered Trademark or Copyright that is owned by an Acquired Company and material to the conduct of any Acquired Company’s business as presently conducted or contemplated to be conducted (indicating for each of (i) and (ii) the Acquired Company that owns such Registered Intellectual Property, applicable jurisdiction, registration number (if registered), application number, date issued (if issued) and date filed). An Acquired Company exclusively owns (except for rights of the U.S. government in certain patents and patent applications under 35 U.S.C. § 200–212, which rights may be set forth on the face of such patents and patent applications or otherwise disclosed on Schedule 4.11(a) of the Disclosure Schedules) all right, title, and interest in and to all Intellectual Property set forth (or required to be set forth) on Schedule 4.11(a), free and clear of all Liens, and all such Intellectual Property is subsisting and, to the extent patented or registered, valid and enforceable.

(b) Schedule 4.11(b)(i) of the Disclosure Schedules contains a true, complete and accurate list of all Intellectual Property licensed to any Acquired Company (excluding generally commercially available Software programs licensed to such Acquired Company pursuant to non-negotiated agreements with a replacement cost and/or annual license fee of less than $10,000 (an “Immaterial Software License”) or licensed to an Acquired Company by a customer or Governmental Body solely for use by such Acquired Company for such customer or Governmental Body pursuant to the applicable Customer Contract or Government Contract) and any license or other agreement relating thereto. Schedule 4.11(b)(ii) of the Disclosure Schedules contains a true, complete and accurate list of all Intellectual Property licensed by any Acquired Company to any Person (other than an Acquired Company) and any license or other agreement relating thereto. The consummation of the Contemplated Transactions will not (i) impair any rights of any Acquired Company under, or cause any Acquired Company to be in violation of or default under, any Contract under which it has the right to use or otherwise commercialize or exploit in any way any Intellectual Property of any Person that is material to or otherwise necessary for the business of any Acquired Company, (ii) give rise to any termination or modification of, or entitle any other party to terminate or modify, any such Contract, or (iii) require the payment of (or increase the amount of) any royalties, fees, or other consideration with respect to any Acquired Company’s use or exploitation of any Intellectual Property of any Person that is material to or otherwise necessary for the business of any Acquired Company.

(c) Each Acquired Company exclusively owns (except for rights of the U.S. government in certain patents and patent applications under 35 U.S.C. § 200–212, which rights may be set forth on the face of such patents and patent applications or otherwise disclosed on Schedule 4.11(b)(i) of the Disclosure Schedules) all right, title and interest in and to, or has sufficient rights under a valid and enforceable license set forth on Schedule 4.11(b)(i) of the Disclosure Schedules (or under a valid and enforceable license expressly excluded from being disclosed on Schedule 4.11(b)(i) of the Disclosure Schedules) to use and otherwise commercialize or exploit, all Intellectual Property used or otherwise commercialized or exploited in the operation of its businesses as presently conducted, and, to the Knowledge of the Acquired Companies, as presently proposed to be conducted (as established by the written records of the Acquired Companies), free and clear of all Liens (such Intellectual Property collectively for all Acquired Companies, together with all Intellectual Property set forth or required to be set forth
on Schedule 4.11(a) of the Disclosure Schedules, the “Company Intellectual Property”). No loss or expiration of any of the Company Intellectual Property is pending or, to the Knowledge of the Acquired Companies, threatened or reasonably foreseeable, except for the statutory expiration of the Registered Intellectual Property. The Acquired Companies have taken such actions as are necessary or reasonably advisable, performed such customary or prudent acts, recorded or filed such documents and paid such fees and Taxes (to the extent applicable) required or reasonably advisable to protect and maintain in full force and effect all material Owned Company Intellectual Property. Without limiting the generality of the foregoing, all assignments with respect to any Registered Intellectual Property have been recorded with the U.S. Patent and Trademark Office, the U.S. Copyright Office, or other appropriate agency. Each current or former Service Provider of any Acquired Company hired to develop Intellectual Property or who has otherwise been involved in the creation of any Intellectual Property for or on behalf of any Acquired Company after January 1, 2009 has executed a valid and enforceable written agreement assigning to such Acquired Company ownership of all rights in any Intellectual Property developed by such Service Provider, solely or jointly with others, in the course and scope of his or her employment or engagement by such Acquired Company. Except as specified on Schedule 4.11(c) of the Disclosure Schedules, none of the Sellers owns or holds any Intellectual Property that is used, commercialized or exploited in any way by any Acquired Company.

(d) Except as set forth on Schedule 4.11(d) of the Disclosure Schedules, since January 1, 2016 (i) there have been no claims made, actions or administrative Proceedings before a competent Government Body or, to the Knowledge of the Acquired Companies, claims or actions, or Proceedings threatened in writing against any Acquired Company asserting the invalidity, misuse or unenforceability of any Company Intellectual Property owned or purported to be owned by an Acquired Company (“Owned Company Intellectual Property”) or challenging any Acquired Company’s ownership of or right to use, commercialize or exploit any Intellectual Property and, to the Knowledge of the Acquired Companies, there is no reasonable basis for any such claim, (ii) no Acquired Company has received any written notices of, and, to the Knowledge of the Acquired Companies, there are no facts which indicate a reasonable likelihood of any direct, vicarious, indirect, contributory or other infringement, violation or misappropriation by an Acquired Company of any Intellectual Property (including any cease-and-desist letters or demands or offers to license any Intellectual Property from any other Person), (iii) the conduct of the Acquired Companies’ respective businesses as conducted since January 1, 2016 has not infringed, misappropriated or violated, and as presently conducted, and as presently proposed to be conducted (as established by the written records of the Acquired Companies), does not and will not infringe, misappropriate or violate, any Intellectual Property of any other Person, whether directly, vicariously, indirectly, contributory or otherwise (provided, however, that the representation in this Section 4.11(d)(iii) shall, with respect to the patents of any other Person, be subject to the Knowledge of the Acquired Companies) and (iv) to the Knowledge of the Acquired Companies, no Owned Company Intellectual Property has been or is being infringed, misappropriated or violated by any other Person in any material respect.

(e) Except as set forth on Schedule 4.11(e) of the Disclosure Schedules, no Acquired Company uses or distributes any Software that is subject to an “open source”, “copyleft” or other similar type of license, including any license that is approved by the Open Source Initiative (OSI), that would or could require the disclosure of (or grant any Person the
right to receive) any source code that is Owned Company Intellectual Property or impose limitations on the right of such Acquired Company to require payment of license or other fees in connection with the distribution of Software that is Owned Company Intellectual Property.

(f) The computer systems, including the Software, hardware and networks (collectively, the “Systems”), currently used by the Acquired Companies are sufficient in all material respects for the current needs of the businesses of the Acquired Companies. In the past 12 months, there have been no bugs in, or failures, breakdowns, or continued substandard performance of, any Systems that has caused the substantial disruption or interruption in or to the use of such Systems by any Acquired Company or the conduct of their businesses. To the Knowledge of the Acquired Companies, there have been no material security breaches in the information technology system of the Acquired Companies or the information technology systems of any other Persons to the extent used by or on behalf of the Acquired Companies.

4.12 Contracts. Schedule 4.12 of the Disclosure Schedules contains a true, complete and accurate list (by reference to the applicable subsection hereof) as of the date of this Agreement of all Contracts in effect on the date of this Agreement to which any Acquired Company is a party meeting any of the descriptions set forth below (each such Contract that is listed or required to be listed on Schedule 4.12 of the Disclosure Schedules, a “Material Contract” and such Contracts are collectively referred to herein as the “Material Contracts”):

(a) each Contract that requires an Acquired Company or any of its present or future Affiliates to pay, or entitles an Acquired Company to receive, or could result in obligations of an Acquired Company in the amount of, in the aggregate, $3,000,000 or more in any 12-month period;

(b) each Contract that restricts any Acquired Company from competing with or engaging in any business activity anywhere in the world or soliciting for employment, hiring or employing any Person;

(c) each Contract to acquire or dispose (by merger, purchase or sale of assets or stock or otherwise) of any material Assets, as to which an Acquired Company has continuing material obligations or material rights;

(d) each Contract concerning a joint venture, strategic alliance, collaboration or partnership agreements, or the sharing of profits;

(e) each Contract whereby any Acquired Company leases, subleases, licenses, or otherwise holds any rights to use or occupy any interest in real property (the “Real Property Leases”);

(f) each Contract with respect to Indebtedness;

(g) each Contract with any Governmental Body;

(h) each Contract pursuant to which an Acquired Company leases, is licensed or otherwise authorized to use or otherwise commercialize or exploit any Intellectual Property of any other Person or which otherwise affects the ability of an Acquired Company to use,
commercialize or otherwise exploit any Company Intellectual Property (including a covenant not to sue) material to its business as currently conducted (excluding Immaterial Software Licenses);

(i) each Contract pursuant to which an Acquired Company leases, licenses or otherwise authorizes another Person to use, distribute, sell, resell or incorporate any Company Intellectual Property;

(j) each Contract that contains any fixed or indexed pricing, “most-favored nation” pricing or similar pricing terms or provisions regarding minimum volumes, volume discounts, or rebates;

(k) each collective bargaining agreement;

(l) each Contract with respect to bonus or other incentive compensation, deferred compensation, equity purchase or award, salary continuation, pension, profit sharing or retirement plan, or any other Employee Benefit Plan or arrangement;

(m) each Contract with any current Service Provider as well as each Contract with any firm or other organization providing commission or sales-based services to an Acquired Company;

(n) each Contract with any former Service Provider as well as each Contract with any firm or other organization that provided commission or sales-based services to an Acquired Company under which such Acquired Company has any Liability or other obligation;

(o) each Contract with a Related Party;

(p) each Contract with a Top Customer; and

(q) each Contract that grants any Person other than an Acquired Company any rights of first refusal, rights of first negotiation or similar rights on any Assets.

True, complete and accurate copies of the Material Contracts listed or required to be listed on Schedule 4.12 of the Disclosure Schedules, together with all modifications and amendments thereto, have previously been delivered or made available to Acquiror, or, to the extent any of such Material Contracts are oral, Schedule 4.12 of the Disclosure Schedules contains a description of the material terms thereof. Each such Material Contract (i) is in full force and effect, (ii) is valid and binding on each Acquired Company party thereto (as applicable) and, to the Knowledge of the Acquired Companies, each other party thereto, (iii) is enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors’ rights and to general equity principles, and (iv) is not subject to any asserted claims, charges, set offs or defenses that remain unresolved. Except as set forth on Schedule 4.12 of the Disclosure Schedules, no Acquired Company is in material breach or default, nor has any event occurred which with the giving of notice or the passage of time or both would constitute a material breach or default by any Acquired Company of any such Material Contract and, to the Knowledge of the Acquired Companies, no other party is in material breach or default of such Material Contract. Since December 31, 2016, to the Knowledge of the Acquired Companies, no Acquired Company
has received any notice or communication regarding any material violation or breach of, or default under any Material Contract. To the Knowledge of the Acquired Companies, neither the Sellers nor any Acquired Company has been notified by any counterparty to any such Material Contract that such counterparty is terminating, modifying, repudiating or rescinding, or intends to terminate, modify, repudiate or rescind such Material Contract.

4.13 Litigation. Except as set forth on Schedule 4.13(a) of the Disclosure Schedules, there are no Proceedings pending or, to the Knowledge of the Acquired Companies, threatened against any Acquired Company, any Asset or any of the current or former officers, directors or employees of any Acquired Company (in their respective capacities as such) related to any Acquired Company nor, to the Knowledge of the Acquired Companies, is there any reasonable basis for any such Proceeding. Except as set forth on Schedule 4.13(b) of the Disclosure Schedules, there are no Proceedings pending or threatened by any Acquired Company. Schedule 4.13(c) of the Disclosure Schedules sets forth a complete and correct list and description of all material Proceedings made, filed or otherwise initiated in connection with any Acquired Company or any of the current or former Service Providers of any Acquired Company related to any Acquired Company or their assets or operations that has been resolved in the past three years. Schedule 4.13(d) of the Disclosure Schedules sets forth any Order to which any Acquired Company is subject.

4.14 Compliance with Laws. Except as set forth on Schedule 4.14 of the Disclosure Schedules, each Acquired Company complies and, since January 1, 2014, has complied, in all material respects, with all Laws in connection with the conduct, ownership, use, occupancy or operation of its business and the Assets, and, since January 1, 2014 no Acquired Company has received, nor to the Knowledge of the Acquired Companies is there any basis for, any notice or other communication from any Governmental Body or any other Person that any Acquired Company is not in compliance in any material respect with any Law.

4.15 Licenses and Permits. Except as set forth on Schedule 4.15(a) of the Disclosure Schedules, each Acquired Company holds, and since January 1, 2016 has held, all Permits necessary for the conduct, ownership, use, occupancy or operation of their businesses or the Assets (collectively, “Material Permits”). Each Acquired Company complies, and since January 1, 2016 has complied, in all material respects, with all such Material Permits, and since January 1, 2016 no Acquired Company has received any notice or other communication from any Governmental Body or any other Person that any Acquired Company is not in compliance in any material respect with any such Material Permit or of any actual or possible revocation, withdrawal, suspension, cancellation, termination or material modification of any such Material Permit. All Material Permits are identified on Schedule 4.15(b) of the Disclosure Schedules, including their respective dates of issuance and expiration, and true, complete and accurate copies thereof have been provided or made available to Acquiror. All Material Permits are, and immediately following the Closing will be, valid and in full force and effect on substantially similar terms, in all material respects, to those which were held by the Acquired Companies immediately before the Closing (and as of the date of this Agreement).

4.16 Health, Safety and Environment.
(a) Each Acquired Company is and has since January 1, 2014 been in compliance, in all material respects, with all Environmental and Safety Requirements.

(b) Each Acquired Company has obtained, maintains, and complies with all Permits required under Environmental and Safety Requirements to operate its business, and no Proceeding is pending, or to the Knowledge of the Acquired Companies, threatened, to revoke, modify, or terminate any Permit required under Environmental and Safety Requirements.

(c) Except as set forth on Schedule 4.16(c) of the Disclosure Schedules, there are no Hazardous Materials present in, at, under, about or migrating to or from, any (i) Owned Real Property or Leased Real Property, (ii) real property formerly owned, leased, or used by any Acquired Company or any of its predecessors, or (iii) any property to which any Person has, at any time, transported, treated, stored or disposed of Hazardous Material on behalf of any Acquired Company or any of its predecessors that could reasonably be expected to give rise to, result in, or serve as a basis for Damages to the Acquired Companies under Environmental and Safety Requirements with respect to the pre-Closing operations of the Acquired Companies.

(d) Since January 1, 2016, no Acquired Company has been subject to, nor has received any notice of, any Proceeding or Order related to the Release of Hazardous Materials or noncompliance with or Liabilities under Environmental and Safety Requirements.

(e) No Acquired Company has any contractual indemnity obligation to any third party with respect to Environmental and Safety Requirements.

(f) Except as set forth on Schedule 4.16(f) of the Disclosure Schedules, no underground storage tanks or related piping are located on, under, or at any Owned Real Property or Leased Real Property, and no Acquired Company has removed or caused any such tank or piping to be removed, nor, to the Knowledge of the Acquired Companies, has there been any such removal from any Owned Real Property or Leased Real Property or any former operating location that could reasonably be expected to give rise to, result in, or serve as a basis for Damages to any Acquired Company under Environmental and Safety Requirements.

(g) The Acquired Companies have provided Acquiror with true, complete and accurate copies of all material environmental assessment reports, health and safety audits, and reports of investigations with respect to the Acquired Companies, the Owned Real Property and the Leased Real Property in any Acquired Company’s possession or control.

(h) Prior to the Closing Date, the Contemplated Transactions do not require, under any Environmental and Safety Requirements, the consent of, or filings with, any Governmental Body with jurisdiction over the Acquired Companies, the Owned Real Property or the Leased Real Property.

4.17 Taxes.

(a) Each Acquired Company has timely and properly filed all material Tax Returns required to be filed by it, taking into account any extension of time to file granted to or obtained on behalf of such Acquired Company. All such Tax Returns are accurate and complete
in all material respects. Each Acquired Company has timely and properly paid all material
Taxes, whether or not shown as due on such Tax Returns.

(b) All Tax deficiencies that have been claimed, proposed, or asserted in
writing by any Taxing Authority against any Acquired Company have been fully paid or finally
settled.

c) No Proceedings with respect to Taxes are being conducted with respect to
any Acquired Company. No Acquired Company has received from any Taxing Authority any
(i) written notice indicating an intent to open an audit or other review with respect to Taxes,
(ii) written request for information related to Tax matters, or (iii) written notice of deficiency or
proposed adjustment for any amount of Tax. No Acquired Company has waived any statute of
limitations in respect of Taxes or agreed to any extension of time with respect to a Tax
assessment or deficiency that, in either case, remains in effect.

d) No claim has ever been made by an authority in a jurisdiction where any
Acquired Company does not file Tax Returns that an Acquired Company may be subject to
taxation by that jurisdiction. Schedule 4.17(d) of the Disclosure Schedules sets forth each
jurisdiction in which each Acquired Company is required to file Tax Returns or pay Taxes.

e) Except as set forth on Schedule 4.17(e) of the Disclosure Schedules, there
are no Liens on any of the Assets that arose in connection with any failure (or alleged failure) to
pay any Tax, except for Liens for Taxes not yet due and payable.

f) Each Acquired Company has timely withheld and paid all Taxes required
to have been withheld and paid in connection with any amounts paid or owing to any current or
former Service Provider, equity interest holder, creditor, or other third party, and all IRS Forms
W-2 and 1099 required with respect thereto have been properly completed and timely filed.

(g) No Acquired Company is party to any Tax allocation, Tax
indemnification, or Tax sharing agreement or arrangement (other than commercial agreements or
arrangements not primarily related to Taxes entered into in the ordinary course of business).

(h) As of the day immediately prior to the Closing Date, no Acquired
Company (i) has ever been a member of an Affiliated Group filing a consolidated federal income
Tax Return or any similar group for federal, state, local or foreign Tax purposes (other than a
group the common parent of which was the Company), (ii) has any Liability for the Taxes of any
Person under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or
foreign Law), as a transferee or successor, by any contract, or otherwise, or (iii) owns any
interest in an entity or arrangement classified as a partnership for United States federal, state, or
local income Tax purposes.

(i) Each Seller is a “United States person” within the meaning of Section
7701(a)(30) of the Code.

(j) Each Acquired Company has timely and properly collected all material
sales, use, value-added, and similar Taxes required to be collected, and has remitted, or will
remit on a timely basis, such amounts to the appropriate Taxing Authority. Each Acquired
The aggregate unpaid Taxes of the Acquired Companies (a) did not, as of the date of the Balance Sheet, exceed the reserve for Tax Liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the Balance Sheet and (b) do not exceed that reserve as adjusted for the passage of time through the end of the Closing Date in accordance with GAAP and the past custom and practice of the Acquired Companies in preparing their Financial Statements.

No Acquired Company has ever participated in any “listed transaction” within the meaning of Section 6707A(c)(2) of the Code or Treasury Regulation Section 1.6011-4(b)(2).

No Acquired Company has requested or received a ruling from any Taxing Authority or signed any binding agreement with any Taxing Authority that might impact the amount of Tax due from Acquiror or its Affiliates (including following the Closing, for the avoidance of doubt, the Acquired Companies) after the Closing Date.

Neither Acquiror nor any of its Affiliates (including following the Closing, for the avoidance of doubt, the Acquired Companies) will be required to include any item of income in, or exclude any deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any: (i) change in method of accounting or use of an improper or cash-based method of accounting for a taxable period ending on or prior to the Closing Date with respect to any Acquired Company; (ii) “closing agreement” as described in Section 7121 of the Code (or any corresponding or similar provision of state, local, or foreign income Tax Law) executed on or prior to the Closing Date by any Acquired Company; (iii) intercompany transactions as described in Treasury Regulation Section 1.1502-13 (or any corresponding or similar provision of state, local or foreign income Tax Law) or excess loss account described in Treasury Regulation Section 1.1502-19 (or any corresponding or similar provision of state, local or foreign income Tax Law) with respect to any Acquired Company; (iv) installment sale or open transaction disposition made on or prior to the Closing Date by any Acquired Company; (v) prepaid amount or deposit received on or prior to the Closing Date by any Acquired Company; (vi) except as set forth in Schedule 4.17(n), interest held by any Acquired Company in a “controlled foreign corporation” (as that term is defined in Section 957 of the Code) (a “CFC”) on or before the Closing Date pursuant to Sections 951, 951A, or 956 of the Code; (vii) “minimum gain chargeback” provision applicable to any Acquired Company with respect to “minimum gain” for periods (or portions of periods) ending on or prior to the Closing Date pursuant to Subchapter K of the Code; or (viii) election described in Section 108(i) of the Code (or any corresponding or similar provision of state, local or foreign Tax Law) by any Acquired Company.

No Acquired Company has deferred the inclusion of any amounts in taxable income pursuant to IRS Revenue Procedure 2004-34, Treasury Regulations Section 28.
1.451-5, Sections 451(c), 455, 456 or 460 of the Code or any corresponding or similar provision of Law (irrespective of whether or not such deferral is elective).

(p) Within the previous two (2) years, no Acquired Company has distributed stock of another Person, or has had its stock distributed by another Person, in a transaction that purported or intended to be governed in whole or in part by Section 355 or 361 of the Code.

(q) FTT Inc. is, and has been at all times since January 1, 2002, a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code. The Company is, and has been at all times since the date of its formation, a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code. Neither the Company nor FTT Inc. has any Liability for Tax under Section 1374 of the Code and did not acquire assets from a C corporation in a transaction in which its Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor. Schedule 4.17(q) of the Disclosure Schedules sets forth the United States Tax classification of each other Acquired Company.

(r) To the Knowledge of the Acquired Companies, (1) all transactions or arrangements made by any Acquired Company with any Affiliate of any of such Acquired Company have occurred on arm’s length terms, and (2) the Company and its Subsidiaries have complied in all material respects with all transfer pricing laws and regulations.

(s) Each of the Acquired Companies has been a resident in its jurisdiction of incorporation for Tax purposes and has not, at any time, been treated as a resident of or as having a permanent establishment or other fixed place of business in any other jurisdiction.

(t) No encumbrances for Taxes exist with respect to the assets owned by the Acquired Companies, except for Permitted Liens.

4.18 Employee Benefit Plans.

(a) Schedule 4.18(a) of the Disclosure Schedules lists each Employee Pension Benefit Plan, Employee Welfare Benefit Plan, Multiemployer Plan, Multiple Employer Plan, Multiple Employer Welfare Arrangement, pension plan, welfare plan, plan of deferred compensation, medical plan, life insurance plan, long-term disability plan, dental plan, or other plan, program, arrangement or trust, personnel policy (including vacation time, holiday pay, sick leave, other forms of paid time off, bonus programs, moving or other expense reimbursement or payment programs), excess benefit plan, bonus or incentive plan (including stock options, restricted stock, stock bonus and deferred bonus plans), severance agreement, salary reduction agreement, change-of-control agreement, employment agreement, consulting agreement or any other benefit, program or Contract, whether or not written or pursuant to a collective bargaining agreement sponsored, maintained, or contributed to by the Acquired Companies or with respect to which any of them have any Liability (each an “Employee Benefit Plan,” and collectively, the “Employee Benefit Plans”).

(b) Neither the Acquired Companies nor any ERISA Affiliate has at any time participated in or made contributions to or has had any other Liability with respect to (i) a Multiemployer Plan, (ii) a Multiple Employer Plan, (iii) a Multiple Employer Welfare
Arrangement, (iv) an Employee Pension Benefit Plan subject to Title IV of ERISA, (v) a voluntary employees’ beneficiary association, (vi) any Employee Benefit Plan in which stock of the Company, the Acquired Companies or any ERISA Affiliate is or was held as a plan asset, or (vii) any pension plan or fund outside of the United States that provides defined benefits, guaranteed income, any guaranteed interest rate on premiums or a specified accrual rate.

(c) Each Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code (or any corresponding provision of state, local or foreign Law), has received a determination from the IRS (or the relevant local Taxing Authority) that such Employee Benefit Plan is so qualified or is maintained pursuant to a pre-approved plan that is the subject of a favorable opinion or advisory letter from the IRS (or the relevant local Taxing Authority) and there are no facts or circumstances that could reasonably be expected to adversely affect the qualified status of any such Employee Benefit Plan.

(d) Each of the Profit Participation Agreements has been amended to (i) provide for payment to be made in specified cash installments at specified times following a Change in Control (as defined therein) of the Company or FTT Inc., respectively, and (ii) include a release of claims arising out of, based on, or in connection with rights of the recipient to receive any payment or benefit relating to the Profit Points (as defined therein) granted pursuant to such agreements, in each such case pursuant to a written document signed by each participant and acceptable to Acquiror.

(e) There are no Proceedings pending or threatened against, by or with respect to any Employee Benefit Plan (other than routine claims for benefits and for any self-insured welfare plan, no participant has routine claims exceeding $10,000 in the aggregate) nor, to the Knowledge of Acquired Companies, is there any reasonable basis for any such Proceeding.

(f) No Employee Benefit Plan is under audit or investigation by, or is the subject of or threatened by a Proceeding with respect to, any Governmental Body, including the IRS, the Department of Labor or the Pension Benefit Guaranty Corporation.

(g) Each of the Employee Benefit Plans have been maintained, funded and administered in compliance in all material respects with their terms and the terms of any applicable collective bargaining agreement, and in compliance in all material respects with the applicable provisions of ERISA, the Code, and any other Applicable Law.

(h) No Employee Benefit Plan provides post-retirement medical or life or other welfare benefits to any current or future retired or terminated employee (or any dependent thereof) of any Acquired Company other than as required pursuant to COBRA or similar Law, the full cost of which was paid by the participant. With respect to each Employee Benefit Plan, the Acquired Companies have provided Acquiror with true, complete and correct copies of (to the extent applicable): (i) all documents pursuant to which the Employee Benefit Plan is or has been maintained, funded and administered (including the plan and trust documents, any amendments thereto, the summary plan descriptions, any summaries of material modifications and any insurance contracts or service provider agreements, custodial agreements, insurance policies, investment management agreements, administrative agreements and similar agreements and any amendments thereto); (ii) the most recent annual report, actuarial report and/or financial
report and all attachments thereto; (iii) the most recent determination, opinion or advisory letter, if any, received from the IRS (or the relevant local Taxing Authority); and (iv) any non-routine communication to or from any Governmental Body. Each Employee Benefit Plan that is a “non-qualified deferred compensation plan” within the meaning of Section 409A(d)(1) of the Code and any award thereunder, in each case that is subject to Section 409A of the Code has been documented and administered in all material respects with the requirements of Code Section 409A.

(i) With respect to each Employee Benefit Plan that is an Employee Welfare Benefit Plan or provides insured benefits to Service Providers outside of the United States, all claims are (i) insured pursuant to a contract of insurance whereby the insurance company bears any risk of loss with respect to such claims, (ii) covered under a Contract with a health maintenance organization, pursuant to which the health maintenance organization bears the Liability for claims and there are no provisions for retroactive premium adjustments, or (iii) reflected as a Liability or accrued for on the Financial Statements. Schedule 4.18(i) of the Disclosure Schedules sets forth a true, correct, and complete list of all individuals who are receiving COBRA Coverage or who have incurred a “qualifying event” within the meaning of Section 4980B of the Code, but have not yet elected COBRA Coverage, the date and description of the qualifying event that triggered entitlement to COBRA Coverage, the name of the Employee Benefit Plans in which they participated that are subject to COBRA, and the expected date of termination of COBRA Coverage.

(j) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated by this Agreement will (either alone or in conjunction with any event) (i) result in an “excess parachute payment” (within the meaning of Section 280G of the Code or any corresponding provision of state, local or foreign Law) becoming due to any current or former Service Provider, (ii) increase any benefits otherwise payable under any Employee Benefit Plan, (iii) result in any acceleration of the time of funding, payment or vesting of any such benefits, or (iv) require any notification or consultation with any union, works council, employee representative or other labor organization. None of the Acquired Companies has any obligation to “gross up” or otherwise compensate any current or former Service Provider or other Person because of the imposition of any Tax on a payment to such Person.

(k) No Employee Benefit Plan has been the subject of any correction procedure, including the Employee Plan Compliance Resolution System (EPCRS), the Delinquent Filer Voluntary Compliance Program or the Voluntary Fiduciary Correction Program.

(l) None of the Employee Benefit Plans are subject to any Laws of a jurisdiction outside the United States and no Acquired Company has any plan or commitment to establish any new Employee Benefit Plan or to modify any Employee Benefit Plan.

(m) Each Employee Benefit Plan (other than employment or consulting agreements) may be terminated without Liability to the Acquired Companies other than ordinary administrative expenses typically associated with such a termination.
4.19 Employees; Labor Relations.

(a) Schedule 4.19(a) of the Disclosure Schedules lists, as of the date of this Agreement, each officer, manager, or employee of the Acquired Companies (each a “Business Employee” and collectively, the “Business Employees”) and each director, independent contractor, leased employee or other similar individual service provider of the Acquired Companies (together with each Business Employee, a “Service Provider” and collectively, the “Service Providers”), setting forth the (i) the name, identification number, job title, current annual salary and other compensation payable by the Company to such Persons as of the date hereof and the profit sharing, bonus or other form of additional compensation paid or payable by the Company to or for the benefit of each such Person for the current fiscal year and any amounts owed in future fiscal years, (ii) any and all loans outstanding from the Company to any such Person, (iii) leave status (including type of leave), and expected date of return for non-disability related leaves and expiration dates for disability-related leaves, (iv) whether such Person is exempt or non-exempt from the overtime requirements of the Fair Labor Standards Act and any other Applicable Law, (v) date of hire, and in the case of the Service Providers based outside of the United States, notice period to terminate employment or engagement, (vi) base compensation rate, and commission, bonus or other incentive-based compensation (and the target bonus or other incentive-based compensation if a target exists and the range of such bonus or other incentive-based compensation) and whether such Person is retained on a salaried basis or on an hourly, piecework or other non-salaried basis, and if so, the particulars of such non-salaried basis, (vii) principal place of work, (viii) the type of security clearance held, if any, and the expiration date thereof, (ix) annual vacation entitlement, amount of accrued and unused vacation (as of the Closing Date in the ordinary course of business consistent with past practice (and the dollar value of such vacation)), and (x) the amount of sick leave credited to such Person as of the date hereof in the ordinary course of business consistent with past practice (and the dollar value of such sick leave).

(b) Except as set forth on Schedule 4.19(b) of the Disclosure Schedules, since the Audit Date, no management-level Business Employee has given notice of his or her intent to terminate such employment and no notice of termination has been given to any Business Employee by any Acquired Company. No management-level Business Employee is subject to any disciplinary action or on a performance improvement plan or similar action. Each Business Employee in the United States is an “at-will” employee who can be terminated at any time for any reason without any monetary or other obligations on the part of the Acquired Companies. There have not been any “employment losses” (as defined in the WARN Act) prior to the Closing Date that, when aggregated together, could result in any obligation on behalf of any of any of the Acquired Companies under the WARN Act. Prior to the Closing Date, no contract of employment of any current Service Provider has transferred into any of the Acquired Companies by operation of Law and in the past 12 months, there has been no actual or proposed terminations of Service Providers on the grounds of redundancy that triggered or would trigger a requirement to carry out any collective information and consultation process.
(c) No Acquired Company is a party to or obligated with respect to any collective bargaining agreement. No strike, lock out, slowdown, work stoppage or union organizational activity or other similar occurrence (whether or not resolved) has occurred at any time during the past five years or is pending or, to the Knowledge of the Acquired Companies, threatened against any Acquired Company. The Acquired Companies are not subject to any charge, demand, petition or representation proceeding seeking to compel, require or demand any of them to bargain with any labor union, labor organization or works council. To the Knowledge of the Acquired Companies, no labor union or works council has requested or is seeking to represent any Service Provider. There is no pending, or to the Knowledge of the Acquired Companies, threatened unfair labor practice charge against any of the Acquired Companies before the National Labor Relations Board or the local equivalent thereof and, to the Knowledge of the Acquired Companies, no basis for any such charge exists. No Acquired Company is or has been a party to or otherwise bound by any Order relating to Business Employees or employment practices, and there are no Governmental Body conciliation agreements, noncompliance findings or audits pending or in effect with respect to Business Employees or employment practices of any Acquired Company.

(d) Since January 1, 2016, each Business Employee and former employee of the Acquired Companies that has been classified as exempt from overtime requirements was in fact exempt from overtime requirements at all times so classified. Since January 1, 2016, each current and former Service Provider who has not been classified as an employee of the Acquired Companies was in fact not an employee of the Acquired Companies. Except as set forth on Schedule 4.19(d) of the Disclosure Schedules, the Acquired Companies have no financial obligation to any former Service Provider. The Acquired Companies are not subject to any contractual obligation to rehire any former Service Provider or to refrain from disparaging any current or former Service Provider. The Acquired Companies have complied with all Laws relating to their current and former non-employee Service Providers. Since January 1, 2016, the Acquired Companies have complied in all material respects with all Laws relating to their employees including all Applicable Laws respecting employment and employment practices, terms and conditions of employment, and wages and hours, including (i) Title VII of the Civil Rights Act of 1964, as amended, (ii) the Equal Pay Act of 1967, as amended, (iii) the Age Discrimination in Employment Act of 1967, as amended, (iv) the Americans with Disabilities Act, as amended, (v) the Fair Labor Standards Act, as amended, and (vi) Laws relating to employment and employment practices, terms and conditions of employment, wages, hours, work councils, collective bargaining and the payment and withholding of Taxes or other sums as required by the appropriate Governmental Body and has withheld and paid to the appropriate Governmental Body or is holding for payment not yet due to such Governmental Body all amounts required to be withheld from current and former employees, and there are no material arrearages or delinquencies in the payment of wages, salaries, commissions, bonuses or other direct compensation, in each such case, and the related rules and regulations adopted by those federal agencies or other Governmental Body in each applicable jurisdiction responsible for the administration of such Laws.

(e) There are no, and since January 1, 2016 have been no, pending or, to the Knowledge of the Acquired Companies, threatened claims against, or investigations involving, any of the Acquired Companies (including workers' compensation claims and claims or suits for contribution to, or indemnification of, third parties, occupational health and safety,
environmental, consumer protection or equal employment matters) for injury, sickness, disease, discrimination, death or termination of employment services of any current or former Service Providers or other employment matter, other than as set forth on Schedule 4.19(e) of the Disclosure Schedules.

(f) Except for Contracts listed on Schedule 4.19(f) of the Disclosure Schedules (true, correct and complete copies of which agreements and contracts have been previously delivered to Acquiror), there are no other Contracts between any of the Acquired Companies and any current Service Provider. The Acquired Companies have no obligation to increase the compensation or benefits presently being paid or provided or hereafter payable or to be provided to current or former Service Providers.

(g) All current employees of the Acquired Companies have provided the Acquired Companies with sufficient evidence that each such Person is a citizen of, or is authorized to be employed in, the United States or the jurisdiction where they are currently employed or engaged and the Acquired Companies are in compliance in all material respects with all Laws relating to immigration and the employment of Persons who are not United States citizens. Schedule 4.19(g)(i) of the Disclosure Schedules lists each Business Employee who is not a United States citizen and the work permit, visa, or other document authorizing such Person to work in the United States or the jurisdiction where they are currently employed or engaged and the expiration date thereof. Except as set forth on Schedule 4.19(g)(ii) of the Disclosure Schedules, all Business Employees principally perform services for the Acquired Companies within the United States, the United Kingdom, Germany and Puerto Rico and the Acquired Companies have no work locations outside of these jurisdictions.

(b) The Company has provided to Acquiror true, correct and complete copies of all employee manuals and handbooks of the Acquired Companies within the last three years relating to the employment of employees, as well as all affirmative action plans and material correspondence with any Governmental Body during the last three years relating to affirmative action plans or other employment-related matters (e.g., OFCCP compliance evaluations, closure letters and conciliation agreements).

(i) Except as set forth on Schedule 4.19(i) of the Disclosure Schedules, the Acquired Companies do not utilize the services of any professional employer organization (PEO), staffing agency, or loan-out agency or any Entity that provides temporary or long-term staffing services.

(j) To the Knowledge of the Acquired Companies, none of the Service Providers of the Acquired Companies are subject to any non-compete, non-solicitation, non-disclosure, confidentiality, employment, consulting or similar Contracts that conflict with their duties and responsibilities to the Acquired Companies. Since January 1, 2016, none of the Acquired Companies has received any notice alleging that any violation of any such Contracts has occurred.

4.20 Related Party Transactions. No (a) Related Party has any direct or indirect interest in any asset used in or otherwise relating to any Acquired Company or their respective businesses, (b) Related Party has borrowed money from or loaned money to an
Acquired Company that is currently outstanding (other than advances for business expenses in connection with service as an employee in the ordinary course of business consistent with past practice), (c) Seller or, to the Knowledge of the Acquired Companies, any other Related Party has entered into, or has had any direct or indirect financial interest in, any Contract, transaction or business dealing involving any Acquired Company, (d) Seller or, to the Knowledge of the Acquired Companies, any other Related Party is competing, directly or indirectly, with any Acquired Company with respect to any line of the products or services sold or provided by the Acquired Companies in any market presently served by the Acquired Companies, (e) Seller or, to the Knowledge of the Acquired Companies, any other Related Party is a member, manager, director, officer or employee of, or consultant to, or owns, directly or indirectly, any financial interest in, any vendor, supplier or customer of any Acquired Company, or is in any way associated with or involved in the business of the Acquired Companies (except in his or her official capacity as a director, member, officer or employee of an Acquired Company, as the case may be), (f) Related Party has any interest in or has filed any application with respect to any Intellectual Property, which arises out of or relates to any Acquired Company or (g) Related Party has any claim or right against any Acquired Company (other than rights to receive compensation for, or expense reimbursement in connection with, services performed as an employee, officer or director); except with respect to clauses (a), (c), (d) and (e), any passive ownership of less than one percent of a publicly traded company. No Acquired Company shares any facilities or equipment with any Related Party. For the past three years there has not been, and there is not currently, pending, or, to the Knowledge of the Acquired Companies, threatened, any Proceeding against any current or former Related Party with respect to which an Acquired Company has an indemnification obligation.

4.21 Real Property.

(a) Schedule 4.21(a) of the Disclosure Schedules sets forth a complete list, including an address and description, of all real property and Leaseholder Improvements owned in fee by any Acquired Company (the “Owned Real Property”). With respect to Owned Real Property: (i) an Acquired Company has good and marketable indefeasible fee simple title, free and clear of all Liens except Permitted Liens; (ii) no Acquired Company has leased, licensed or otherwise granted to any Person the right to use or occupy the Owned Real Property or any portion thereof; and (iii) there are no outstanding options, rights of first offer or rights of first refusal to purchase the Owned Real Property or any portion thereof or interest therein.

(b) Schedule 4.21(b) of the Disclosure Schedules sets forth a complete list, including an address of each leasehold or subleasehold estate or other right to use or occupy any interest in real property held by any Acquired Company (the “Leased Real Property” and, together with Owned Real Property, the “Real Property”) and the Real Property Leases (including all amendments, guaranties and other agreements with respect thereto) relating to each such Leased Real Property. With respect to each Leased Real Property: (i) the relevant Acquired Company’s possession and quiet enjoyment under the applicable Real Property Lease has not been disturbed; (ii) no Acquired Company has subleased, licensed or otherwise granted any Person the right to use, possess or occupy any Leased Real Property or any portion thereof; and (iii) there are no special, general or other material assessments pending against any Acquired Company or affecting any Leased Real Property that would be payable by the lessee thereof.
(c) The Real Property comprises all of the real property that is used by the Acquired Companies in the businesses of the Acquired Companies. The Real Property is in good condition and repair (reasonable wear and tear excepted and subject to ordinary course maintenance and repair) and is sufficient for the operation of the businesses of the Acquired Companies as currently conducted. No Acquired Company has received any notice from any insurance company or board of fire underwriters of any defects or inadequacies that could adversely affect the insurability of any Real Property or requesting the performance of any material work or alteration with respect to any Real Property. There is no pending or threatened condemnation, expropriation or other governmental taking of any part or interest in any Owned Real Property or, to the Knowledge of the Acquired Companies, Leased Real Property. The current and intended use and occupancy of the Real Property and the operation of the Acquired Companies’ businesses as currently conducted and intended to be conducted thereon do not violate any applicable zoning Law, easement, covenant, condition, restriction or similar provision in any instrument of record affecting the Owned Real Property, or to the Knowledge of the Acquired Companies, the Leased Real Property.

4.22 Suppliers and Customers.

(a) Schedule 4.22(a) of the Disclosure Schedules contains a true, complete and accurate list of (i) the 20 largest suppliers to the Acquired Companies, taken as a whole, (excluding utilities) by the aggregate dollar value of purchases by the Acquired Companies, taken as a whole, during the 12 month period ended December 31, 2018 (each a “Top Supplier”) and (ii) with respect to each Top Supplier such aggregate dollar value of purchases. No Top Supplier has terminated or adversely modified the amount, frequency or terms of the business such Top Supplier conducts since the date of the Balance Sheet with any Acquired Company. No Acquired Company has received any written notice, nor does any Acquired Company have any Knowledge, that any Top Supplier intends to terminate or adversely modify the amount, frequency or terms of the business such Top Supplier conducts with any Acquired Company in any material respect. None of the Acquired Companies has any outstanding material dispute with a Top Supplier.

(b) Schedule 4.22(b) of the Disclosure Schedules contains a true, complete and accurate list of (i) the 20 largest customers (consolidating into a single customer all affiliated customers) of the Acquired Companies, taken as a whole, by the aggregate dollar value of sales by the Acquired Companies, taken as a whole, during the 12 month period ended December 31, 2018, (each a “Top Customer”) and (ii) with respect to each Top Customer, the aggregate dollar value of such sales. No Top Customer has terminated or adversely modified the amount, frequency or terms of the business such Top Customer conducts since the date of the Balance Sheet with any Acquired Company. No Acquired Company has received any notice, nor does any Acquired Company have any Knowledge, that any such Top Customer intends to terminate or adversely modify the amount, frequency or terms of the business such Top Customer conducts with any Acquired Company in any material respect. None of the Acquired Companies has any outstanding material dispute with a Top Customer. Except as set forth on Schedule 4.22(b) of the Disclosure Schedules, none of the Contracts with the Top Customers contain any provisions that could reasonably be expected to result in any Acquired Companies being liable for liquidated Damages nor does any Top Customer currently have a valid claim for liquidated Damages under such provisions.
4.23 Insurance Policies. Schedule 4.23 of the Disclosure Schedules contains a true, complete and accurate list of all insurance policies to which any Acquired Company is a party or which provide coverage to or for the benefit of or with respect to any Acquired Company or any Service Provider in its capacity as such (the “Insurance Policies”), indicating in each case the type of coverage, name of the insured, the insurer, the expiration date of each policy and the amount of coverage. True, complete and accurate copies of all such Insurance Policies have been provided or made available to Acquiror. Each Insurance Policy is in full force and effect and shall remain in full force and effect in accordance with its terms immediately following the Closing and has not been subject to any lapse in coverage. The Acquired Companies are current in all premiums or other payments due under the Insurance Policies and have otherwise complied in all material respects with all of their obligations under each Insurance Policy. To the Knowledge of the Acquired Companies, the Acquired Companies have given timely notice to the insurer of all material claims that may be insured thereby under any Insurance Policy. During the past three years, no Acquired Company has been refused any insurance by, nor has coverage been limited by, any insurance carrier with which any Acquired Company has carried insurance or any other insurance carrier to which any Acquired Company has applied for insurance, and no insurer has issued a reservation of rights or denial of coverage for claims or incidents which could give rise to a claim under any Insurance Policy. No Insurance Policy provides for any retrospective premium adjustment or other experience based Liability on the part of any Acquired Company.

4.24 Bank Accounts. Schedule 4.24 of the Disclosure Schedules is a true, complete and accurate list of each bank or financial institution in which any Acquired Company has an account, safe deposit box or lockbox, or maintains a banking, custodial, trading or similar relationship, the number of each such account or box, and the names of all Persons authorized to draw thereon or to having signatory power or access thereto.

4.25 Product Warranty; Aviation Regulation Compliance.

(a) All products manufactured, sold or delivered by any Acquired Company have been in material conformity with all applicable warranties, and no Acquired Company has any Liability for replacement thereof or other Damages in connection therewith in excess of any warranty reserve established with respect thereto on the Balance Sheet as adjusted for the passage of time through the Closing Date in accordance with GAAP and the past custom and practice of the Acquired Companies. No products manufactured, sold or delivered by any Acquired Company are subject to any guaranty, warranty or other indemnity beyond the applicable standard terms and conditions of sale with respect thereto which, in each case, have been made available to Acquiror. No Acquired Company has received any notice of any claims for, and to the Knowledge of the Acquired Companies there is no reasonable basis for, any extraordinary product recalls, returns, warranty obligations or service calls relating to any of its products or services. No Acquired Company has had or has any Liability arising out of any injury to individuals or property as a result of the ownership, possession or use of any products manufactured, sold or delivered by any Acquired Company or with respect to any services rendered by any Acquired Company.

(b) Each of the Acquired Companies (i) is in compliance in all material respects with all Applicable Laws prescribed by the U.S. Federal Aviation Administration
("FAA") under Title 14 of the Code of Federal Regulations and similar Laws prescribed by foreign aviation authorities (such Laws, including those prescribed by the FAA, collectively, "Aviation Regulations"), (ii) has, at all times as to which the applicable statute of limitations has not yet expired, (A) not violated or made voluntary disclosures with respect to potential violations of any Aviation Regulations, (B) to the Knowledge of the Acquired Companies not been subject to an investigation with respect to potential violations of any Aviation Regulations, and (C) not been cited by the FAA or foreign aviation authorities for any material discrepancies or violations during inspections or audits, and (D) not received any Air Worthiness Directives (as such term is defined in the Federal Aviation Regulations, 14 C.F.R. § 39, as amended) issued by the FAA (or, with respect to such issuances by any foreign aviation Governmental Body, the foreign equivalent thereof) pursuant to which a known safety deficiency was found in any of the products of the Acquired Companies, and no such Air Worthiness Directives are pending.

4.26 Anti-Money Laundering. The Acquired Companies are in and have (at all times since January 1, 2014) been in compliance in all material respects with all anti-money laundering Laws and guidelines applicable to the Acquired Companies, and no Proceeding by or before any Governmental Body against or affecting any Acquired Company, or any Assets with respect to any such Laws or guidelines is pending or, to the Knowledge of the Acquired Companies, threatened.

4.27 Anticorruption; Improper Payments. None of the Acquired Companies, nor any Seller, nor to the Knowledge of the Acquired Companies any director, member, officer, manager, employee, or any other Person authorized to act on behalf of any of the Acquired Companies or any Seller, has, directly or indirectly, taken any act in furtherance of an offer, payment, promise to pay, authorization, or ratification of payment, directly or indirectly, of any money or anything of value (including any gift, bribe, payoff, influence payment, kickback, sample, rebate, travel, meal and lodging expense, entertainment, service, equipment, debt forgiveness, donation, grant or other thing of value, however characterized) to any Government Official or any Person to secure any improper advantage or to obtain or retain business that would cause any Acquired Company or Seller to be in violation of Improper Payment Laws. Each Acquired Company complies, and since January 1, 2014 has complied with all Improper Payment Laws. Without limiting the generality of the foregoing, (a) none of the Acquired Companies nor any Seller has violated or is in violation in any material respect of the U.S. Anti-Kickback Statute (42 U.S.C. Section 1302a-7(b)), the Federal False Claims Act (31 U.S.C. Sections 3729, et seq.) or any related or similar Law and (b) there has been no use or authorization of money or anything of value relating to any unlawful payment or secret or unrecorded fund or any false or fictitious entries made in the books and records of any Acquired Company relating to the same. None of the Acquired Companies, nor any Seller, nor to the Knowledge of the Acquired Companies any of their respective Affiliates or Persons acting on their behalf have received any notice or communication from any Person that alleges (nor been involved in any internal investigation involving) any allegations relating to potential violation of any Improper Payment Laws or other Applicable Law, nor have received a request for information from any Governmental Body regarding Improper Payment Laws. No Government Official has, directly or indirectly, the right of control over, or any beneficial interest in any Acquired Company.
4.28 Import and Export Control Laws. The Acquired Companies have, at all times as to which the applicable statute of limitations has not yet expired, conducted their import and export transactions in accordance with all applicable Customs and International Trade Laws, and all other applicable import/export controls of other countries with which the Acquired Companies do business. Without limiting the foregoing:

(a) the Acquired Companies have obtained, and are in compliance with, all export licenses, license exceptions and other consents, notices, waivers, approvals, orders, authorizations, registrations, declarations, classifications and filings with any Governmental Body required for (i) the export and re-export of products, services, Software and technologies and (ii) releases of technologies and Software to foreign nationals located in the United States and abroad (“Export Approvals”);

(b) there are no pending or, to the Knowledge of the Acquired Companies, investigations or threatened claims against any Acquired Company with respect to such Export Approvals;

(c) to the Knowledge of the Acquired Companies, no Export Approvals with respect to the Contemplated Transactions are required;

(d) none of the Acquired Companies, and no manager, director or officer thereof, nor, to the Knowledge of the Acquired Companies, any employee, agent, or Affiliate of the Acquired Companies is a Sanctioned Person;

(e) neither the Acquired Companies nor to the Knowledge of the Acquired Companies any of their Affiliates is a party to any Contract or bid with, or has conducted business with (directly or, to the Knowledge of the Acquired Companies, indirectly), any Sanctioned Person in violation of Law; or has pending or, to the Knowledge of the Acquired Companies, threatened claims against it with respect to alleged violations of Sanctions;

(f) since January 1, 2014, no Acquired Company has received written notice to the effect that a Governmental Body claimed or alleged that any Acquired Company was not in compliance with any Applicable Laws relating to the export of goods and services to any foreign jurisdiction against which the United States or the United Nations maintains Sanctions or export controls, including applicable regulations of the United States Department of Commerce and the United States Department of State; and

(g) since January 1, 2014, neither the Acquired Companies nor any of their Affiliates has made any voluntary disclosures to, or has been subject to any fines, penalties, or Sanctions from, any Governmental Body regarding any past import or export control violations.

4.29 Privacy and Data Security.

(a) To the Knowledge of each Acquired Company, it complies, and since January 1, 2015 has complied with all Privacy and Information Security Requirements. No Acquired Company, nor, to the Knowledge of the Acquired Companies, any other Person, has received any written notice or other communication, from any Governmental Body or otherwise, since January 1, 2015 regarding any actual or possible violation of, or failure to comply with,
any Privacy and Information Security Requirement by or with respect to such Acquired Company. There is not currently pending and since January 1, 2015 there has not been, any Proceeding against any Acquired Company alleging any violation of, or failure to comply with, any Privacy and Information Security Requirement.

(b) Except as set forth on Schedule 4.29(b) of the Disclosure Schedules, each Acquired Company has provided reasonable and accurate notice of such Acquired Company’s privacy and personal data collection and use policies on its websites and other customer and public communications as required by Applicable Law.

c) Except as set forth on Schedule 4.29(c) of the Disclosure Schedules, each Acquired Company is in compliance in all material respects with the terms of all Contracts, policies and notices to which such Acquired Company is a party relating to data privacy, security or breach notification (including provisions that impose conditions or restrictions on the collection, storage, use, disclosure, retention or transfer of Personal Information).

d) To the Knowledge of the Acquired Companies, no Person has, or is reasonably suspected to have, gained unauthorized access to or caused or suffered a breach (including without limitation any loss of integrity or availability) with respect to any Company IT Systems or Company Products, or data or Personal Information thereon, or used, accessed or disclosed any Personal Information, or Company IT System for any illegal or unauthorized purpose. Each Acquired Company has made all requisite notices and obtained all required consents, and satisfied all other requirements (including notification to privacy or data protection authorities), necessary for such Acquired Company’s collection, storage, use, disclosure, retention or onward and/or international transfer, and Acquiror’s access to, any Personal Information or other data in connection with the conduct of the Business as currently conducted and contemplated to be conducted.

e) Except as set forth on Schedule 4.29(e) of the Disclosure Schedules, each Acquired Company has implemented and maintained commercially reasonable organizational, administrative, physical and technical safeguards for a company in the Acquired Companies’ industry, reasonably necessary to (i) secure Company IT Systems and Company Products, and any Personal Information thereon, from unauthorized access, acquisition, interruption, alteration, modification, or use by any Person, (ii) defend Company IT Systems and Company Products against denial of service attacks, distributed denial of service attacks, hacking attempts, and like attacks and activities by any other Person, and (iii) ensure the continued, uninterrupted, and error-free operation of Company IT Systems and Company Products, including employing commercially reasonable security, maintenance, disaster recovery, redundancy, backup, archiving, and virus or malicious device scanning/protection measures. Each employee and agent has received training regarding information security that is relevant to each such employee’s or agent’s role and responsibility within the Acquired Companies. Each Acquired Company has timely and reasonably remediated and addressed any and all material or critical audit findings relating to such Acquired Company’s implementation of administrative, physical and technical safeguards. Each Acquired Company has provided all requisite notices and obtained all required consents, and satisfied all other applicable legal or contractual requirements (including but not limited to notification to any Governmental Body), necessary for such Acquired Company’s Processing (including international and onward transfer) of all Personal
Information in connection with the conduct of the business as currently conducted and in connection with the consummation of the transactions contemplated hereunder.

(f) To the Knowledge of each Acquired Company, the Company IT Systems are adequate for, and operate and perform in all material respects as required in connection with, the operation of the Business as currently conducted and currently contemplated to be conducted. To the Knowledge of the Acquired Companies, the Company IT Systems and Company Products have had no material errors or defects that have not been remedied and contain no code designed to disrupt, disable, harm distort or otherwise impede in any manner the legitimate operation of such Company IT Systems or Company Products (including what are sometimes referred to as “viruses”, “worms”, “time bombs” or “back doors”) that has not been removed or fully remedied. Since January 1, 2015, no Acquired Company has experienced any material disruption to, or material interruption in, the conduct of its Business attributable to a defect, breakdown, unauthorized access, introduction of a virus or other malicious programming, or other failure or deficiency on the part of any computer Software or the Company IT Systems. The execution, delivery and performance of this Agreement will not result in any material violations of any Privacy and Information Security Requirements.

4.30 Government Contracts.

(a) Schedule 4.30(a) of the Disclosure Schedules contains a true, complete and accurate list as of the date of this Agreement of each Government Contract.

(b) Each Government Contract held by an Acquired Company is legal, valid, binding, enforceable and in full force and effect and not subject to any pending or, to the Knowledge of the Acquired Companies, threatened Proceedings.

(c) Except as set forth on Schedule 4.30(c) of the Disclosure Schedules, since January 1, 2014, with respect to each Government Contract:

(i) None of the Acquired Companies have received a notice of termination for convenience, a notice of termination for default, stop work order (other than those relating to funding issues outside of the Acquired Companies’ control), a material cure notice or a material show cause notice pertaining to any Government Contract. None of the Acquired Companies has received any notice from any Governmental Body pertaining to the Government Contracts indicating that it intends to cancel or otherwise adversely modify its relationship with any of the Acquired Companies.

(ii) The Acquired Companies are, and have been since January 1, 2014, in material compliance with all terms and conditions of the Government Contracts, including all clauses, provisions, requirements and specifications relating to quality assurance, testing and inspection.

(iii) None of the Acquired Companies has received any adverse or negative past performance evaluations or ratings in connection with any Government Contract by any Governmental Body.
(iv) None of the Acquired Companies is (A) to the Knowledge of the Acquired Companies under or identified in any administrative, civil or criminal investigation or indictment, or (B) is a party to any administrative or civil litigation, involving false statements, false claims or other misconduct or any other Proceeding, relating to any of the Government Contracts or bids for Government Contracts.

(v) None of the Acquired Companies, nor to the Knowledge of the Acquired Companies, any director, officer, member, employee, consultant or Affiliate of the Acquired Companies, has been or is suspended, debarred or, to the Knowledge of the Acquired Companies, proposed for suspension or debarment from government contracting.

(vi) Each Acquired Company and each of their respective employees possess all facility and personnel security clearances necessary to perform all Government Contracts, and all such security clearances are valid and in full force and effect. The Acquired Companies and, to the Knowledge of the Acquired Companies, their respective employees are in compliance in all material respects with the requirements applicable to such security clearances, including those set forth in the National Industrial Security Program Operating Manual.

(vii) None of the Acquired Companies, nor, to the Knowledge of the Acquired Companies, any director, officer, trustee, employee, consultant, advisor or other representative thereof, has, in any material respect, violated any Law or administrative or contractual restrictions concerning the employment of (or discussions concerning possible employment with) current or former officials or employees of a Governmental Body (regardless of the branch of government), including the so-called “revolving door” restrictions set forth at 18 U.S.C. Section 207 or similar provisions under state or local laws.

(viii) The representations, certifications and warranties made by each of the Acquired Companies with respect to the Government Contracts were accurate and complied with Law in all material respects as of their effective date.

(ix) None of the Acquired Companies has received any written, or to the Knowledge of the Acquired Companies, oral notification of material cost, schedule, technical or quality problems that would reasonably result in Damages against any of the Acquired Companies (or successors in interest) by a Governmental Body, a prime contractor or a higher tier subcontractor.

(x) To the Knowledge of the Acquired Companies, there are no Government Contracts pursuant to which any Acquired Company has experienced cost, schedule, technical or quality problems that would result in Damages against any of the Acquired Companies (or successors in interest) by a Governmental Body, a prime contractor or a higher tier subcontractor.

(d) To the Knowledge of the Acquired Companies:

(i) The Government Contracts are not currently the subject of bid or award protest proceedings; and
None of the Acquired Companies has any pending or presently anticipates any claim or request for equitable adjustment, however styled, in conjunction with a Government Contract.

The Acquired Companies have maintained all required records under the Cost Accounting Standards and have not received any denial of costs or been required to modify any allocation of costs as a result of any audit under the Cost Accounting Standards, nor otherwise been denied payment as the result of any cost accounting audit or contract closeout.

4.31 No Brokers or Finders. Except for KAL Capital Markets LLC, none of the Acquired Companies nor any of their respective Affiliates has retained any broker or finder, agreed to pay or made any statement or representation to any Person that would entitle such Person to, any broker’s, finder’s or similar fees or commissions in connection with the Contemplated Transactions.

4.32 No Other Representations or Warranties. Except for the representations and warranties expressly contained in this Article 4 (as modified by the Disclosure Schedules), in any certificate delivered pursuant to this Agreement and in any Related Agreement, neither the Sellers, the Acquired Companies nor any other Person makes any other express or implied representation or warranty with respect to Sellers, the Purchased Interests, the Acquired Companies or the Contemplated Transactions and any other rights or obligations to be transferred hereunder or pursuant hereto. Except for the representations and warranties expressly contained in this Article 4 (as modified by the Disclosure Schedules) and in any certificate delivered pursuant to any of the Related Agreements, the Sellers and the Acquired Companies and their respective Affiliates and Representatives hereby disclaim all liability and responsibility for any representation, warranty, projection, forecast, statement, or information made, communicated, or furnished (orally or in writing) to Acquiror or its Affiliates or Representatives (including any opinion, information, projection, or advice that may have been or may be provided to Acquiror by any director, officer, employee, agent, consultant, or representative of the Sellers or the Acquired Companies). Except for the representations and warranties expressly contained in this Article 4, the Sellers and the Acquired Companies and their respective Affiliates and Representatives make no representations or warranties to Acquiror regarding the probable success or profitability of the Acquired Companies. Notwithstanding the foregoing, this Article 4 shall not (and shall not be deemed to) limit, modify or otherwise affect, any claim or action based on fraud.

ARTICLE 5.
REPRESENTATIONS AND WARRANTIES OF ACQUIROR

Acquiror represents and warrants to the Sellers as follows:

5.1 Good Standing and Other Matters. Acquiror is duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted, other than in such jurisdictions where the failure so to qualify would not be reasonably likely, individually or in the aggregate, to have a material adverse effect on Acquiror.
5.2 Capitalization of Acquiror. As of February 22, 2019, the authorized capital stock of Acquiror consists of (a) 195,000,000 shares of common stock, $0.001 par value per share (“Acquiror Common Stock”), of which 104,046,886 shares are issued and outstanding, and (b) 5,000,000 shares of preferred stock, $0.001 par value per share, none of which are issued and outstanding. Except as disclosed in the SEC Reports, no bonds, debentures, notes or other instruments or evidence of indebtedness having the right to vote (or convertible into, or exercisable or exchangeable for, securities having the right to vote) on any matters on which Acquiror’s stockholders may vote are issued or outstanding. All issued and outstanding shares of Acquiror Common Stock are duly authorized, validly issued, fully paid and nonassessable and were not issued in violation of any preemptive rights. The shares comprising the Closing Stock Payment, when issued, will be duly authorized, validly issued, fully paid and nonassessable shares of common stock of Acquiror and will not be issued in violation of any preemptive rights.

5.3 Shares of Acquiror Common Stock. Except as set forth in Section 6.9, the Closing Stock Payment will be issued in compliance with Applicable Laws, free and clear of any and all Liens. The sale and delivery of the shares comprising the Closing Stock Payment will vest in the holders thereof legal and valid title to such shares of Acquiror Common Stock.

5.4 Authority. Acquiror has all requisite corporate power and authority to conduct its business as it is presently conducted and to own, lease or operate its properties and assets and execute, deliver and perform its obligations under this Agreement and each of the Related Agreements to which it is a party and to consummate the Contemplated Transactions. The execution and delivery of this Agreement and the Related Agreements to which Acquiror is a party, the performance by Acquiror of its obligations hereunder and thereunder and the consummation by Acquiror of the Contemplated Transactions have been duly authorized. This Agreement and the Related Agreements to which Acquiror is a party have been duly executed and delivered by Acquiror and constitute the legal, valid and binding obligation of Acquiror, enforceable against it in accordance with their respective terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting the rights of creditors generally and the availability of equitable remedies.

5.5 No Conflict. The execution, delivery and performance by Acquiror of this Agreement and the Related Agreements to which Acquiror is a party and the consummation of the Contemplated Transactions will not:

(a) violate, contravene or conflict with any provision of the operating agreement, certificate of formation, certificate of incorporation, bylaws or similar organizational documents of Acquiror;

(b) violate, contravene or conflict with any resolution adopted by Acquiror’s board of directors;

(c) violate, contravene or conflict with any Law or Order applicable to Acquiror;

(d) except as set forth in Section 6.9, result in the creation or imposition of any Lien upon the shares comprising the Closing Stock Payment; or
contravene, conflict with, result in the violation or breach of any of the terms or conditions of, or constitute (with or without notice or lapse of time or both) a default under or an Event which would, or could reasonably be expected to give rise to, any right of notice, modification, acceleration, payment, withdrawal, suspension, cancellation or termination under, or in any manner release any party thereto from any obligation under, or otherwise affect any rights of Acquiror under, any material Contract, material Permit or other material instrument or obligation of any kind or nature, in any case whether written or oral, by which Acquiror or any of its assets may be bound or affected,

except, in the case of clauses (c) and (e) of this Section 5.5, for any such violations, conflicts, defaults or violations that would not reasonably be expected to have a material adverse effect on the ability of Acquiror to consummate the Contemplated Transactions.

5.6 Consents and Approvals. No consent, approval, license, Permit, Order or authorization of, or registration, declaration or filing with, or notice to, any Governmental Body or other Person is required to be made or obtained by Acquiror in connection with the authorization, execution, delivery and performance of this Agreement or any Related Agreement, or the consummation of the Contemplated Transactions, except for filings with the SEC, notifications to NASDAQ and filings under state securities or “blue sky” laws and except where the failure to obtain such consent, approval, authorization or action or to make such filing or notification would not be reasonably expected to be material to Acquiror.

5.7 Litigation. There are no Proceedings pending or, to the knowledge of Acquiror, threatened against or affecting Acquiror, or any of its Subsidiaries or any of its or their officers, directors or employees (in their respective capacities as such) that (a) have had, or would reasonably be expected to have, a material adverse effect on the ability of Acquiror to consummate the Contemplated Transactions or (b) seek to restrain or prohibit or to obtain damages or other relief in connection with the Contemplated Transactions.

5.8 Compliance with Laws. To the Knowledge of Acquiror, Acquiror is not under or identified in any administrative, civil or criminal investigation or indictment, or a party to any administrative or civil litigation, involving false statements, false claims or other misconduct or any other Proceeding, relating to any of its material Acquiror Government Contracts. None of Acquiror, nor to the Knowledge of Acquiror, any director, officer, member, employee, consultant or Affiliate of Acquiror, has been or is suspended, debarred or, to the Knowledge of Acquiror, proposed for suspension or debarment from government contracting.

5.9 No Brokers or Finders. Except for Canaccord Genuity Inc., neither Acquiror nor any of its Affiliates has retained any broker or finder, agreed to pay or made any statement or representation to any Person that would entitle such Person to, any broker’s, finder’s or similar fees or commissions in connection with the Contemplated Transactions.

5.10 SEC Reports.

(a) Since December 31, 2015, Acquiror has filed all forms, reports and documents with the SEC that have been required to be filed by it under Applicable Law prior to the date hereof (all such forms, reports and documents, together with all exhibits and schedules
(b) As of its filing date (or, if amended or superseded by a filing prior to the date of this Agreement, on the date of the last such amendment or superseding filing) or submission date, as the case may be (i) each SEC Report complied as to form, in all material respects, with the applicable requirements of the Securities Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Sarbanes-Oxley Act of 2002, as amended, or any successor statute, rules or regulations thereto ("Sarbanes-Oxley Act") and the Dodd-Frank Act of 2010, as the case may be, and the applicable rules and regulations promulgated thereunder, each as in effect on the date such SEC Report was filed, and (ii) each SEC Report did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. As of the date hereof, to the knowledge of Acquiror, none of the SEC Reports is the subject of ongoing SEC review, outstanding SEC comment or outstanding SEC investigation. No executive officer of Acquiror has failed to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act with respect to any SEC Report. Neither Acquiror nor, to the knowledge of Acquiror, any of its Representatives, has received notice from any Governmental Body challenging or questioning the accuracy, completeness, form or manner of filing of such certifications. Except as previously disclosed in the SEC Reports since the enactment of the Sarbanes-Oxley Act, Acquiror and, to the Knowledge of Acquiror, each of its officers and directors, have been and are in compliance, in all material respects, with (A) the applicable provisions of the Sarbanes-Oxley Act and the rules and regulations promulgated thereunder and (B) the applicable listing and corporate governance rules and regulations of the NASDAQ Global Select Market.

(c) As of the date of this Agreement, Acquiror is a “well known seasoned issuer” as defined in Rule 405 promulgated by the SEC pursuant to the Securities Act.

5.11 Sufficiency of Funds. Acquiror has sufficient cash on hand or other sources of immediately available funds to enable it to make payment of the Closing Cash Payment and consummate the Contemplated Transactions. Acquiror’s willingness to consummate the Contemplated Transactions is not conditioned, implicitly or otherwise, on financing not yet obtained.
5.12 Investigation; No Reliance. Acquiror acknowledges and agrees that it has made its own inquiry and investigation into, and, based thereon, has formed an independent judgment concerning the Sellers, the Acquired Companies, the Purchased Interests and the Contemplated Transactions and any other assets, rights or obligations to be transferred hereunder or pursuant hereto. Except for the specific representations and warranties expressly made by each of the Sellers and the Acquired Companies in Article 3 and Article 4 of this Agreement, or in any certificate delivered pursuant to this Agreement or any of the Related Agreements, Acquiror acknowledges and agrees that (i) the Sellers and the Acquired Companies and their respective Affiliates and Representatives are not making and have not made any representation or warranty, expressed or implied, at law or in equity, in respect of the Purchased Interests, the Sellers, the Acquired Companies, or any of the Acquired Companies' respective businesses, assets, Liabilities, operations, prospects, or condition (financial or otherwise), including with respect to merchantability or fitness for any particular purpose of any assets, the nature or extent of any Liabilities, the prospects of the business of the Acquired Companies, the effectiveness or the success of any operations, or the accuracy or completeness of any confidential information memoranda, documents, projections, material or other information (financial or otherwise) regarding the business of the Acquired Companies furnished to Acquiror or its Representatives or made available to Acquiror and its Representatives in any “data rooms,” “virtual data rooms,” management presentations or in any other form in connection with, or in connection with, the transactions contemplated hereby, or in respect of any other matter whatsoever, and (ii) no Representative of the Sellers or the Acquired Companies or any of their respective Affiliates and Representatives has any authority, express or implied, to make any representations, warranties or agreements not specifically set forth in this Agreement, in any certificate delivered pursuant to this Agreement or any of the Related Agreements. The parties hereto acknowledge and agree that nothing contained in this Section 5.12 shall limit or waive any claim based on fraud.

ARTICLE 6.
COVENANTS AND OTHER AGREEMENTS

6.1 Reasonable Efforts; Cooperation. Subject to the other provisions hereof, each party shall use its reasonable, good faith efforts to perform its obligations hereunder and to take, or cause to be taken, and do, or cause to be done, all things necessary, proper or advisable under Applicable Laws to consummate the Contemplated Transactions and make effective the Contemplated Transactions.

6.2 Public Announcements. No party to this Agreement shall issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written approval of the other parties hereto. Notwithstanding the foregoing, nothing herein shall be deemed to prohibit a party from making any public disclosure as may be required by Applicable Law, court process or by obligations pursuant to any listing agreement with or rules of any securities exchange or trading market on which securities of any party are listed, in which case the party required to make the release or announcement shall use commercially reasonable efforts to allow the other party or parties hereto reasonable time to comment on such release or announcement in advance of such issuance (it being understood that the final form and content of any such release or announcement, as well as the timing of any such release or announcement, shall be at the final discretion of the disclosing party).
6.3 Restrictive Covenants.

(a) Confidentiality. For a period of five years following the Closing Date, each Seller shall not, and such Seller shall cause its Affiliates not to, use or disclose or convey to any third party, any Confidential Information; provided, however, that any Seller or its Affiliates may furnish such portion (and only such portion) of the Confidential Information as such Seller or such Affiliate reasonably determines it is legally obligated to disclose if: (i) it receives a request to disclose all or any part of the Confidential Information under the terms of a subpoena, civil investigative demand or Order issued by a Governmental Body; (ii) to the extent not inconsistent with such request, it notifies Acquiror of the existence, terms and circumstances surrounding such request and consults with Acquiror on the advisability of taking steps available under Applicable Law to resist or narrow such request; (iii) it exercises its reasonable best efforts to obtain an Order or other reliable assurance that confidential treatment will be accorded to the disclosed Confidential Information; and (iv) disclosure of such Confidential Information is required to prevent such Seller or such Affiliate from being held in contempt or becoming subject to any other penalty under Applicable Law.

(b) Non-Competition. Each Seller covenants and agrees that, during the period beginning on the Closing Date and ending on the tenth anniversary of the Closing Date, (the “Restricted Period”) such Person will not, and shall cause its Affiliates not to, other than for or on behalf of Acquiror and or the Acquired Companies, directly or indirectly, engage or participate in any manner (as an owner, equity holder, financing source, director, manager, employee, agent, representative, consultant, Service Provider or otherwise) in any business that is competitive with the Business, anywhere in the United States, the UK, Germany, Puerto Rico and Canada, which represent the geographical locations in which the Acquired Companies have material operations. Notwithstanding the foregoing, nothing contained in this Section 6.3(b) shall prohibit any Seller or its Affiliates from passively investing in less than 2% of any class of stock listed on a national securities exchange or traded in the over-the-counter market. In the event of a Change of Control following the Closing Date, the Restricted Period for purposes of Section 6.3(b)-(d) shall terminate on the fifth anniversary of the Closing Date. Notwithstanding anything herein to the contrary, nothing in this Agreement shall prohibit JB or SB from [***].

(c) Non-Solicitation of Business Relationships. Without limiting the generality of the provisions of Section 6.3(b) above, each Seller covenants and agrees that during the Restricted Period such Person will not, and will cause its Affiliates not to, directly or indirectly, solicit, induce or advise or participate in any manner (as an owner, equity holder, financing source, director, member, officer, manager, employee, agent, representative, consultant, Service Provider or otherwise) in any business that solicits, induces or advises, any Person that is or was a customer, supplier or other business relation of any Acquired Company at any time during the 24 month period prior to the Closing Date for purposes of diverting such Person’s business from any Acquired Company or providing any goods or services which are or may reasonably be considered to be competitive with those provided by the Business.

(d) Non-Solicitation of Employees and Contractors. Each Seller covenants and agrees that during the Restricted Period, it will not, and will cause its Affiliates not to, directly or indirectly, (i) without the prior written approval of Acquiror, employ or engage any
individual that served as an officer, manager, employee or independent contractor of the Business or any Acquired Company during the 12-month period prior to the Closing Date (each, a “Covered Employee”), or (ii) induce or attempt to induce, or cause or solicit any Covered Employee to leave the employment of Acquiror or any Acquired Company or otherwise seek to influence or alter such individual’s relationship with Acquiror or any Acquired Company;

provided, however, that the placement of any general mass solicitation or advertising that is not targeted at any Covered Employee, shall not be considered a violation of this Section 6.3(d)(ii).

(e) Non-Disparagement. For a period of five years after the Closing Date, each Seller hereby covenants and agrees that such Seller shall not make or publish written or oral statements that would reasonably be deemed to be disparaging, deleterious or damaging in any material respect to the integrity, reputation or goodwill of the Acquired Companies or their respective Affiliates, or any of their respective directors, officers or employees. Notwithstanding the foregoing, this provision shall not in any way limit, restrict, or impede each Seller’s ability to provide truthful testimony or information (i) in response to a subpoena, court order, or valid request by a Governmental Body, (ii) in connection with any good faith dispute arising under this Agreement or any Related Agreement, or (iii) as otherwise required by Law.

(f) Acknowledgements; Remedies. Each Seller acknowledges and agrees that: (i) the Sellers, together with the employees of the Acquired Companies, have over many years devoted substantial time, effort and resources to developing the trade secrets and other confidential and proprietary information of the Acquired Companies as well as the goodwill and established relationships of the Acquired Companies with clients, suppliers, employees and others doing business with the Acquired Companies; (ii) that such goodwill and established relationships, trade secrets and other information are vital to the successful conduct of the business of the Acquired Companies in the foreseeable future; (iii) that the Acquired Companies, in the furtherance of the business, have in the past provided Seller with the opportunity and support necessary to allow the Seller to establish personal and professional relationships with clients, suppliers, employees and others having business relationships with the Acquired Companies and afforded the Seller access to the trade secrets and other confidential and proprietary information of the Acquired Companies; (iv) that because of the opportunities and support so provided to the Seller and because of the Seller’s access to the confidential information and trade secrets of the Acquired Companies, the Seller would be in a unique position to divert business from the Acquired Companies and to cause irreparable damage to the Acquired Companies were the Seller to be allowed to compete with the Acquired Companies or to commit any of the other acts prohibited in this Section 6.3; (v) the covenants and agreements set forth in this Section 6.3 were a material inducement to Acquiror to enter into this Agreement and to perform its obligations hereunder; (vi) Acquiror and its stakeholders would not obtain the benefit of the bargain set forth in this Agreement as specifically negotiated by the parties if such Seller or any of its Affiliates breached any provisions of this Section 6.3; (vii) any breach of any provisions of this Section 6.3 by such Seller or its Affiliates would result in a significant loss of goodwill by Acquiror and the Acquired Companies; (viii) the Purchase Price is sufficient consideration to make the covenants and agreements set forth herein enforceable; (ix) if such Seller is an individual, the covenants set forth in this Section 6.3 will not interfere with their ability to earn a living; (x) the length of time, scope and geographic coverage of the covenants set forth in this Section 6.3 is reasonable given the benefits such Seller will directly or indirectly receive hereunder; (xi) such Seller is familiar with all the restrictive covenants contained in this
Section 6.3 and is fully aware of its obligations hereunder; and (xii) such Seller will not challenge the reasonableness of the time, scope, geographic coverage or other provisions of this Section 6.3 in any Proceeding, regardless of who initiates such Proceeding. Each Seller further acknowledges and agrees that irreparable injury will result to Acquiror if such Seller or any of its Affiliates breaches any of the terms of this Section 6.3, and that in the event of an actual or threatened breach by such Seller or any of its Affiliates of any of the provisions contained in this Section 6.3, Acquiror will have no adequate remedy at Law. Each Seller accordingly agrees that in the event of any actual or threatened breach by such Seller or any of its Affiliates of any of the provisions contained in this Section 6.3, Acquiror and its successors and assigns, including, without limitation, any Person that acquires (by merger, purchase or sale of assets or stock or otherwise) any part of the Business, shall be entitled to injunctive and other equitable relief without (A) posting any bond or other security, (B) proving actual damages or (C) showing that monetary damages are an inadequate remedy. Nothing contained herein shall be construed as prohibiting Acquiror from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any Damages that it is able to prove. Each Seller shall cause its Affiliates to comply with this Section 6.3, and shall be liable for any breach by any of its Affiliates of this Section 6.3.

6.4 [Reserved].

6.5 [***] Right of First Refusal.

(a) The Sellers hereby represent and warrant that, as of the date of this Agreement: (i) they collectively own [***] with no limitations, qualifications or restrictions on such rights and powers, (ii) all of the outstanding Equity Securities of [***] have been duly authorized, validly issued and are fully paid and non-assessable, (iii) there are no outstanding agreements, options, warrants or rights to directly or indirectly subscribe for or purchase, or that directly or indirectly require [***] to issue, transfer or sell, its Equity Securities or any securities directly or indirectly convertible into or exchangeable for its Equity Securities, and there are no agreements containing profit participation or phantom equity features with respect to [***].

(b) On and after the Closing Date, Acquiror shall have a right of first refusal (the “Right of First Refusal”) to purchase [***]. For the avoidance of doubt, each Seller hereby acknowledges and agrees that, on and after the Closing Date, it will not be permitted to sell, pledge, assign, transfer, hypothecate or otherwise dispose of (each a “Transfer”) his, her, or its respective Equity Securities in [***] unless Acquiror first has the opportunity to purchase such Equity Securities on the terms set forth below. The parties further agree that (i) any definitive agreement related to the purchase of [***] by Acquiror shall contain a non-competition covenant by the Sellers, which shall survive in full force and effect for the maximum period permitted by Applicable Law, and (ii) [***].

(c) In the event that any Seller desires to Transfer his, her, or its respective Equity Securities in [***] on or after the Closing Date, whether or not in connection with such Seller receiving a third party offer with respect to the same, the Seller shall deliver to the Acquiror a written notice (the “Transfer Notice”) stating: (i) the Seller’s bona fide
intention to sell or otherwise Transfer such Equity Securities; (ii) if applicable, the name of each proposed purchaser or other transferee (“Proposed Transferee”); (iii) the Equity Securities to be Transferred to each Proposed Transferee; and (iv) if applicable, the price for which and other material terms for which the Seller proposes to Transfer the Equity Securities.

(d)  [***]

(e) In the event Sellers received an offer from a Proposed Transferee, if all or a portion of the Equity Securities proposed in the Transfer Notice to be Transferred are not purchased by Acquiror and/or its assignee(s) as provided in this Section 6.5, then the Seller may sell or otherwise Transfer such Equity Securities to that Proposed Transferee on the terms and conditions set forth in the Transfer Notice; provided that such sale or other Transfer must be consummated [***]. If the Equity Securities described in the Transfer Notice are not Transferred to the Proposed Transferee [**]
[***], or the terms and conditions set forth in the Transfer Notice are modified or amended, a new Transfer Notice shall be given to Acquiror, and Acquiror and/or its assignees shall again be offered the Right of First Refusal, as provided herein, before Equity Securities held by the Seller may be sold or otherwise Transferred.

(f) Payment of the [***] pursuant to this Section 6.5 shall be made in cash (by check or wire transfer), within five Business Days after determination of the [***] or in the manner and at the time(s) mutually agreed to by Acquiror and the Seller.

6.6 [Reserved].

6.7 Employee Matters. During the period beginning on the Closing Date and ending on December 31, 2019, Parent shall use commercially reasonable efforts to maintain the Employee Benefit Plans set forth on Schedule 6.7 of the Disclosure Schedules for the benefit of the Business Employees that are covered by such plans on the Closing Date. Nothing in this Agreement will (a) create a Contract between Acquiror or, after the Closing Date, any Acquired Company, on the one hand, and any Service Provider, on the other hand, (b) be construed as a guarantee of continued employment or engagement of any Service Provider, (c) be construed so as to prohibit Acquiror or any Acquired Company from having the right to terminate the employment or engagement of any Service Provider, (d) require or be construed to require Acquiror, any Affiliate of Acquiror or any Acquired Company to provide any Employee Benefit Plan or non-cash compensation (including retirement benefits, health or welfare benefits, equity-based compensation, or severance) to any Person, (e) prevent Acquiror or any Acquired Company from amending or terminating any Employee Benefit Plan in accordance with its terms, or (f) be construed as an amendment to any Employee Benefit Plan. Notwithstanding anything in this Agreement to the contrary, (i) no Service Provider may rely on this Agreement as the basis for any breach of contract claim against Acquiror or an Acquired Company and (ii) Acquiror and its Affiliates will have the sole discretion and authority to interpret their respective employee benefit and compensation plans, Contracts, arrangements and programs in accordance with their terms and Applicable Law.

6.8 Intercompany Arrangements. Except as set forth on Schedule 6.8 of the Disclosure Schedules, all intercompany and intracompany accounts or Contracts between any of the Acquired Companies, on the one hand, and any Seller and its Affiliates (other than the Acquired Companies), on the other hand, shall be cancelled without any consideration or further Liability to any party and without the need for any further documentation, immediately prior to the Closing.

6.9 Restrictive Legend. Each Seller acknowledges that the Acquiror Common Stock to be issued may not be sold, assigned, transferred, encumbered or disposed of unless they are registered under the Securities Act or unless an exemption from such registration is available. Accordingly, the following restrictive legend will be placed on any instruments, certificates or other documents evidencing the Acquiror Common Stock:

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR
6.10 Registration and Certain Other Rights.

(a) Definitions. The following definitions will apply to this Section 6.10.

(i) “Form S-3” means such form under the Securities Act as in effect on the date hereof or any other Registration Statement under the Securities Act that permits incorporation of substantial information by reference to other documents filed by the Acquiror with the SEC.

(ii) “Permitted Transferee” means (A) with respect to any Seller who is a natural Person, (1) any member of such Seller’s immediate family (which shall include any spouse, lineal ancestor or descendant or sibling) or a trust for the exclusive benefit of, or any Person all of the equity interests of which are owned by, such Seller’s immediate family, or (2) a trust in respect of which such Seller serves as trustee or (B) with respect to any Seller who is a trust, any Person who is a beneficiary of such trust or a majority of the equity interests of which are beneficially owned by such trust, provided in each case the Permitted Transferee executes a counterpart signature page to this Agreement, pursuant to which such Permitted Transferee agrees to be bound by the terms of this Section 6.10.

(iii) “Register,” “registered,” and “registration” shall refer to a registration under the Securities Act effected by preparing and (A) filing a Registration Statement in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of effectiveness of such Registration Statement or (B) filing a prospectus and/or prospectus supplement in respect of an appropriate effective Registration Statement on Form S-3.

(iv) “Registrable Securities” means (A) the Closing Stock Payment, and (B) any Equity Securities issued or issuable directly or indirectly with respect to the securities referred to in the foregoing clause (A) by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, reclassification, merger, amalgamation, arrangement, consolidation or other reorganization; provided that, such securities will cease to be Registrable Securities upon the earliest to occur of (1) when they are sold pursuant to an effective Registration Statement under the Securities Act, or (2) when they become eligible for sale without restriction pursuant to Rule 144 (including Rule 144(c)).

(v) “Registration Expenses” means all expenses incurred by the Acquiror in effecting any registration pursuant to this Agreement (whether or not any registration or prospectus becomes effective or final) or otherwise complying with its obligations under this
Section 6.10, including all registration, filing and listing fees, printing expenses, fees and disbursements of counsel for Acquiror and of one firm of counsel for all Sellers (not to exceed $15,000), blue sky fees and expenses, expenses of the Acquiror’s independent accountants in connection with any regular or special reviews or audits incident to or required by any such registration, but shall not include Selling Expenses.

(vi) “Registration Statement” means any registration statement of the Company filed under the Securities Act that covers the resale of any of the Registrable Securities pursuant to the provisions of this Agreement, amendments and supplements to such Registration Statement, including post-effective amendments, all exhibits and all material incorporated by reference in such Registration Statement.

(vii) “Rule 144” means Rule 144 promulgated by the SEC pursuant to the Securities Act, as such rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same purpose and effect as such rule.

(viii) “Selling Expenses” means all discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of financial advisors for the Sellers and all similar commissions relating to the Sellers’ disposition of Registrable Securities.

(b) Registration Rights. Subject to the terms and conditions of this Agreement and the Acquiror’s receipt of information from the Sellers that is required to be included in a Form S-3 regarding the Sellers, upon request from the Sellers, Acquiror hereby agrees to prepare and file with the SEC (i) a Registration Statement or (ii) to the extent permitted by the rules and regulations of the SEC, a prospectus supplement in respect of an appropriate effective Registration Statement on Form S-3 in each case for the purpose of registering the resale of all of the Registrable Securities as soon as reasonably practicable after the Closing Date; provided that Acquiror may exclude the Registrable Securities of any Seller that has not complied with the provisions of this Section 6.10 or has notified Acquiror in writing of its election to exclude all of its Registrable Securities from such Registration Statement. A draft of such Registration Statement or prospectus supplement shall be provided to the Sellers and their counsel for their review and comment a reasonable time prior to its filing. Acquiror shall use commercially reasonable efforts to keep any Registration Statement continuously effective and in compliance with the Securities Act and usable for resale of all Registrable Securities until the earlier of (i) the date on which all Registrable Securities covered by such Registration Statement have been sold and any required prospectus delivery period with respect to such sale shall have expired, and (ii) the date on which all Registrable Securities covered by such Registration Statement may be sold without restriction pursuant to Rule 144 (including Rule 144(c)).

(c) Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance hereunder shall be borne by the Acquiror. All Selling Expenses incurred in connection with any registrations hereunder shall be borne by the Sellers.
(d) Obligations of Acquiror.

(i) The Acquiror shall use commercially reasonable efforts to cause the Registration Statement to become effective as soon as practicable. The Acquiror shall notify the Sellers by facsimile or e-mail as promptly as practicable after any Registration Statement becomes effective or any prospectus or prospectus supplement has been filed and shall simultaneously provide the Sellers with copies of any related prospectus to be used in connection with the sale or other disposition of the securities covered thereby.

(ii) The Acquiror shall use commercially reasonable efforts to prepare and file with the SEC such amendments and supplements to the applicable Registration Statement and the prospectus or prospectus supplement used in connection with such Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement; provided, however, that the Acquiror shall have no obligation to amend any Registration Statement to give effect to any transfers effected by the Sellers.

(iii) The Acquiror shall use its commercially reasonable efforts to procure the cooperation of the Acquiror’s transfer agent in settling any sale or transfer of Registrable Securities.

(iv) If requested by a Seller, the Acquiror shall promptly include in a prospectus supplement or amendment such information as the Seller may reasonably request in order to permit the intended method of distribution of such securities and make all required filings of such prospectus supplement or such amendment as soon as practicable after the Acquiror has received such request; provided, however, that the Acquiror shall have no obligation to file any prospectus supplement or amendment to give effect to any transfers effected by the Sellers.

(v) Acquiror shall promptly notify each Seller who holds Registrable Securities at any time when a prospectus relating to the sale of Registrable Securities is required to be delivered under the Securities Act of the happening of any event, as a result of which the prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made, and at the request of a Seller of Registrable Securities promptly prepare and furnish to such Seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made.

(vi) Acquiror shall advise each Seller of Registrable Securities promptly after it shall receive notice or obtain knowledge thereof, of (A) the issuance of any stop order, injunction or other order or requirement by the SEC suspending the effectiveness of any Registration Statement or the institution or threatening of any proceeding for such purpose, (B) the issuance by any state securities or other regulatory authority of any order suspending the
qualification or exemption from qualification of any of the Registrable Securities under state securities or “blue sky” laws or the initiation or threat of initiation of any Proceedings for that purpose and (C) the removal of any such stop order, injunction or other order or requirement or Proceedings or the lifting of any such suspension.

(vii) Acquiror shall use commercially reasonable efforts to prevent the issuance of any stop order, injunction or other order or requirement suspending the effectiveness of any Registration Statement and obtain as soon as practicable the withdrawal of any such stop order, injunction or other order or requirement that is issued.

(e) Suspension of Sales. Upon receipt of written notice from the Acquiror that a Registration Statement, prospectus or prospectus supplement contains or may contain an untrue statement of a material fact or omits or may omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Acquiror’s board of directors has determined in good faith that circumstances exist that make inadvisable use of such Registration Statement, prospectus or prospectus supplement, the Sellers shall forthwith discontinue use of the Registration Statement until Sellers have received copies of a supplemented or amended prospectus or prospectus supplement, or the Sellers are advised in writing by the Acquiror that the use of the prospectus and, if applicable, prospectus supplement may be resumed, and, if so directed by the Acquiror, the Sellers shall deliver to the Acquiror all copies, other than permanent file copies then in such Seller’s possession, of the prospectus and, if applicable, prospectus supplement covering such Registrable Securities in use at the time of receipt of such notice. The total number of days that any such suspension described in this paragraph may be in effect in any 180-day period shall not exceed 30 Business Days.

(f) Obligations of the Sellers.

(i) Each Seller agrees that, upon receipt of any notice from the Acquiror of the occurrence of any event of the kind described in Section 6.10(e) hereof, such Seller shall immediately discontinue use of the Registration Statement covering such Registrable Securities until such Seller’s receipt of the copies of the supplemented or amended prospectus contemplated by Section 6.10(e) hereof or receipt of notice that no supplement or amendment is required and that the Seller’s use of the Registration Statement may be resumed. Acquiror may provide appropriate stop orders to enforce the provisions of this Section 6.10(e).

(ii) Each Seller covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it or an exemption therefrom in connection with sales of Registrable Securities pursuant to any Registration Statement filed by Acquiror pursuant to this Agreement.

(iii) Each Seller covenants and agrees that it will notify Acquiror following the sale of Registrable Securities to a third party as promptly as reasonably practicable, and in any event within ten (10) days, following the sale of such Registrable Securities.

(iv) Each Seller agrees that it will not effect any disposition or other transfer of the Registrable Securities that would constitute a sale within the meaning of the Securities Act other than transactions exempt from the registration requirements of the Securities
Act or pursuant to, and as contemplated in, the Registration Statement, and that it will promptly notify Acquiror of any material changes in the information set forth in the Registration Statement furnished by or regarding such Seller or its plan of distribution.

(v) Confidentiality. In the event the filing of any Registration Statement, prospectus or prospectus supplement is deferred pursuant to Section 6.10(e), or a Seller’s ability to trade is suspended pursuant to Section 6.10(e), such Seller agrees to treat such information confidentially and to not make public such information.

(g) Furnishing Information.

(i) Sellers shall not use any free writing prospectus (as defined in Rule 405) in connection with the sale of Registrable Securities without the prior written consent of the Acquiror.

(ii) It shall be a condition precedent to the obligations of the Acquiror to take any action pursuant to this Section 6.10 that the Sellers shall furnish to the Acquiror such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be reasonably required to effect the registered offering of their Registrable Securities.

(h) Rule 144. With a view to making available the ability of Sellers to rely upon Rule 144, Acquiror shall, for so long as any Seller or any Permitted Transferee owns any Registrable Securities, (i) make and keep public information regarding Acquiror available, as those terms are understood and defined in Rule 144, (ii) use commercially reasonable efforts to file with the SEC in a timely manner all reports and other documents required to be filed by Acquiror under the Securities Act and the Exchange Act; and furnish, unless otherwise available at no charge by access electronically to the SEC’s EDGAR filing system, to each Seller who holds Registrable Securities promptly upon request (A) a copy of the most recent annual or quarterly report of Acquiror, and (B) such other reports and documents of Acquiror so filed with the SEC as such Seller may reasonably request in availing itself of any rule or regulation of the SEC allowing such Seller to sell any such securities without registration.

(i) Registration Statement Indemnification.

(i) Acquiror will indemnify and hold harmless each Seller Indemnitee against any Damages and Liabilities (or actions in respect thereof) to which he may become subject under the Securities Act or otherwise, insofar as such claims, losses, Damages and Liabilities (or actions in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of a material fact contained in any Registration Statement, prospectus, preliminary prospectus, free writing prospectus (as defined in Rule 405 under the Securities Act or any successor rule thereto) or any amendment thereof or supplement thereto or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, preliminary prospectus or free writing prospectus, in light of the circumstances under which they were made) not misleading; and shall reimburse Seller Indemnites for any reasonable legal or other expenses reasonably incurred by them in connection with investigating or defending any such claims, losses, Damages and Liabilities (or
actions in respect thereof); provided, however, that Acquiror shall not be required to provide indemnification pursuant to this Section 6.10(i)(i): (A) where the claims, losses, Damages and Liabilities (or actions in respect thereof) are caused by or contained in any information furnished in writing to Acquiror by a Seller (or its representative) or approved by a Seller (or its Representative) expressly for use therein; (B) where the claims, losses, Damages and Liabilities (or actions in respect thereof) are caused by a Seller’s failure to deliver a copy of the Registration Statement, prospectus, preliminary prospectus, free writing prospectus (as defined in Rule 405 under the Securities Act or any successor rule thereto) or any amendments or supplements thereto (if the same was required by Applicable Law to be so delivered); or (C) where the claims, losses, Damages and Liabilities (or actions in respect thereof) relate to offers or sales effected by or on behalf of any Seller “by means of” (as defined in Rule 159A) a “free writing prospectus” (as such term is defined in Rule 405) that was not authorized in writing by Acquiror. This indemnity shall be in addition to any liability the Acquiror may otherwise have.

(ii) The Sellers will, jointly and severally, indemnify and hold harmless each Acquiror Indemnitee, each legal counsel and each underwriter, broker or other Person acting on behalf of the holders of Registrable Securities and each Affiliate who controls (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act) any of the foregoing Persons against all claims, losses, Damages and Liabilities (or actions in respect thereof) resulting from (A) such Seller’s failure to comply with the prospectus delivery requirements of the Securities Act, or (B) any untrue or alleged untrue statement of material fact contained in the Registration Statement, prospectus, preliminary prospectus, free writing prospectus (as defined in Rule 405 under the Securities Act or any successor rule thereto) or any amendment thereof or supplement thereto or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, preliminary prospectus or free writing prospectus, in light of the circumstances under which they were made) not misleading, but only to the extent that such untrue statement or omission is in writing and was either provided by such Seller (or its representative) or approved by such Seller (or its Representative) expressly for use in any Registration Statement, prospectus, preliminary prospectus, free writing prospectus or amendment or supplement thereto; and shall reimburse such Persons for any legal or other expenses reasonably incurred by any of them in connection with investigating or defending any such claims, losses, Damages and Liabilities (or actions in respect thereof). This indemnity shall be in addition to any liability the Sellers may otherwise have.

6.11 Release of Claims. Effective upon the Closing, each Seller, on such Seller’s own behalf and on behalf of such Seller’s heirs, successors, executors, administrators, assigns and any other Person that may claim by, through or under such Seller (collectively, the “Releasers”), hereby knowingly, willingly, irrevocably and expressly waives, acquits, remises, discharges and forever releases the Acquired Companies and each Acquired Company’s respective equityholders, officers, directors, members, managers, employees, agents, advisors and Affiliates (collectively, the “Released Parties”), from any and all Liabilities, obligations, actions, causes of action, suits, debts, accounts, claims, Contracts, demands, agreements, controversies, judgments, of any kind or nature whatsoever, whether in the capacity as an equityholder of any of the Acquired Companies or otherwise, in each case whether absolute or contingent, liquidated or unliquidated, known or unknown, matured or unmatured or determined or determinable, and whether arising under any Law, Contract, agreement,
arrangement, commitment, undertaking or understanding, whether written or oral or otherwise at Law or in equity occurring or arising on or prior to Closing, and each of the Releasers hereby agrees that it will not seek to recover any amounts in connection therewith or thereunder from any of the Released Parties; provided, that Liabilities and obligations released pursuant to this Section 6.11 shall not include any (a) rights of the Releasers expressly provided for under this Agreement or another Related Agreement, (b) solely to the extent expressly accounted for in the Closing Certificate, claims for accrued compensation or expense reimbursement pursuant to any employment Contract or arrangement with the Acquired Companies, (c) vested benefits under any Employee Benefit Plan and set forth on Schedule 6.11 of the Disclosure Schedules, or (d) claims arising out of actions or omissions occurring after the Closing Date.

6.12 Directors’ and Officers’ Indemnification.

(a) Acquiror agrees that all rights to indemnification, advancement of expenses and exculpation by the Acquired Companies now existing in favor of each Person who is now, or has been at any time prior to the date hereof, an officer or director of any Acquired Company, as provided in the organizational documents of the applicable Acquired Companies as in effect on the date of this Agreement (as they may be amended in connection with the Contemplated Transactions), shall survive the Closing Date and shall continue in full force and effect in accordance with their respective terms for a period of six (6) years after the Closing Date.

(b) The Acquired Companies shall, and Acquiror shall cause the Acquired Companies to (i) maintain in effect for a period of six (6) years after the Closing Date, if available, the current policies of directors’ and officers’ liability insurance maintained by the Acquired Companies immediately prior to the Closing Date (provided that the Acquired Companies may substitute therefor policies of at least the same coverage and amounts and containing terms and conditions that are not less advantageous to the directors and officers of the Acquired Companies when compared to the insurance maintained by the Acquired Companies as of the date of this Agreement), or (ii) obtain as of the Closing Date “tail” insurance policies with a claims period of six (6) years from the Closing Date with at least the same coverage and amounts, and containing terms and conditions that are not less advantageous to the directors and officers of the Acquired Companies, in each case with respect to claims arising out of or relating to events which occurred on or prior to the Closing Date (including in connection with the transactions contemplated by this Agreement). The parties hereto agree that the cost of the premium associated with any “tail” policy will be a Transaction Expense.

(c) The obligations of Acquiror and the Acquired Companies under this Section 6.12 shall not be terminated or modified in such a manner as to adversely affect any director or officer to whom this Section 6.12 applies without the consent of Joseph Brostmeyer (it being expressly agreed that the directors and officers to whom this Section 6.12 applies shall be third-party beneficiaries of this Section 6.12).

(d) In the event Acquiror, the Acquired Companies or any of their respective successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity in such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then, and in either such case, proper
provision shall be made so that the successors and assigns of Acquiror or the Acquired Companies, as the case may be, shall assume all of the obligations set forth in this Section 6.12.

ARTICLE 7.
CLOSING DELIVERABLES BY SELLERS

The obligations of Acquiror to consummate the Contemplated Transactions are subject to the satisfaction or written waiver, at or prior to the Closing, of each of the following conditions:

7.1 Corporate Approvals. This Agreement, the Related Agreements and the Contemplated Transactions shall have been duly approved by the board of directors of FTT Inc. and by the board of managers and the members of the Company as required by Applicable Laws and the organizational documents of FTT Inc. and the Company, respectively, and the Sellers shall have delivered to Acquiror the appropriate documentation evidencing such approval.

7.2 Consents. All pre-Closing notices required to have been delivered in connection with the Contemplated Transactions to any Person or Governmental Body set forth on Schedule 7.2 of the Disclosure Schedules shall have been delivered in accordance with all requirements of any applicable Contract or Law, and all Consents required to be obtained in connection with the Contemplated Transactions from any Person or Governmental Body shall have been obtained and shall be in full force and effect, including but not limited to the notices and Consents identified on the Disclosure Schedules.

7.3 Agreements and Documents. Acquiror shall have received the following agreements and documents, each of which shall be in full force and effect:

(a) an assignment of the Company Units included in the Purchased Interests executed by each of the Sellers and a copy of the membership ledger evidencing the assignment of the Company Units in favor of Acquiror;

(b) original certificates representing the Shares included in the Purchased Interests, together with stock powers or assignments evidencing the conveyance of such Shares duly executed in blank, and any other transfer instruments required to validly transfer title in and to such Shares from the Sellers to Acquiror;

(c) a cross-receipt for funds transferred and Acquiror Common Stock delivered, signed by each of the Sellers;

(d) [Reserved];

(e) certificates, issued as of a date not more than five calendar days prior to the Closing Date by the appropriate Governmental Body evidencing the good standing or, if such certificates are not customarily provided by such Governmental Body, other verification reasonably acceptable to Acquiror, with respect to both the conduct of business and the payment of all franchise Taxes, of each of the Acquired Companies under the laws of its jurisdiction of organization;
(f) the Closing Certificate;

(g) the employment agreement between Acquiror and Joseph Brostmeyer;

(h) the Escrow Agreement, in substantially the form attached hereto as Exhibit B, executed and delivered by the Escrow Agent and each of the Sellers;

(i) copies of any amended Profit Participation Agreements, in form and substance reasonably acceptable to Acquiror;

(j) documentation necessary, in Acquiror’s sole discretion, to confirm that any Company Indebtedness has been satisfied and paid in full;

(k) the Exchange Agreement, in substantially the form attached hereto as Exhibit C, executed and delivered by each Seller that owns Company Units or Shares immediately after the consummation of the Purchase;

(l) documentation necessary, in Acquiror’s sole discretion, to confirm that Acquiror will own 100% of the membership interests or other Equity Securities of the Acquired Companies immediately following the Closing;

(m) Lock-up Agreements, in substantially the form attached hereto as Exhibit D, executed and delivered by each Person receiving Acquiror Common Stock;

(n) written resignations of the managers, directors and officers of each Acquired Company (other than the international Subsidiaries), effective as of the Closing Date;

(o) non-foreign affidavits dated as of the Closing Date from each Seller, sworn under penalty of perjury and in form and substance as required under Treasury Regulations issued pursuant to Code section 1445, stating that each Seller is not a “foreign person” as defined in Code section 1445; and

(p) such other documents, instruments and certificates as Acquiror may reasonably request no later than five Business Days prior to the Closing for the purpose of consummating the Contemplated Transactions.

ARTICLE 8.
CLOSING DELIVERABLES BY ACQUIROR

The obligations of the Sellers to consummate the Contemplated Transactions are subject to the satisfaction or written waiver, at or prior to the Closing, of the following conditions:

8.1 Documents. The Sellers shall have received the following:

(a) a cross-receipt for receipt of the Purchased Interests signed by Acquiror;
(b) the Closing Cash Payment and the Closing Stock Payment representing the consideration for the Purchased Interests as computed in accordance with Section 1.4;

(c) the Escrow Agreement, in substantially the form attached hereto as Exhibit B, executed and delivered by the Escrow Agent and Acquiror; and

(d) the Exchange Agreement, in substantially the form attached hereto as Exhibit D, executed and delivered by Acquiror.

ARTICLE 9.
INDEMNIFICATION, ETC.

9.1 Survival of Representations, Etc.

(a) The representations and warranties contained in this Agreement, the Related Agreements, the Disclosure Schedules or any other document, certificate, schedule or instrument delivered or executed in connection herewith (including the representations and warranties set forth in Article 3, Article 4, and Article 5) shall survive the Closing and shall expire at 11:59 p.m. Eastern Time on the one-year anniversary of this Agreement; provided, however, that the Seller Fundamental Representations and the Acquiror Fundamental Representations shall survive the Closing and shall expire at 11:59 p.m. Eastern Time on the later of (i) the five-year anniversary of this Agreement and (ii) the expiration of the applicable statute of limitations (the “Survival Period”). If, at any time prior to the expiration of the Survival Period, any Indemnitee delivers to an Indemnifying Party a written notice alleging the existence of an inaccuracy in or a breach of any of the representations or warranties of the Indemnifying Party (and setting forth in reasonable detail the basis for such Indemnitee’s belief that such an inaccuracy or breach may exist) and asserting a claim for recovery under this Article 9 based on such alleged inaccuracy or breach, then the representation or warranty underlying the claim asserted in such notice shall survive the end of the Survival Period until such time as such claim is fully and finally resolved. All of the covenants, agreements and obligations of the parties contained in this Agreement shall survive (i) until fully performed or fulfilled, unless non-compliance with such covenants, agreements or obligations is waived in writing by the party or parties entitled to such performance or (ii) if not fully performed or fulfilled, until the expiration of the relevant statute of limitations.

(b) The representations and warranties (inclusive of the Disclosure Schedules), covenants and obligations of each party, and the rights and remedies that may be exercised by the Indemnitees, shall not be limited or otherwise affected by or as a result of any information furnished to, or any investigation made by or knowledge of, any of such parties. The parties recognize and agree that the representations and warranties also operate as bargained for promises and risk allocation devices and that, accordingly, any party’s knowledge, and the waiver of any condition based on the accuracy of any representation or warranty, or on the performance of or compliance with any covenant or obligation, shall not affect the right to indemnification or payment of Damages pursuant to this Article 9, or other remedy based on such representations, warranties, covenants, and obligations.
9.2 Indemnification by the Sellers.

(a) The Sellers will, jointly and severally, indemnify and hold harmless each Acquiror Indemnitee from and against any Damages suffered or incurred by any Acquiror Indemnitee and which relate to, arise from or as a result of:

   (i) any inaccuracy in, breach or alleged breach of any representation or warranty of the Acquired Companies or the Sellers set forth in this Agreement, any Related Agreement, the Disclosure Schedules or any other document, certificate, schedule or instrument delivered or executed in connection herewith or therewith, in each case, without giving effect to any materiality, “Material Adverse Effect” or any similar qualification contained or incorporated directly or indirectly in such representation or warranty, except in each case, (A) for purposes of the representations and warranties in Section 4.5 (Financial Statements) and Section 4.9(b) (Absence of Changes or Events), and (B) the disclosure of lists of items of a material nature or above a specific threshold in which case such qualification shall not be deleted solely for purposes of determining the lists of items that must be disclosed;

   (ii) any breach or alleged breach of any covenant or obligation of the Sellers;

   (iii) the amount of any Company Indebtedness, Transaction Expenses or Cash Incentive Amount not deducted from the Closing Cash Payment;

   (iv) any pre-Closing payments or distributions made, or that were required to be made, under the Profit Participation Agreements;

   (v) any Incremental Employer PPA Payroll Amount or Incremental Employer Bonus Payroll Amount not deducted from the Earn-out Consideration, Excess Closing Cash or Excess Working Capital, as applicable;

   (vi) any Adjustments Deficiency payable to Acquiror pursuant to Section 2.3 or Cash Adjustments Deficiency payable to Acquiror pursuant to Section 2.4;

   (vii) the items listed on Schedule 9.2(a)(vii) of the Disclosure Schedules;

   (viii) the indemnification provisions of Section 6.10(i)(ii); and

   (ix) any Covered Taxes and any Taxes of the Acquired Companies or Acquiror resulting from the purchase by the Acquired Companies or Acquiror, immediately after the Closing, of any Equity Securities of CTS or Consolidated Turbine Specialists Canada LLP not owned by the Company at Closing.

(b) In the event any Acquired Company suffers, incurs or otherwise becomes subject to any Damages as a result of or in connection with any inaccuracy in, breach or alleged breach of any representation, warranty, covenant or obligation, then (without limiting any of the rights of any Acquired Company as an Acquiror Indemnitee) Acquiror shall also be deemed, by virtue of its ownership of the equity interests of the Acquired Companies, to have incurred
9.3 **Indemnification by Acquiror.** Acquiror will indemnify and hold harmless each Seller Indemnitee from and against any Damages suffered or incurred by any Seller Indemnitee and which relate to, arise from or as a result of:

(a) any inaccuracy in, breach or alleged breach of any representation or warranty of the Acquiror set forth in this Agreement, any Related Agreement or any other document, certificate, schedule or instrument delivered or executed in connection herewith or therewith, in each case, without giving effect to any materiality, “Material Adverse Effect” or any similar qualification contained or incorporated directly or indirectly in such representation or warranty;

(b) any breach or alleged breach of any covenant or obligation of Acquiror; and

(c) the indemnification provisions of Section 6.10(i)(i).

9.4 **Threshold.**

(a) No Indemnitee shall be entitled to indemnification pursuant to Section 9.2(a)(i) or Section 9.3(a), in each case, unless and until any individual or series of related Damages exceed Ten Thousand Dollars ($10,000) (the “De Minimis Amount”) (which Damages shall not be counted towards the Threshold); provided, however, that Damages resulting from or arising out of fraud, willful breach or intentional misrepresentation or any failure of the Seller Fundamental Representations or the Acquiror Fundamental Representations to be true and correct shall not be subject to the De Minimis Amount.

(b) No Indemnitee shall be entitled to indemnification pursuant to Section 9.2(a)(i) or Section 9.3(a) until such time as the total amount of all Damages suffered or incurred by any one or more of the Indemnitees, or to which any one or more of the Indemnitees has or have otherwise become subject, exceeds $600,000 (the “Threshold”) in the aggregate. Furthermore, if the total amount of Damages suffered by Indemnitees exceeds the Threshold, then any Indemnitee that has suffered or incurred any Damages shall be entitled to be held harmless, indemnified against and compensated, reimbursed and paid for all of its Damages, and not only for Damages which exceed the Threshold; provided, however, that Damages resulting from or arising out of fraud, willful breach or intentional misrepresentation or any failure of the Seller Fundamental Representations or the Acquiror Fundamental Representations to be true and correct shall not be subject to the Threshold.

9.5 **Limitations on Liability.**

(a) Except (i) in the event of a breach of Seller Fundamental Representations or Acquiror Fundamental Representations or (ii) in the event of fraud, willful breach or intentional misrepresentation, the maximum amount of Damages payable by any Indemnifying Party pursuant to Section 9.2(a)(i) or Section 9.3(a) shall be limited to $6,000,000.
Notwithstanding anything to the contrary contained in this Agreement, except in the event of fraud, willful breach or intentional misrepresentation, in no event shall the aggregate amount of Damages payable by the Sellers or the Acquiror to any Indemnitee in respect of the indemnification obligations of this Article 9 exceed the Purchase Price.

(b) Except (i) in the event of a breach of Seller Fundamental Representations or (ii) in the event of fraud, willful breach or intentional misrepresentation, Damages that may be recovered from Sellers shall take account of and be reduced by (A) the amount of any insurance proceeds actually received by the Acquiror Indemnitees in respect thereof and (B) an amount equal to the amount of any reasonable Tax benefits actually received or utilized by the Acquiror Indemnitees (including the Acquired Companies) (determined on a with or without basis) in connection with such Damages or any of the circumstances giving rise thereto in the taxable year in which such circumstances occurred (or the next taxable year), in each case, after reduction for the reasonable fees, expenses and costs incurred by the Acquiror Indemnitee to recover such amounts and any increase in insurance premiums incurred as a result of seeking recovery for such amounts.

(c) Except (i) in the event of a breach of Acquiror Fundamental Representations or (ii) in the event of fraud, willful breach or intentional misrepresentation, Damages that may be recovered from Acquiror shall take account of and be reduced by (A) the amount of any insurance proceeds actually received by the Seller Indemnitees in respect thereof and (B) an amount equal to the amount of any reasonable Tax benefits actually received or utilized by the Seller Indemnitees (determined on a with or without basis) in connection with such Damages or any of the circumstances giving rise thereto in the taxable year in which such circumstances occurred (or the next taxable year), in each case, after reduction for the reasonable fees, expenses and costs incurred by the Seller Indemnitees to recover such amounts and any increase in insurance premiums incurred as a result of seeking recovery for such amounts.

(d) With respect to any matter covered by this Article 9, the Indemnitees shall use commercially reasonable efforts to assert and pursue all claims under all applicable insurance policies, and for purposes of determining the Indemnifying Parties’ liability under this Article 9 for any Damages, appropriate reductions shall be made to reflect the recovery pursuant to any such insurance policy actually received by any Indemnitee in respect of such Damages (net of any deductible amounts or increases in the costs of such coverage). If an indemnification payment is received by an Indemnitee, and such Indemnitee later recognizes insurance recoveries, as described in the immediately preceding sentence, in respect of the related Damages or indemnification payments that were not previously accounted for with respect to such Damages or indemnification payments when made, the Indemnitee shall promptly notify the Indemnifying Party, and promptly after delivery of such notice, the Indemnitee shall pay to the Indemnifying Party an amount equal to the lesser of (A) any such actual insurance recoveries, and (B) the actual amount of the indemnification payments previously paid by Indemnifying Party with respect to such Damages.

(e) Notwithstanding anything to the contrary in this Agreement, except in the event of fraud, willful breach or intentional misrepresentation, in no event shall any Indemnifying Party have Liability to an Indemnitee under this Article 9 for any special, punitive, exemplary, consequential, or multiplier-type Damages or other similar Damages.
9.6 Manner of Payment. Subject to the other limitations of this Article 9, any indemnification payments required to be made pursuant to this Article 9 shall be paid within five Business Days of the final determination of the amount of an indemnification claim in accordance with this Article 9 as follows: (i) in the event any Acquiror Indemnitee shall suffer any Damages for which such Acquiror Indemnitee is entitled to indemnification under this Article 9, such Acquiror Indemnitee shall be entitled to recover such Damages by (A) first obtaining cash from the Escrow Account in an amount equal to the aggregate amount of such Damages; and (B) after exhausting the Escrow Account, by wire transfer of immediately available funds to Acquiror in an amount equal to the aggregate amount of such Damages; provided, that any Damages arising under Section 9.2(a)(iii) or Section 9.2(a)(vi), shall be paid, subject in all respects to the other applicable limitations contained in this Agreement, by the Sellers in cash in immediately available funds outside of the Escrow Account; and (ii) in the event any Seller Indemnitee shall suffer any Damages for which such Seller Indemnitee is entitled to indemnification under this Article 9, such Seller Indemnitee shall be entitled to recover such Damages by wire transfer of immediately available funds from Acquiror in an amount equal to the aggregate amount of such Damages.

9.7 No Contribution. The Sellers shall not have and shall not exercise or assert (or attempt to exercise or assert), any right of contribution, right of indemnity or other right or remedy against any Acquired Company in connection with any indemnification obligation or any other Liability to which the Sellers may become subject, to or in connection with this Agreement or any Related Agreement.

9.8 Notification of Claims; Defense of Third Party Claims.

(a) Except as otherwise provided in this Section 9.8, in the event of the assertion or commencement by any Person of any claim or Proceeding (whether against the Acquired Companies, against Acquiror or against any other Person) with respect to which any party may be entitled to indemnification under this Agreement, the party against whom such claim or Proceeding has been asserted or commenced or otherwise may be entitled to be indemnified under this Agreement (the “Indemnified Party”) shall promptly give the party or parties liable for such indemnification (the “Indemnifying Party”) written notice (an “Indemnification Notice”) of such claim or Proceeding in respect of which indemnity may be sought under this Agreement (a “Claim”) describing in reasonable detail the facts and circumstances with respect to the subject matter of such Claim; provided, however, that any failure to so notify shall not limit any party’s rights to indemnification under this Agreement (except to the extent such failure materially prejudices the defense of such Proceeding).

(b) Within fifteen (15) Business Days of receipt of the Indemnification Notice, the Indemnifying Party may elect by written notice delivered to the Indemnified Party to take all necessary steps to properly contest any Claim involving third parties or to prosecute such Claim to conclusion or, subject to Section 9.8(d), settlement. If the Indemnifying Party makes the foregoing election, an Indemnified Party will have the right to participate at its own expense in all Proceedings related to such Claim. If the Indemnifying Party does not make such election within such period or fails to diligently contest such Claim after such election, then the Indemnified Party shall be free to handle the prosecution or defense of any such Claim, and will take all necessary steps to contest the Claim involving third parties or to prosecute such Claim to
conclusion or settlement, and will notify the Indemnifying Party of the progress of any such Claim, will permit the Indemnifying Party, at the sole cost of the Indemnifying Party, to participate in such prosecution or defense and will provide the Indemnifying Party with reasonable access to all relevant information and documentation relating to the Claim and the prosecution or defense thereof. In any case, the party not in control of the Claim will reasonably cooperate with the other party in the conduct of the prosecution or defense of such Claim.

(c) Notwithstanding the foregoing, if a Claim includes Damages equal to an amount in excess of the value of the Escrow Account on the date of the Claim, or relates to the Company Intellectual Property or other Intellectual Property issues, or involves any action by any Governmental Body, Acquiror shall have the right, at its election, to proceed with the defense of such Claim on its own, subject to Section 9.8(d).

(d) Neither party will compromise or settle any such Claim without the written consent of either Acquiror (if a Seller Indemnitee defends the Claim) or the Sellers (if an Acquiror Indemnitee defends the Claim). Notwithstanding anything in this Agreement to the contrary, either party may withhold its consent to any settlement that does not include a full general release of all the claims against such party and its Affiliates from all parties to the litigation or that requires such party or any of its Affiliates to perform any covenant or refrain from engaging in any activity.

(e) Notwithstanding the foregoing, with respect to any Tax Contest, the procedures set forth in Section 1.11(c) shall apply.

9.9 Tax Treatment. The parties shall report any indemnification payment made pursuant to this Article 9 as a Purchase Price adjustment unless otherwise required by Applicable Laws.

9.10 Sole Remedy. Except in cases involving fraud, intentional misrepresentation or willful misconduct, the indemnification provisions set forth in this Article 9 shall be the sole and exclusive remedy for any Damages of an indemnified party with respect to any misrepresentation or inaccuracy in, or breach of, any representation or warranties or any breach or failure in performance of any covenants or agreements made by the Acquired Companies or the Sellers in this Agreement or in any exhibit or schedules hereto or any certificate delivered hereunder. Notwithstanding the foregoing, Acquiror may pursue injunctive relief for breaches by any Acquired Company or any Seller of any covenant contained herein.

ARTICLE 10.
MISCELLANEOUS PROVISIONS

10.1 Further Assurances. Each party hereto shall execute and cause to be delivered to each other party hereto such instruments and other documents, and shall take such other actions, as such other party may reasonably request for the purpose of carrying out or evidencing any of the Contemplated Transactions.

10.2 Expenses. Except as otherwise provided herein, all fees and expenses incurred in connection with or related to this Agreement and the Related Agreements and the Contemplated Transactions shall be paid by the party incurring such fees or expenses.
10.3 Notices. Any notice or other communication required or permitted to be delivered to any party under this Agreement shall be in writing and shall be deemed properly delivered, given and received (a) when received if hand delivered, (b) on the first Business Day of confirmation by sender of receipt if sent by facsimile or electronic mail or (c) on the first Business Day after being sent by registered overnight mail, return receipt requested, by overnight courier or by overnight express delivery service, to the address or facsimile telephone number set forth beneath the name of such party below (or to such other address or facsimile telephone number as such party shall have specified in a written notice given to the other parties hereto):

the Sellers or the Sellers Representative:

c/o Joseph Brostmeyer  
1701 Military Tr., Suite 110  
Jupiter, FL 33458  
Email: JBrostmeyer@ftamerica.com

with a mandatory copy to (which copy shall not constitute notice):

Alston & Bird LLP  
One Atlantic Center  
1201 West Peachtree Street  
Atlanta, GA 30309  
Attention: Jeremy C. Silverman, Esq.  
Jeniffer Roberts, Esq.  
Email: Jeremy.Silverman@alston.com  
Jeniffer.Roberts@alston.com

Acquiror or the Acquired Companies (after the Closing Date):

Kratos Defense & Security Solutions, Inc.  
10680 Treena St., Suite 600  
San Diego, California 92131  
Attention: General Counsel  
Telephone no.: (858) 812-7300  
Email address: marie.mendoza@kratosdefense.com

with a mandatory copy to (which copy shall not constitute notice):

Paul Hastings LLP  
4747 Executive Drive, 12th Floor  
San Diego, California 92121  
Attention: Teri O’Brien, Esq.  
Telephone no.: (858) 458-3031  
E-mail address: teriobrien@paulhastings.com
10.4 Time of the Essence. With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

10.5 Counterparts; Delivery. This Agreement may be executed in several counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement. This Agreement may be executed and delivered by facsimile transmission, by electronic mail in “portable document format” (".pdf") form, or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, or by combination of such means. No party may raise the use of facsimile or electronic delivery or the fact that any signature or this Agreement was transmitted or communicated through the use of facsimile or electronic delivery as a defense to the formation of a contract, and each party forever waives any such defense, except to the extent such defense relates to lack of authenticity.

10.6 Governing Law. This Agreement and the Related Agreements shall be governed by and interpreted and enforced in accordance with the Laws of the State of Delaware, without giving effect to any choice of Law or conflict of Laws rules or provisions (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware. All Proceedings (whether at law, in contract, in tort or otherwise) arising out of or relating to this Agreement, the Related Agreements, or the negotiation, validity or performance of this Agreement, the Related Agreements and the Contemplated Transactions shall be heard and determined in any state or Federal court of competent subject matter jurisdiction sitting in New Castle County, Delaware, and the parties irrevocably submit to the jurisdiction of such courts (and, in the case of appeals, the appropriate appellate court therefrom), in any such Proceeding and irrevocably waive the defense of an inconvenient forum to the maintenance of any such Proceeding. The parties agree that service of any court paper may be made in any manner as may be provided under the Applicable Laws or court rules governing service of process in such courts. The parties hereo agree that a final judgment in any such Proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Applicable Law.

10.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns (if any). Neither party shall assign this Agreement or any rights or obligations hereunder (by operation of law or otherwise) to any Person without the consent of the other parties hereto. Anything in this Agreement or any Related Agreement to the contrary notwithstanding, Acquiror shall have the right (without the prior written consent of any of the Acquired Companies or the Sellers), at any time, and in its sole discretion, to assign for security interest purposes any or all of its rights under this Agreement and any Related Agreement to any lender providing financing to Acquiror, any of Acquiror’s permitted assigns, or any Affiliates of Acquiror or Acquiror’s permitted assigns (Acquiror, such assigns, and such Affiliates, collectively, the “Acquiror Parties”) and, upon the occurrence and during the continuance of any event of default under the financing agreements between any such lender and any of the Acquiror Parties, such lender may exercise any or all of the rights, interests, and remedies of any of the Acquiror Parties under this Agreement or any Related Agreement, but does not release any Acquiror Party from any obligation hereunder or under any Related Agreement.
10.8 Remedies Cumulative; Specific Performance. The rights and remedies of the parties hereto shall be cumulative (and not alternative). The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. The parties accordingly agree that, in addition to any other remedy to which they are entitled at law or in equity, the parties are entitled to injunctive relief to prevent breaches of this Agreement and otherwise to enforce specifically the provisions of this Agreement. Each party expressly waives any requirement that any other party obtain any bond or provide any indemnity in connection with any action seeking injunctive relief or specific enforcement of the provisions of this Agreement.

10.9 Waiver. No failure on the part of any Person to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of any Person in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy, and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy. No Person shall be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of such Person; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

10.10 Amendments. This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of all of the parties hereto.

10.11 Severability. In the event that any provision of this Agreement, or the application of any such provision to any Person or set of circumstances, shall be determined to be invalid, unlawful, void or unenforceable to any extent, the remainder of this Agreement, and the application of such provision to Persons or circumstances other than those to which it is determined to be invalid, unlawful, void or unenforceable, shall not be impaired or otherwise affected and shall continue to be valid and enforceable to the fullest extent permitted by Law.

10.12 Parties in Interest. None of the provisions of this Agreement is intended to provide any rights or remedies to any Person other than the parties hereto, the Acquiror Indemnitees and their respective successors and assigns (if any). No employees or others may rely on this Agreement as the basis for any breach of contract claim against Acquiror, the Acquired Companies or any related Entity. Nothing in this Agreement shall be deemed or construed to require Acquiror, the Acquired Companies or any related Entity to employ any particular employee for any period of time. Nothing in this Agreement shall be deemed or construed to limit Acquiror’s, the Acquired Companies’ or any related Entity’s right to terminate the employment of any employee, and nothing in this Agreement shall modify or amend any Employee Benefit Plan or other agreement, plan, program or document unless this Agreement explicitly states that the provision “amends” such Employee Benefit Plan or other agreement, plan, program or document.
10.13 Entire Agreement. This Agreement, the Related Agreements and the Confidentiality Agreement set forth the entire understanding of the parties hereto relating to the subject matter hereof and thereof and supersede all prior agreements and understandings among or between any of the parties relating to the subject matter hereof and thereof.

10.14 Construction; Interpretation. Any reference in this Agreement to an “Article,” “Section,” “Exhibit” or “Schedule” refers to the corresponding Article, Section, Exhibit or Schedule of or to this Agreement, unless the context indicates otherwise. The table of contents and the headings of Articles and Sections are provided for convenience only and are not intended to affect the construction or interpretation of this Agreement. All words used in this Agreement should be construed to be of such gender or number as the circumstances require. The term “including” means “including, without limitation” and is intended by way of example and not limitation. Any reference to a statute is deemed also to refer to any amendments or successor legislation, and all rules and regulations promulgated thereunder, as in effect at the relevant time. All accounting terms not specifically defined in this Agreement shall be construed in accordance with GAAP. References to “dollars” or “$” shall mean U.S. dollars. Any reference to a Contract or other document as of a given date means the Contract or other document as amended, supplemented and modified from time to time through such date. The language used in this Agreement is the language chosen by the parties to express their mutual intent, and no provision of this Agreement will be interpreted for or against any party because that party or its attorney drafted the provision. When calculating the period of time which, within which or following which any act is required to be done pursuant to this Agreement, the date that is the reference date in calculating such period shall be excluded, and if the last day of such period is a day that is not a Business Day, then the time for the giving of such notice or the performance of such action shall be extended to the next succeeding Business Day.

10.15 Sellers Representative.

(a) Joseph Brostmeyer is hereby designated by the Sellers, on their own behalf and on behalf of their respective successors, assigns, heirs and beneficiaries, to serve as the sole and exclusive agent of such Sellers, as the sellers representative (the “Sellers Representative”) hereunder with respect to any matters arising under this Agreement, including, without limitation, the matters set forth in Section 1.6, Article 9 and this Section 10.15 and any other provision of this Agreement that expressly requires or permits actions to be taken by the Sellers Representative and by his signature below he hereby acknowledges such appointment and agrees to serve in such capacity on the terms and subject to the conditions set forth herein and in the Escrow Agreement. The Sellers Representative (including any successor thereto) shall act as the representative of the Sellers and the PPA Recipients and shall be authorized to act on behalf of the Sellers and the PPA Recipients and to take any and all actions expressly required or permitted to be taken by the Sellers Representative under this Agreement, including Section 1.6, Article 9 and this Section 10.15 (for the avoidance of doubt, including the agreement on the final Purchase Price and the exercise of the power to agree to, negotiate, enter into settlements and compromises of, and comply with orders of courts with respect to, any claims for indemnification), or any other matter set forth in this Agreement which expressly requires or permits that the Sellers Representative take any action in respect thereof. The Sellers Representative shall be entitled to assert the rights of the Sellers under this Agreement, including Section 1.6, Article 9 and this Section 10.15, and the Sellers Representative shall perform all of
the obligations (other than payment) of the Sellers under this Agreement, including under Section 1.6, Article 9 and this Section 10.15. Any Person shall be entitled to rely on all actions, statements, representations and decisions of the Sellers Representative in such capacity.

(b) The Sellers shall be bound by all actions taken by the Sellers Representative in his capacity as such in accordance with this Agreement and the Escrow Agreement. The Sellers Representative shall promptly, and in any event within ten (10) Business Days, provide written notice to the Sellers of any action taken on behalf of them by the Sellers Representative pursuant to the authority delegated to the Sellers Representative under any provision of this Agreement that expressly requires or permits actions to be taken by the Sellers Representative. Neither the Sellers Representative nor any of his Representatives, if any, shall be liable to any Person for any error of judgment, or any action taken, suffered or omitted to be taken under this Agreement, except in the case of such Person's gross negligence or willful misconduct. The Sellers Representative shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement.

(c) The Sellers Representative shall be authorized to incur expenses and hire Representatives (and pay fees thereof to the extent incurred) in connection with his performance of his obligations as the Sellers Representative (any such expenses incurred, the “Sellers Representative Expenses”). Each Seller shall indemnify the Sellers Representative (jointly and severally) from and against any and all Damages suffered or incurred by the Sellers Representative arising out of or resulting from any such action taken or omitted to be taken by the Sellers Representative in his capacity as Sellers Representative under this Agreement. The Sellers Representative shall not be entitled to any compensation for his services in such capacity. For the avoidance of doubt, the Sellers Representative shall first use the balance of the entire Sellers Representative Amount to pay all Sellers Representative Expenses incurred by the Sellers Representative hereunder, and thereafter, the Sellers shall pay any additional Sellers Representative Expenses incurred by the Sellers Representative, and no such Sellers Representative Expenses shall be deducted from the Escrow Account.

(d) In the event that the Sellers Representative shall resign or be unable or unwilling to act for any reason, then Shirley Brostmeyer shall be the Sellers Representative and if Shirley Brostmeyer shall resign or be unable or unwilling to act for any reason then, the Sellers and the PPA Recipients shall collectively select a successor Sellers Representative to fill such vacancy. Upon written acceptance by such successor Sellers Representative, such successor Sellers Representative shall be deemed to be the Sellers Representative for all purposes of this Agreement and such successor Sellers Representative will succeed to and become vested with all of the rights, powers, privileges and duties of the predecessor Sellers Representative under this Agreement, and the predecessor Sellers Representative will be discharged from such predecessor Sellers Representative’s duties and obligations under this Agreement. Notice and a copy of the written instrument appointing such successor Sellers Representative (which must be countersigned by it) must be delivered promptly to the Acquiror.

10.16 No Third-Party Beneficiaries. Except as provided in Section 6.3, Section 6.7, Section 6.12 and Article 9, this Agreement is for the sole benefit of the parties hereto and their respective successors and permitted assigns and nothing herein, express or
implied, is intended to or shall confer upon any other Person any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]
The parties hereto have caused this Agreement to be executed and delivered as of the date first set forth above.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.,
a Delaware corporation

By: [Signature]
Name: Eric M. DeMarco
Title: President and Chief Executive Officer

[SIGNATURE PAGE TO PURCHASE AGREEMENT]
Shirley Brostmeyer

Joseph Brostmeyer

By: ___________________________  
Name: Shirley C. Brostmeyer  
Title: Trustee

By: ___________________________  
Name: Joseph D. Brostmeyer  
Title: Trustee

By: ___________________________  
Name: Joseph D. Brostmeyer  
Title: Trustee

By: ___________________________  
Name: Shirley C. Brostmeyer  
Title: Trustee
Shirley Brostmeyer

Joseph Brostmeyer

By: ____________________________
Name: Shirley C. Brostmeyer
Title: Trustee

By: ____________________________
Name: Joseph D. Brostmeyer
Title: Trustee

By: ____________________________
Name: Joseph D. Brostmeyer
Title: Trustee

By: ____________________________
Name: Shirley C. Brostmeyer
Title: Trustee
The Shirley Brostmeyer 2018 Family Trust u/s/d
December 17, 2018

By: ________________________________
Name: Joseph D. Brostmeyer
Title: Trustee

By: ________________________________
Name: Sara J. Brostmeyer
Title: Trustee

The Joseph D Brostmeyer 2018 Irrevocable Trust
u/s/d December 17, 2018

By: ________________________________
Name: Shirley C. Brostmeyer
Title: Trustee

By: ________________________________
Name: Julia A. Brostmeyer
Title: Trustee

[Signature Page to Purchase Agreement]
The Shirley Brostmeyer 2018 Family Trust u/a/d December 17, 2018

By: ________________________________
Name: Joseph D. Brostmeyer
Title: Trustee

By: ________________________________
Name: Sara J. Brostmeyer
Title: Trustee

The Joseph D Brostmeyer 2018 Irrevocable Trust u/a/d December 17, 2018

By: ________________________________
Name: Shirley C. Brostmeyer
Title: Trustee

By: ________________________________
Name: Julia A. Brostmeyer
Title: Trustee
The Shirley Brostmeyer 2018 Family Trust u/a/d
December 17, 2018

By: __________________________
Name: Joseph D. Brostmeyer
Title: Trustee

By: __________________________
Name: Sara J. Brostmeyer
Title: Trustee

The Joseph D Brostmeyer 2018 Irrevocable Trust
u/a/d December 17, 2018

By: __________________________
Name: Shirley C. Brostmeyer
Title: Trustee

By: __________________________
Name: Julia A. Brostmeyer
Title: Trustee

[Signature Page to Purchase Agreement]
The Shirley Brostmeyer 2018 Family Trust u/a/d
December 17, 2018
By: ____________________
Name: Joseph D. Brostmeyer
Title: Trustee
By: ____________________
Name: Sara J. Brostmeyer
Title: Trustee

The Joseph D Brostmeyer 2018 Irrevocable Trust
u/a/d December 17, 2018
By: ____________________
Name: Shirley C. Brostmeyer
Title: Trustee
By: ____________________
Name: Adrienne Brostmeyer
Title: Trustee
Joseph Brostmeyer, as Sellers' Representative
EXHIBIT A
CERTAIN DEFINITIONS

For purposes of the Agreement (including this Exhibit A):

“2018 Financial Statements” has the meaning specified in Section 4.5(a)(iii).

“2018 JB Trust” has the meaning specified in the Preamble.

“2018 SB Trust” has the meaning specified in the Preamble.

“Accounting Methodology” means GAAP, applied on a basis consistent with the policies, procedures, practices, judgments and methodologies used in preparing the audited financial statements of the Acquired Companies for fiscal 2018, as modified by the principles set forth in Exhibit E. Exhibit E also contains a sample calculation of Working Capital for illustrative purposes only.

“Acquired Companies” means, collectively, the Company, FTT Inc. and each of their respective Subsidiaries.

“Acquiror” has the meaning specified in the Preamble.

“Acquiror Common Stock” has the meaning specified in Section 5.2.

“Acquiror Fundamental Representations” means, collectively, the representations and warranties contained in Section 5.2 (Capitalization of Acquiror), Section 5.3 (Shares of Acquiror Common Stock) and Section 5.4 (Authorization).

“Acquiror Government Contract” means (a) any Contract, including an individual task order, delivery order, purchase order, basic ordering agreement, letter Contract or blanket purchase agreement between any of Acquiror or its Subsidiaries and any Governmental Body, or (b) any subcontract or other Contract by which any of Acquiror or its Subsidiaries has agreed to provide goods or services through a prime contractor directly to a Governmental Body that is expressly identified in such subcontract or other Contract as the ultimate consumer of such goods or services. For purposes hereof, a task, purchase, delivery, change or work order under an Acquiror Government Contract will not constitute a separate Acquiror Government Contract but will be part of the Acquiror Government Contract to which it relates.

“Acquiror Indemnitees” means: (a) Acquiror; (b) Acquiror’s current and future Affiliates; (c) the respective Representatives of the Persons referred to in clauses “(a)” and “(b)” above; and (d) the respective successors and assigns of the Persons referred to in clauses “(a),” “(b)” and “(c)” above.

“Acquiror Parties” has the meaning specified in Section 10.7.

“Acquiror Tax Contest” has the meaning specified in Section 1.11(c).
“Adjustments Deficiency” has the meaning specified in Section 2.3.

“Affiliate” means, with respect to any Person, any other Person who or which, directly or indirectly controls, is controlled by, or is under common control with such specified Person, including, without limitation, any partner, officer, director, member of such Person or, if such Person is a natural person, such Person’s spouse, lineal descendant (including any adopted child or adopted grandchild) or other family member, or a custodian or trustee of any trust, partnership or limited liability company for the benefit of, in whole or in part, or the ownership interests of which are, directly or indirectly, controlled by or under common control with, such Person or any other member or members of such Person’s family.

“Affiliated Group” means an affiliated group as defined in Section 1504 of the Code (or analogous combined, consolidated or unitary group defined under state, local or foreign income Tax Law).

“Agreement” means the Purchase Agreement to which this Exhibit A is attached (including the Disclosure Schedules), as it may be amended from time to time.

“Applicable Law” means, as applied to any Person, any statute, Law, ordinance, regulation, rule, code, order, constitution, treaty, judgment, decree, or other legally enforceable requirement or rule of Law of any Governmental Body that is, in any case, binding upon or applicable to such Person or its Assets.

“Assets” has the meaning specified in Section 4.10(a).

“Audit Date” means December 31, 2017.

“Audited Financial Statements” has the meaning specified in Section 4.5(a)(i).

“Aviation Regulations” has the meaning specified in Section 4.25(b).

“Balance Sheet” has the meaning specified in Section 4.5(a)(iii).

“Bonus Payments” has the meaning specified in Section 1.5(b).

“Bonus Pool Amount” means $770,000.

“Bonus Recipients” has the meaning specified in Section 1.5(b).

“Business” means any business engaged in by any Acquired Company and any presently contemplated expansions or extensions thereof, including engineering design, development, testing, maintenance, repair, and overhaul of (a) gas turbines, (b) propulsion components and (c) turbopumps, in each case for military and commercial aircraft, space propulsion, and/or industrial power generation.

“Business Day” means a day other than Saturday or Sunday and on which commercial banks are permitted by Applicable Laws to be open for business in New York, New York.
“Business Employees” has the meaning specified in Section 4.19(a).

“Cash” means, as of any time of determination, the aggregate amount of all cash and cash equivalents (including marketable securities and short term investments, to the extent they can be realized in thirty days or less) of the Acquired Companies as of such time, including the amounts of any received but uncleared checks and drafts and wires issued prior to such time (to the extent not already included in current consolidated assets for purposes of determining Working Capital), net of (a) outstanding but uncleared checks, drafts or transfers as of such time (to the extent not already included in current consolidated liabilities for purposes of determining Working Capital), (b) prepaid customer deposits and (c) with respect to calculating Cash as of the Closing Date, the Closing Capital Requirement Amount.

“Cash Adjustments Deficiency” has the meaning specified in Section 2.4.

“Cash Incentive Amount” means the aggregate amount of consideration potentially payable by the Acquired Companies pursuant to the Profit Participation Agreements as a result of the consummation of the Contemplated Transactions.

“Cash Purchase Price” has the meaning specified in Section 1.3.

“CFC” has the meaning specified in Section 4.17(n).

“Change of Control” shall mean the occurrence of any one or more of the following: (a) the acquisition of direct or indirect ownership or voting control, beneficially (within the meaning of Rules 13d-3 and 13d-5 of the Exchange Act) or of record, by any Person or group (within the meaning of Sections 13d and 14d of the Exchange Act), of more than 50% of the issued and outstanding shares of Acquiror Common Stock, whether by merger, consolidation, sale or other transfer (other than a merger or consolidation where the stockholders of Acquiror prior to the merger or consolidation are the holders of a majority of the voting securities of the entity that survives such merger or consolidation), or (b) a sale of all or substantially all of the assets of Acquiror; provided, however, that acquisitions of Acquiror Common Stock or securities convertible into Acquiror Common Stock directly from Acquiror primarily for financing purposes shall not constitute a Change of Control for the purposes of this Agreement.

“Claim” has the meaning specified in Section 9.8(a).

“Closing” has the meaning specified in Section 1.2.

“Closing Capital Requirement Amount” means the amount of accrued payroll of the Acquired Companies, plus the amount of that certain insurance premium payable to Florida Blue Insurance Company by the Acquired Companies, in each case, as of the Closing Date.

“Closing Cash” has the meaning specified in Section 2.2(a).

“Closing Cash Deficiency” has the meaning specified in Section 2.4.

“Closing Cash Payment” has the meaning specified in Section 1.4(a).
“Closing Certificate” has the meaning specified in Section 2.1.

“Closing Date” has the meaning specified in Section 1.2.

“Closing Date Balance Sheet” has the meaning specified in Section 2.2(a).

“Closing Date Working Capital” has the meaning specified in Section 2.2(a).

“Closing Stock Amount” has the meaning specified in Section 1.4(b).

“Closing Stock Payment” has the meaning specified in Section 1.4(b).

“COBRA” means Section 4980B of the Code and Part 6 of Title I of ERISA (or any successor provisions thereto) and the rules and regulations promulgated thereunder.

“COBRA Coverage” means continuation of group health plan coverage required under COBRA.


“Company” has the meaning specified in the Recitals.

“Company Indebtedness” means the amount payable by any of the Acquired Companies as debtor, borrower, issuer or guarantor pursuant to an agreement or instrument involving or evidencing money borrowed or received, the advance of credit, or pursuant to a lease required to be capitalized in accordance with GAAP, including in each case any accrued interest thereon.

“Company Intellectual Property” has the meaning specified in Section 4.11(c).

“Company IT Systems” means those computer systems, software, networks, telecommunications systems and related infrastructure, used or held for use by any Acquired Company in connection with the operation of its business.

“Company Products” means products or services that are (a) designed, manufactured, marketed, licensed, leased, sold, performed, made available or otherwise distributed or disposed of by any Acquired Company or in connection with such Acquired Company’s business currently or in the past (including any Software that is bundled or made available as part of any product or service (including under a software as a service or similar model) that such Acquired Company designs, manufactures, markets, licenses, sells, performs, makes available or, in connection with such Acquired Company’s business, otherwise distributes or disposes of), or (b) currently under development by an Acquired Company, including Software being developed at or for customers and other third parties.

“Company Units” has the meaning specified in the Recitals.

“Confidential Information” means all information of a confidential or proprietary nature (whether or not specifically labeled or identified as “confidential”), in any form or medium, of any Acquired Company or their respective customers, suppliers, distributors or other business
relations, including, without limitation, all information concerning finances, customer information, supplier information, products, services, prices, organizational structure and internal practices, forecasts, sales and other financial results, records and budgets, and business, marketing, development, sales and other commercial strategies, unpatented inventions, ideas, methods and discoveries, trade secrets, know-how, unpublished patent applications and other confidential Intellectual Property, designs, specifications, documentation, components, source code, object code, schematics, drawings, protocols and processes. Confidential Information shall not include any information that is or becomes generally known to and available for use by the public other than as a result of any acts or omissions of any Seller or any of its Affiliates.

"Confidentiality Agreement" means that certain Mutual Nondisclosure Agreement, dated November 2, 2017, by and among Acquiror, the Company and FTT Inc.

"Consents" means all authorizations, consents, orders or approvals of, or registrations, declarations, notices or filings with, or any advice to, or any expiration of one or more waiting periods imposed by, any Governmental Body or any third party, in each case, that are necessary in order to consummate the transactions contemplated by this Agreement, or as necessary to prevent any default under any contract or agreement.

"Contemplated Transactions" means the transactions contemplated by this Agreement and the Related Agreements.

"Contract" means any written, oral or other agreement, contract, subcontract, lease, understanding, instrument, note, warranty, license, sublicense, insurance policy, benefit plan or legally binding commitment or undertaking of any nature, whether express or implied.

[***] has the meaning specified in Section 6.5(a).

[***] has the meaning specified in Section 6.5(d).

"Cost Accounting Standards" means the standards for identifying and allocating costs under Government Contracts, as required by 41 U.S.C. § 15 and 48 C.F.R. §§ 30 and 99, as applicable from time to time.

"Covered Employee" has the meaning specified in Section 6.3(d).

"Covered Taxes" has the meaning specified in Section 1.11(e)(i).

"CTS" means Consolidated Turbine Specialists LLC, an Oklahoma limited liability company.

"Customer Contract" means any Contract to which an Acquired Company is a party pursuant to which an Acquired Company provides products or services to its customers in connection with the Business.

"Customs and International Trade Laws" means the applicable export control, Sanctions, import, customs and trade, anti-bribery, and anti-boycott Laws of any jurisdiction in which the any of the Acquired Companies is incorporated or does business, including the UK
Bribery Act 2010, the Tariff Act of 1930, as amended, and other Applicable Laws, administered or enforced by the U.S. Department of Commerce, U.S. International Trade Commission, U.S. Customs and Border Protection, U.S. Immigration and Customs Enforcement, and their predecessor agencies; the Export Administration Act of 1979, as amended; the Export Administration Regulations, including related restrictions with regard to transactions involving Persons on the U.S. Department of Commerce Denied Persons List, Unverified List or Entity List; the Arms Export Control Act, as amended; the International Traffic in Arms Regulations, including related restrictions with regard to transactions involving Persons on the Debarred List; the International Emergency Economic Powers Act, as amended; the Trading With the Enemy Act, as amended; the Iran Sanctions Act, as amended, the National Defense Authorization Act for Fiscal Year 2012, the National Defense Authorization Act for Fiscal Year 2013, and the embargoes and restrictions administered by OFAC; executive orders regarding embargoes and restrictions on transactions with designated countries and entities, including Persons designated on OFAC’s list of Specially Designated Nationals and Blocked Persons, and Persons designated on the U.S. Department of State sanctions lists; the anti-boycott Laws administered by the U.S. Department of Commerce; and the anti-boycott Laws administered by the U.S. Department of the Treasury.

“Damages” shall include any and all Liabilities, losses, damages, injuries, judgments, awards, settlements, royalties, interest, penalties, fines, Taxes, demands, Proceedings, claims, deficiencies, costs and expenses of any kind (including reasonable fees and expenses of attorneys, accountants and other experts paid in connection with the investigation or defense of any of the foregoing or any Proceeding relating to any of the foregoing).

“De Minimis Amount” has the meaning specified in Section 9.4(a).

“Disclosure Schedules” has the meaning specified in Article 4.

“Earn Out Consideration” has the meaning specified in Section 1.5(c).

“Employee Benefit Plan(s)” has the meaning specified in Section 4.18(a).

“Employee Pension Benefit Plan” means an “employee pension benefit plan” (as defined in Section 3(2) of ERISA).

“Employee Welfare Benefit Plan” means an “employee welfare benefit plan” (as defined in Section 3(1) of ERISA).

“Entity” means any corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any limited liability company or joint stock company), firm or other enterprise, association, organization or entity.

“Environmental and Safety Requirements” means any Law that is related to (a) pollution, contamination, cleanup, preservation, protection, reclamation or remediation of the environment, (b) health or safety, (c) the Release or threatened Release of any Hazardous Material, including investigation, study, assessment, testing, monitoring, containment, removal, remediation, response, cleanup, abatement, prevention, control or regulation of such Release or

“Equity Securities” means, if a Person is a corporation, shares of capital stock of such corporation and, if a Person is a form of Entity other than a corporation, ownership interests in such form of Entity, whether membership interests, partnership interests or otherwise.


“ERISA Affiliate” means any Person that is or was treated as a single employer with any of the Acquired Companies under Section 414 of the Code.

“Escrow Account” has the meaning specified in Section Error! Reference source not found.

“Escrow Agent” has the meaning specified in Section Error! Reference source not found.

“Escrow Agreement” has the meaning specified in Section Error! Reference source not found.

“Escrow Amount” means $6,000,000.

“Estimated Closing Cash” has the meaning specified in Section 2.1.

“Estimated Company Indebtedness” has the meaning specified in Section 2.1.

“Event” means any event, change, development, effect, condition, circumstance, matter, occurrence or state of facts.

“Excess Closing Cash” has the meaning specified in Section 2.4.

“Excess Working Capital” has the meaning specified in Section 2.3.

“Exchange Act” has the meaning specified in Section 5.10(b).

“Exercise Notice” has the meaning specified in Section 6.5(d).

“Export Approvals” has the meaning specified in Section 4.28(a).

“Fair Market Value” has the meaning specified in Section 6.5(d).
“FAA” has the meaning specified in Section 4.25(b).

“Final Closing Cash” has the meaning specified in Section 2.2(b).

“Final Determination Date” means the day on which Final Working Capital is determined.

“Final Determination Documents” has the meaning specified in Section 2.2(a).

“Final Submissions” has the meaning specified in Section 2.2(b).

“Final Working Capital” has the meaning specified in Section 2.2(b).

“Financial Statements” has the meaning specified in Section 4.5(a).

“Form S-3” has the meaning specified in Section 6.10(a)(i).

“FTT Inc.” has the meaning specified in the Recitals.

“GAAP” means United States generally accepted accounting principles, applied on a basis consistent with the basis on which the Audited Financial Statements of the Acquired Companies were prepared.

“Government Contract” means (a) any Contract, including an individual task order, delivery order, purchase order, basic ordering agreement, letter Contract or blanket purchase agreement between any Acquired Company and any Governmental Body, or (b) any subcontract or other Contract by which any Acquired Company has agreed to provide goods or services through a prime contractor directly to a Governmental Body that is expressly identified in such subcontract or other Contract as the ultimate consumer of such goods or services. For purposes hereof, a task, purchase, delivery, change or work order under a Government Contract will not constitute a separate Government Contract but will be part of the Government Contract to which it relates.

“Government Official” means, collectively, any officer or employee of a Governmental Body, any Person acting for or on behalf of any Governmental Body, any political party or official thereof and any candidate for political office.

“Governmental Body” means any court, tribunal, arbitrator, authority, agency, commission, bureau, board, department, official, body or other instrumentality of the United States, any foreign country, or any domestic or foreign state, province, county, city, other political subdivision or any other similar body or organization exercising governmental or quasi-governmental power or authority.

“Hazardous Material” means (a) hazardous substances, as defined by the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq., (b) hazardous wastes, as defined by the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq., (c) petroleum, including crude oil or any fraction thereof which is liquid at standard conditions of temperature and pressure, (d) radioactive material, including any source,
special nuclear, or by-product material as defined in 42 U.S.C. § 2011 et seq., (e) asbestos that is friable or could reasonably be likely to become friable, (f) polychlorinated biphenyls, (g) microbial matter, biological toxins, mycotoxins, mold or mold spores and (h) other material, substance or waste to which liability or standards of conduct may be imposed, or which requires or may require investigation, under any applicable Environmental and Safety Requirements.


“Immaterial Software License” has the meaning specified in Section 4.11(b).


“Incremental Employer Bonus Payroll Amount” means the difference between (a) the aggregate amount of employer-side payroll tax due with respect to all compensation (including the Bonus Payments made in such year) paid to the Bonus Recipients in a particular calendar year minus (b) the aggregate amount of employer-side payroll tax due with respect to all compensation other than the Bonus Payments paid to the Bonus Recipients for such calendar year.

“Incremental Employer PPA Payroll Amount” means the difference between (a) the aggregate amount of employer-side payroll tax due with respect to all compensation (including the PPA Payments made in such year) paid to the PPA Recipients in a particular calendar year minus (b) the aggregate amount of employer-side payroll tax due with respect to all compensation other than the PPA Payments paid to the PPA Recipients for such calendar year.

“Indebtedness” of any Person means, without duplication, all amounts payable by such Person as debtor, borrower, issuer, guarantor, or surety pursuant to an agreement or instrument involving or evidencing money borrowed, the advance of credit, or pursuant to a lease that is required to be capitalized in accordance with GAAP; provided, however, under no circumstances shall “Indebtedness” include (i) trade accounts payable not evidenced by a promissory note or other debt Contract, (ii) accrued expenses, (iii) amounts payable pursuant to operating leases, (iv) unearned income, (v) reimbursement or surety obligations or bonds, (vi) customer deposits, (vii) prepaids, (viii) deferred revenue, and/or (ix) stockholder tax Liabilities (even if historically included on the financial statements) or any amounts included in calculation of the Working Capital or Transaction Expenses or payable under a Profit Participation Agreement or to any Bonus Recipient.

“Indemnification Notice” has the meaning specified in Section 9.8(a).

“Indemnified Party” has the meaning specified in Section 9.8(a).

“Indemnifying Party” has the meaning specified in Section 9.8(a).

“Indemnitee” means collectively, the Acquiror Indemnitees and the Seller Indemnitees.
"Independent Auditor" has the meaning specified in Section 2.2(b).

"Initial Appraisers" has the meaning specified in Section 6.5(d)(i).

"Insurance Policies" has the meaning specified in Section 4.23.

"Intellectual Property" collectively, (a) all inventions (whether patentable or unpatentable and whether or not reduced to practice) and all letters patent (including utility and design patents) and pending applications for patents of the United States and all other countries, all utility models, industrial models, industrial designs, and all reissues, reexamination certificates, post-issuance certificates, divisionals, continuations, continuations-in-part, renewals, and extensions thereof; (b) all trademarks, service marks, certification marks, trade names, trade dress, logos, business names, other designations of origin ("Trademarks") and all goodwill associated therewith, and Internet domain names registrations, and all applications, registrations, and renewals in connection therewith; (c) all published and unpublished works of authorship (whether or not registered or registerable), including without limitation audiovisual works, collective works, Software and computer programs (whether in source code, object code, or executable form), documentation, compilations, databases, derivative works, literary works, and sound recordings, and all applications, registrations and renewals in connection therewith, and rights of attribution and integrity and other moral rights of an author (collectively, "Copyrights"); (d) all mask works and all applications, registrations, and renewals in connection therewith; (e) all trade secret rights and corresponding rights in Confidential Information and other non-public information (whether or not patentable), including discoveries, ideas, formulas, compositions of matter, methods, processes, Software and computer programs (whether in source code, object code, or executable form), algorithms, data structures, system architecture diagrams, flowcharts, databases, data collections, circuits, systems, devices, inventor's notes, discoveries and improvements, know how, manufacturing and production processes and techniques, testing information, research and development information, inventions, invention disclosures, unpatented blueprints, drawings, specifications, designs, plans, proposals and technical data, business and marketing plans, market surveys, market know-how and customer lists and information; (f) all copies and tangible embodiments of the foregoing (in whatever form or medium); and (g) all rights in, arising out of, or associated with any of the foregoing (including the right to enforce and recover remedies) in any jurisdiction.

"IRS" means the Internal Revenue Service.

"Issue Price" means the volume weighted average sale price per share of the Acquiror Common Stock on the NASDAQ Global Select Market as reported by Bloomberg Financial Markets or an equivalent, reliable reporting service, over the trailing 60-day period ending on February 25, 2019.

"JB Trust" has the meaning specified in the Preamble.

"JB" has the meaning specified in the Preamble.

"Knowledge" means, when referring to the "knowledge" of the Acquired Companies or the Sellers, or any similar phrase or qualification based on knowledge of the Acquired Companies or any Seller, (a) the actual knowledge of (i) Joseph Brostmeyer, Shirley Brostmeyer,
Matt Widner, Lloyd Mazer, Tim Leonard, Francine Pearce, Stanley Turkowski and Allicia Bassar, and (ii) solely with respect to matters related to CTS, Johnny “Bump” Grant, Richard Kasabula and Gene Martin and (b) the knowledge that any such Person referenced in clause (a) above, as a prudent business Person, would have obtained after making due inquiry with respect to the particular matter in question.

“Knowledge of Acquiror” means the actual knowledge of Eric DeMarco, Deanna Lund and Marie Mendoza.

“Law” means any federal, state, local, municipal, foreign or international, multinational or other law, statute, constitution, principle of common law, resolution, ordinance, code, edict, decree, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Body.

“Leased Real Property” has the meaning specified in Section 4.21(b).

“Leaseholder Improvements” means all buildings, structures, improvements and fixtures located on any Leased Real Property which are owned by an Acquired Company.

“Liabilities” means any debt, obligation, duty or liability of any nature (including any unknown, undisclosed, unmatured, unaccrued, contingent, indirect, conditional, implied, vicarious, derivative, joint, several or secondary liability), regardless of whether such debt, obligation, duty or liability would be required to be disclosed on a balance sheet prepared in accordance with GAAP, and regardless of whether such debt, obligation, duty or liability is immediately due and payable.

“Lien” means all liens, security interests, claims, mortgages, deeds of trust, preemptive rights, leases, charges, options, rights of first refusal, easements, proxies, voting trusts or agreements, transfer restrictions, pledges, assessments, covenants, burdens and other encumbrances of every kind affecting property, real or personal, tangible or intangible, including restrictions on voting or use.

“Lower Threshold” means an amount equal to the Working Capital Target minus $1.0 million.

“Material Adverse Effect” An Event, violation, inaccuracy, circumstance or other matter will be deemed to have a “Material Adverse Effect” on the Acquired Companies if, individually or in the aggregate, such event, violation, inaccuracy, circumstance or other matter (considered together with all other matters that would constitute exceptions to the representations and warranties set forth in the Agreement but for the presence of “Material Adverse Effect” or other materiality or knowledge, qualifications, or any similar qualifications, in such representations and warranties) had or could reasonably be expected to have or give rise to a material adverse effect on (a) the business, financial condition, capitalization, assets, Liabilities, operations or financial performance of the Acquired Companies, taken as a whole, (b) the ability of the Sellers or the Acquired Companies to consummate the Contemplated Transactions or to perform any of their obligations under this Agreement or the Related Agreements, or (c) Acquiror’s ability to vote, receive dividends with respect to or otherwise exercise ownership rights with respect to the Purchased Interests or any other Equity Securities of the Acquired Companies; provided, that
solely for purposes of the foregoing, no Event arising out of or in connection with or resulting from any of the following shall be deemed, either alone or in combination, to constitute or contribute to a Material Adverse Effect: (i) conditions generally affecting the industries in which the Acquired Companies operate, (ii) conditions generally affecting the United States economy or securities or financial markets, (iii) natural disasters, acts of war or terrorism, (iv) changes in Applicable Laws, (v) the public announcement of the Contemplated Transactions (including the impact thereof on relationships with customers, suppliers, landlords, employees or any Governmental Body), (vi) any actions required to be taken, or required not to be taken, pursuant to the terms of this Agreement or any Related Agreement or which Acquiror has consented to or requested in writing, or (vii) any action taken by Acquiror or its Affiliates with respect to the transactions contemplated by this Agreement or the financing thereof, except in the case of the foregoing clauses (i), (ii), (iii) and (iv) to the extent such events, occurrences, facts, circumstances, conditions, or changes have a materially disproportionate impact on the Acquired Companies as compared to other participants engaged in the industries in which the Acquired Companies operate.

“Material Contract” has the meaning specified in Section 4.12.

“Material Permit” has the meaning specified in Section 4.15.

“Minority Cash Payment” means $2,090,183.12.

“Minority Stock Payment” means $1,382,868.90.

“Multiemployer Plan” means a “multiemployer plan” within the meaning of Section 3(37) or 4001(a)(3) of ERISA.

“Multiple Employer Plan” means a “multiple employer plan” within the meaning of ERISA Section 4063 or 4064 or Code Section 413(c).

“Multiple Employer Welfare Arrangement” means a “multiple employer welfare arrangement” within the meaning of ERISA Section 3(40).

“Objection Notice” has the meaning specified in Section 2.2(b).

“OFAC” means the Office of Foreign Assets Control.

“Order” means any writ, decree, injunction, order, judgment or similar action.

“Owned Company Intellectual Property” has the meaning specified in Section 4.11(d).

“Owned Real Property” has the meaning specified in Section 4.21(a).

“Percentage Interest” of a Seller means the percentage of Purchased Interests owned by such Seller immediately prior to the Closing as compared to all of the Sellers in the aggregate, as set forth on Schedule A.
“Permits” means permits, licenses, registrations, consents, certificates, grants, waivers, qualifications, approvals and all other authorizations by or of Governmental Bodies.

“Permitted Lien” means (a) Liens for Taxes not yet due and payable, or for Taxes being contested in good faith and for which appropriate reserves have been accrued for in the Working Capital as of the Closing Date, (b) statutory Liens of landlords for amounts not yet due and payable, (c) Liens of carriers, warehousemen, mechanics and materialmen incurred in the ordinary course of business for amounts not yet due and payable, (d) Liens incurred or deposits made in the ordinary course of business in connection with worker’s compensation, unemployment insurance or other forms of governmental insurance or benefits, and (e) in the case of the Company Units and the Shares, restrictions arising under applicable securities Laws, but in each such case excluding any Lien with respect to any Employee Benefit Plan.

“Permitted Transferee” has the meaning specified in Section 6.10(a)(ii).

“Person” means any individual, Entity or Governmental Body.

“Personal Information” means any information that, alone or in combination with other information, allows the identification of an individual, including name, street address, telephone number, e-mail address, photograph, social security number, driver’s license number, passport number or customer or account number, IP address, and any persistent identifier or any other information that is otherwise considered personal information, personal data, protected health information, or other personally identifiable information under Applicable Law.

“PPA Payments” has the meaning specified in Section 1.5(a).

“PPA Recipients” has the meaning specified in Section 1.5(a).

“Pre-Closing Tax Period” means any Tax period ending before the Closing Date and, with respect to a Straddle Period, the portion of such Tax period ending at the end of the day before the Closing Date.

“Privacy and Information Security Requirements” means (a) all Applicable Laws relating to the collection, storage, use, disclosure, retention or transfer of Personal Information, privacy or information security, (b) all Applicable Laws concerning the security of Company Products and/or Company IT Systems, (c) all Contracts to which an Acquired Company is a party or is otherwise bound that relate to Personal Information and/or protecting the security or privacy of information, (d) each Acquired Company’s policies and notices (e.g., posted privacy policies; notices provided in connection with the collection, storage, use, disclosure, retention or transfer of Personal Information; posted policies or notices concerning the security of Company Products and/or Company IT Systems; internal policies and standards concerning the treatment of Personal Information and/or the security of Company Products and/or Company IT Systems) relating to Personal Information, privacy and/or the security of Company Products, Company IT Systems and/or other information.

“Proceeding” means any suit, action, cause of action, litigation, hearing, inquiry, examination, demand, proceeding, controversy, complaint, appeal, notice of violation, citation, summons, subpoena, arbitration, mediation, dispute, claim, allegation, investigation or audit of
any nature whether civil, criminal, quasi criminal, indictment, administrative, regulatory or otherwise and whether at Law or in equity.

“Process” or “Processing” means the collection, use, storage, processing, recording, distribution, transfer, import, export, protection (including security measures), disposal or disclosure or other activity regarding data (whether electronically or in any other form or medium).

“Profit Participation Agreements” means those certain Profit Participation Agreements entered into by the Acquired Companies, pursuant to which bonus amounts are potentially payable by the Acquired Companies as a result of the consummation of the Contemplated Transactions.

“Proposed Transferee” has the meaning specified in Section 6.5(c).

“Purchase” has the meaning specified in the Recitals.

“Purchase Price” has the meaning specified in Section 1.3.

“Purchased Interests” has the meaning specified in the Recitals.

“Real Property” has the meaning specified in Section 4.21(b).

“Real Property Leases” has the meaning specified in Section 4.12(e).

“Related Agreements” means, collectively, the documents or instruments contemplated by or executed in connection with the Contemplated Transactions, including, without limitation, the Escrow Agreement, the Exchange Agreement and the employment agreements between Acquiror and Joseph Brostmeyer and Shirley Brostmeyer, respectively.

“Related Party” means each Seller, each officer, director or manager of an Acquired Company, each family member of any Seller or any officer, director or manager of an Acquired Company, each trust for the benefit of any of the foregoing, and each Affiliate of any of the foregoing (other than an Acquired Company).

“Release” means any spilling, leaking, pumping, emitting, emptying, pouring, discharging, depositing, injecting, escaping, leaching, migrating, dumping, or disposing of Hazardous Materials (including the abandonment or discarding of barrels, containers or other receptacles containing Hazardous Materials) into the environment.

“Released Parties” has the meaning specified in Section 6.11.

“Releasers” has the meaning specified in Section 6.11.

“Representative” means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants, agents and Affiliates of such Person.
“Restricted Period” has the meaning specified in Section 6.3(b).

“Right of First Refusal” has the meaning specified in Section 6.5(b).

“Rights” has the meaning specified in Section 3.4.

“Sanctioned Person” means any Person that is the target of Sanctions, including, (a) any Person listed in any Sanctions-related list of designated Persons maintained by OFAC or the U.S. Department of State, the United Nations Security Council, the European Union, Her Majesty’s Treasury of the United Kingdom, Switzerland or any European Union member state, (b) any Person located, organized or resident in a country, territory or geographical region which is itself the subject or target of any territory-wide Sanctions (including, without limitation, after December 14, 2014, the Crimea region of Ukraine, Cuba, Iran, North Korea, Syria and, prior to January 17, 2017, Sudan), or (c) any Person 50% or more owned or otherwise controlled by any such Person or Persons described in the foregoing clauses (a) and (b).

“Sanctions” means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government through OFAC or the U.S. Department of State, the United Nations Security Council, the European Union or any European Union member state, Her Majesty’s Treasury of the United Kingdom or Switzerland.

“Sarbanes-Oxley Act” has the meaning specified in Section 5.10(b).

“SB Trust” has the meaning specified in the Preamble.

“SB” has the meaning specified in the Preamble.

“Schedule of Profit Participation Amounts” has the meaning specified in Section 2.1.

“Schedule of Transaction Expenses” has the meaning specified in Section 2.1.

“SEC” means the U.S. Securities and Exchange Commission.

“SEC Reports” has the meaning specified in Section 5.10(a).

“Securities Act” means the Securities Act of 1933, as amended.

“Seller(s)” has the meaning specified in the Preamble.

“Seller Fundamental Representations” means, collectively, the representations and warranties contained in Section 3.1 (Authorization), Section 3.2 (No Violation), Section 3.4 (Title), Section 3.6 (Certain Investment Representations); Section 3.7 (No Brokers or Finders), Section 4.1 (Organization and Qualification; Authorization), Section 4.2 (No Violation), Section 4.4 (Capitalization, Etc.), the second sentence of Section 4.11(a) (Intellectual Property) (provided, that the representation made in the second sentence in Section 4.11(a) shall only be treated as a “Seller Fundamental Representation” with respect to the Registered Intellectual Property set forth on Schedule 4.11(a) that is marked with an asterisk (*)), Section 4.16 (Health,
“Seller Indemnitee” means: (a) each Seller; (b) each Seller’s current and future Affiliates; (c) the respective Representatives of the Persons referred to in clauses “(a)” and “(b)” above; and (d) the respective successors and assigns of the Persons referred to in clauses “(a),” “(b)” and “(c)” above.

“Sellers Representative” has the meaning specified in Section 10.15(a).

“Sellers Representative Amount” has the meaning specified in Section 1.6(a).

“Sellers Representative Expenses” has the meaning specified in Section 10.15(c).

“Seller Tax Contest” has the meaning specified in Section 1.11(c).

“Service Provider” has the meaning specified in Section 4.19(a).

“Shares” has the meaning specified in the Recitals.

“Short S Corporation Tax Period” has the meaning specified in Section 1.11(a)(iii).

“Software” means all websites, computer software and firmware (including source code, executable code, data, databases, user interfaces and related documentation).

“Stock Purchase Price” has the meaning specified in Section 1.3.

“Straddle Period” means a Tax period that begins before the Closing Date and ends on or after the Closing Date.

“Subsidiary” Any Entity shall be deemed to be a “Subsidiary” of another Person if such Person directly or indirectly (a) has the power to direct the management or policies of such Entity or (b) owns, beneficially or of record, (i) an amount of voting securities or other interests in such Entity that is sufficient to enable such Person to elect at least a majority of the members of such Entity’s board of directors, board of managers or other governing body, or (ii) at least 50% of the outstanding equity or financial interests of such Entity.

“Survival Period” has the meaning specified in Section 9.1(a).

“Systems” has the meaning specified in Section 4.11(f).

“Tax” or “Taxes” means (a) taxes, charges, fees, imposts, levies, or other assessments or fees, including, but not limited to, income, corporate, capital, excise, property, sales, use, turnover, value added and franchise taxes, deductions, withholdings and customs duties, imposed by any Taxing Authority, (b) all interest, penalties, fines, or additions to tax imposed by any Taxing Authority in connection with any item described in clause (a) or for failure to file any Tax Return, and (c) any liability in respect of any items described in clauses (a) and/or (b) as a
successor or transferee, under Treasury Regulation 1502-6 (or any similar provision of state, local or foreign Law), by Contract, or otherwise.

“Tax Contest” has the meaning specified in Section 1.11(c).

“Tax Return” means any return, declaration, report, claim for refund, information return or statement or other document required to be filed with respect to Taxes.

“Taxing Authority” means any Governmental Body with administrative or judicial authority and responsibility exercising any authority with respect to any Tax.

[***] has the meaning specified in Section 6.5(d)(ii).

“Threshold” has the meaning specified in Section 9.4(b).

“Top Customer” has the meaning specified in Section 4.22(b).

“Top Supplier” has the meaning specified in Section 4.22(a).

“Trading Day” shall mean any day on which the primary market on which such shares of Acquiror Common Stock are listed is open for trading.

“Transaction Expenses” means all fees, costs and expenses (including legal fees, accounting fees, investment banking fees and commissions) that have been incurred and unpaid prior to the date hereof by any of the Acquired Companies in connection with the negotiation, preparation or execution of this Agreement and the consummation of the Contemplated Transactions, including any bonuses, discretionary payments, severance payments, retention payments, change-in-control payments and the Minority Cash Payment (but excluding the Bonus Pool Amount and any payments made or to be made in connection with the Profit Participation Agreements), payments to be made to the minority owners of Consolidated Turbine Specialists LLC and Consolidated Turbine Specialists Canada, Inc., respectively, pursuant to applicable buyback or repurchase agreements, or any other Rights to the extent not already deducted in calculating the Closing Cash Payment or Closing Stock Payment, as applicable, and all Taxes payable by any Acquired Company in connection with or as a result of the payment of such obligations.

“Transfer” has the meaning specified in Section 6.5(b).

“Transfer Notice” has the meaning specified in Section 6.5(c).

“Transfer Taxes” has the meaning specified in Section 1.8.

“U.S.” or “United States” means the United States of America.

“Upper Threshold” means an amount equal to the Working Capital Target plus $1.0 million.
“WARN Act” means the Worker Adjustment and Retraining Notification Act of 1988, as amended.

“Working Capital” means as of a specified date (a) the sum of consolidated current assets of the Acquired Companies (which for the avoidance of doubt (i) will include cash related to prepaid customer deposits, the Closing Capital Requirement Amount (it being understood that the Closing Capital Requirement Amount shall only be included in the calculation of Closing Date Working Capital), accounts receivable, unbilled accounts receivables, other accounts receivable, cost and estimated earnings in excess of billings on uncompleted contracts, inventory, prepaid expenses and other current assets and (ii) will not include Cash (other than cash related to prepaid customer deposits and, with respect to Closing Date Working Capital, the Closing Capital Requirement Amount) or any deferred Tax assets), minus (b) the sum of all consolidated current liabilities of the Acquired Companies (which for the avoidance of doubt (i) will include accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts and (ii) will not include (A) deferred Tax liabilities or (B) any Transaction Expenses, Cash Incentive Amounts, the Bonus Pool Amount or Indebtedness that were deducted in calculating the Closing Cash Payment or Closing Stock Payment, as applicable, on the Closing Date), all as determined in accordance with GAAP, consistently applied throughout the periods involved, and calculated in a manner consistent with the Accounting Methodology. For clarity, there shall be no double counting with respect to any of the items set forth above, within the definition of Cash or otherwise.

“Working Capital Deficiency” has the meaning specified in Section 2.3.

“Working Capital Target” means the Working Capital amount calculated based on the audited financial statements of the Acquired Companies as of December 31, 2018 prepared by RSM US LLP.

“.pdf” has the meaning specified in Section 10.5.
<table>
<thead>
<tr>
<th>Seller</th>
<th>Company Units Owned Prior to Closing</th>
<th>Shares Owned Prior to Closing</th>
<th>Purchased Interests</th>
<th>Percentage Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Shirley C. Brostmeyer Revocable Trust u/a/d August 25, 2002, as amended and restated August 13, 2014</td>
<td>4,841.96</td>
<td>4,841.96</td>
<td>3,878.41 Company Units and 3,878.41 Shares</td>
<td>46%</td>
</tr>
<tr>
<td>Shirley C. Brostmeyer 2018 Family Trust u/a/d December 17, 2018</td>
<td>526.30</td>
<td>526.30</td>
<td>421.57 Company Units and 421.57 Shares</td>
<td>5%</td>
</tr>
<tr>
<td>The Joseph D. Brostmeyer 2018 Irrevocable Trust u/a/d December 17, 2018</td>
<td>526.30</td>
<td>526.30</td>
<td>421.57 Company Units and 421.57 Shares</td>
<td>5%</td>
</tr>
</tbody>
</table>
EXCHANGE AGREEMENT

This EXCHANGE AGREEMENT (this "Agreement") is made and entered into as of February 27, 2019 by and among Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "Acquiror"), FTT CORE, LLC, a Delaware limited liability company ("FTT Core"), Florida Turbine Technologies Inc., a Florida corporation ("FTT Inc." and, together with FTT Core, each an "Issuer" and, collectively, the "Issuers"), Shirley C. Brostmeyer and Joseph D. Brostmeyer as Trustees of The Shirley C. Brostmeyer Revocable Trust, u/a/d August 25, 2002, as amended and restated August 13, 2014, a Florida revocable trust ("SB Trust"), Joseph D. Brostmeyer and Sara J. Brostmeyer as Trustees of The Shirley Brostmeyer 2018 Family Trust, u/a/d December 17, 2018, a Florida irrevocable trust ("2018 SB Trust"), Joseph D. Brostmeyer and Shirley C. Brostmeyer as Trustees of The Joseph D. Brostmeyer Revocable Trust, u/a/d August 25, 2002, as amended and restated August 13, 2014, a Florida revocable trust ("JB Trust"), Shirley C. Brostmeyer and Julia A. Brostmeyer as Trustees of The Joseph D. Brostmeyer 2018 Irrevocable Trust, u/a/d December 17, 2018, a Florida irrevocable trust ("2018 JB Trust" and, together with SB Trust, 2018 SB Trust and JB Trust, each a "Holder" and, collectively, the "Holders"). Capitalized terms used herein without definition have the meanings given in the Purchase Agreement (defined below).

RECITALS

WHEREAS, Acquiror and the Holders are parties to that certain Purchase Agreement, dated as of the date first set forth above (as the same may be amended or modified from time to time in accordance with its terms, the "Purchase Agreement"), pursuant to which Acquiror has purchased from the Holders and the other Sellers named therein (i) 80.1% on a fully diluted basis, of the issued and outstanding Company Units of FTT Core, and (ii) 80.1% on a fully diluted basis, of the issued and outstanding Shares of FTT Inc. (the "Purchase");

WHEREAS, following the Purchase, the Holders own, collectively, (i) 19.9% of the issued and outstanding Company Units of FTT Core, and (ii) 19.9% of the issued and outstanding Shares of FTT Inc., as set forth opposite each Holder's name in the column labeled "Interests Owned Prior to Exchange" on Schedule A hereto;

WHEREAS, the Purchase Agreement contemplates the execution and delivery of this Agreement which provides for, among other things, (i) the conversion of FTT Core into a Delaware corporation with the name "KTT Core, Inc." ("KTT Core") and the conversion of all Company Units in FTT Core held by the Holders into shares of Class B non-voting common stock of KTT Core and (ii) the amendment and restatement of the articles of incorporation of FTT Inc. and the exchange of all Shares of FTT Inc. held by the Holders into shares of Class B non-voting capital stock of FTT Inc. (the "Exchange");

WHEREAS, the execution and delivery of this Agreement and the covenants and agreements set forth herein were a material inducement to the Acquiror to enter into the Purchase Agreement and to consummate the Purchase; and

WHEREAS, this Agreement and the Exchange have been approved by the respective boards of directors of Acquiror and FTT Inc. and by the manager of FTT Core.
NOW, THEREFORE, in consideration of the foregoing and the respective covenants, agreements and representations and warranties set forth herein, the parties to this Agreement, intending to be legally bound, agree as follows:

ARTICLE I
THE EXCHANGE

Section 1.1 Exchange.

(a) Immediately following the Closing (as defined in the Purchase Agreement):

(i) FTT Core shall (A) file with the Secretary of State of the State of Delaware (the “Delaware Secretary of State”) the Certificate of Conversion, including the Plan of Conversion, attached hereto as Exhibit A (the “Certificate of Conversion”); (B) file with the Delaware Secretary of State the Certificate of Incorporation of KTT Core, attached hereto as Exhibit B (“Certificate of Incorporation”), and (C) adopt the Bylaws of KTT Core, attached hereto as Exhibit C; and

(ii) FTT Inc. shall (A) file with the Florida Department of State, Division of Corporations, the Amended and Restated Articles of Incorporation of Florida Turbine Technologies Inc., attached hereto as Exhibit D (the “Restated Articles”), and (B) adopt the Amended and Restated Bylaws of Florida Turbine Technologies Inc., attached hereto as Exhibit E.

(b) Upon the effectiveness of the Certificate of Conversion: (i) each Company Unit in FTT Core held by Acquiror shall automatically and without any further action on the part of FTT Core or Acquiror, convert into one share of Class A common stock of KTT Core, par value $0.001, with the rights and privileges set forth in the Certificate of Incorporation; and (ii) each Company Unit in FTT Core held by a Holder shall automatically and without any further action on the part of FTT Core or such Holder, convert into one share of Class B common stock of KTT Core, par value $0.001, with the rights and privileges set forth in the Certificate of Incorporation.

(c) Upon the effectiveness of the Restated Articles: (i) each Share of FTT Inc. held by Acquiror is hereby exchanged, without any further action on the part of FTT Inc. or Acquiror, for one share of Class A capital stock of FTT Inc., with the rights and privileges set forth in the Restated Articles; and (ii) each Share of FTT Inc. held by a Holder is hereby exchanged, without any further action on the part of FTT Inc. or such Holder, for one share of Class B capital stock of FTT Inc., with the rights and privileges set forth in the Restated Articles.

(d) Following the completion of the Exchange, the ownership of the issued and outstanding securities of KTT Core and FTT Inc. shall be as set forth opposite each parties name under in the column labeled “Interests Owned After Exchange” on Schedule A hereto.
ARTICLE II
REPRESENTATIONS AND WARRANTIES

Section 2.1 Representations and Warranties of the Issuers. Each Issuer hereby severally, and not jointly, represents and warrants to Acquiror and the Holders as of the date hereof as follows:

(a) Such Issuer is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its formation and has all requisite power and authority to own, lease and operate its assets and properties and to carry on its business as now being conducted.

(b) Such Issuer has all requisite power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the Exchange. The execution and delivery of this Agreement, the performance by such Issuer of its obligations hereunder and the consummation by such Issuer of the Exchange have been duly authorized. This Agreement has been duly executed and delivered by such Issuer and constitutes the legal, valid and binding obligation of such Issuer, enforceable against it in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting the rights of creditors generally and the availability of equitable remedies.

(c) The execution, delivery and performance by such Issuer of this Agreement and the consummation of the Exchange will not: (i) violate, contravene or conflict with any provision of the operating agreement, certificate of formation, certificate of incorporation, bylaws, trust deed or similar organizational documents of such Issuer; or (ii) violate, contravene or conflict with any Law or Order applicable to such Issuer.

Section 2.2 Representations and Warranties of the Holders. Each Holder hereby severally, and not jointly, represents and warrants to the Issuers and Acquiror as of the date hereof as follows:

(a) Such Holder has all requisite power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the Exchange. The execution and delivery of this Agreement, the performance by such Holder of its obligations hereunder and the consummation by such Holder of the Exchange have been duly authorized. This Agreement has been duly executed and delivered by such Holder and constitutes the legal, valid and binding obligation of such Holder, enforceable against it in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting the rights of creditors generally and the availability of equitable remedies.

(b) The execution, delivery and performance by such Holder of this Agreement and the consummation of the Exchange will not: (i) violate, contravene or conflict with any provision of the operating agreement, certificate of formation, certificate of incorporation, bylaws, trust deed or similar organizational documents of such Holder; or (ii) violate, contravene or conflict with any Law or Order applicable to such Holder.
(c) Such Holder has the sole voting power and sole power of disposition with respect to all of the Company Units and Shares held by such Holder with no limitations, qualifications or restrictions on such rights and powers. Such Holder is not subject to any agreements, arrangements, options, warrants, calls, rights, commitments or other restrictions relating to the sale, transfer, purchase, redemption or voting of its Company Units or its Shares.

(d) Such Holder is an “accredited investor” as that term is defined in Rule 501(a) of Regulation D promulgated by the SEC under the Securities Act. Such Holder will execute and deliver to the Issuers such documents as the Issuers may reasonably request in order to confirm the accuracy of the foregoing. Such Holder has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of engaging in this Agreement and the Exchange.

(e) Such Holder is acquiring the Class B common stock, par value $0.001, of KTT Core and the Class B capital stock of FTT Inc. (together, the “Minority Interests”) for investment for the Holder’s own account and not with a view to, or for resale in connection with, the distribution or other disposition thereof except as permitted by Law, including securities Laws. No Holder has any present intent to resell or distribute all or any part of the Minority Interests, other than to the Holding Company (as defined below).

(f) Such Holder understands that the Minority Interests are being issued to the Holder in reliance upon the exemptions from the registration requirements of the United States federal securities Laws; and that the Issuers are relying upon the truth and accuracy of such Holder’s representations and warranties contained herein in order to determine the availability of such exemptions and the eligibility of Holder to acquire the Minority Interests in accordance with the terms and provisions hereof.

(g) Such Holder understands and agrees that upon the closing of the Exchange set forth in this Agreement, Holder shall have no further right or interest in or to the Company Units or the Shares.

Section 2.3 Representations and Warranties of Acquiror. Acquiror hereby represents and warrants to the Issuers and the Holders as of the date hereof as follows:

(a) Acquiror has all requisite power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the Exchange. The execution and delivery of this Agreement, the performance by Acquiror of its obligations hereunder and the consummation by Acquiror of the Exchange have been duly authorized. This Agreement has been duly executed and delivered by Acquiror and constitutes the legal, valid and binding obligation of Acquiror, enforceable against it in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting the rights of creditors generally and the availability of equitable remedies.

(b) The execution, delivery and performance by Acquiror of this Agreement and the consummation of the Exchange will not: (i) violate, contravene or conflict with any provision of the operating agreement, certificate of formation, certificate of incorporation, bylaws, trust deed
or similar organizational documents of Acquiror; or (ii) violate, contravene or conflict with any Law or Order applicable to Acquiror.

(c) Acquiror has the sole voting power and sole power of disposition with respect to all of the Company Units and Shares held by Acquiror with no limitations, qualifications or restrictions on such rights and powers. Acquiror is not subject to any agreements, arrangements, options, warrants, calls, rights, commitments or other restrictions relating to the sale, transfer, purchase, redemption or voting of its Company Units or its Shares.

(d) Acquiror is an “accredited investor” as that term is defined in Rule 501(a) of Regulation D promulgated by the SEC under the Securities Act. Acquiror will execute and deliver to the Issuers such documents as the Issuers may reasonably request in order to confirm the accuracy of the foregoing. Acquiror has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of engaging in this Agreement and the Exchange.

(e) Acquiror is acquiring the Class A common stock, par value $0.001, of KTT Core and the Class A capital stock of FTT Inc. (together, the “Majority Interests”) for investment for the Acquiror’s own account and not with a view to, or for resale in connection with, the distribution or other disposition thereof except as permitted by Law, including securities Laws. Acquiror does not have any present intent to resell or distribute all or any part of the Majority Interests.

(f) Acquiror understands that the Majority Interests are being issued to Acquiror in reliance upon the exemptions from the registration requirements of the United States federal securities Laws, and that the Issuers are relying upon the truth and accuracy of Acquiror’s representations and warranties contained herein in order to determine the availability of such exemptions and the eligibility of Acquiror to acquire the Majority Interests in accordance with the terms and provisions hereof.

(g) Acquiror understands and agrees that upon the closing of the Exchange set forth in this Agreement, Acquiror shall have no further right or interest in or to the Company Units or the Shares.

ARTICLE III
AGREEMENTS

Section 3.1 Minority Interest Lock-up. Each Holder hereby acknowledges and agrees that it will not be permitted to sell, pledge, assign, transfer, hypothecate or otherwise dispose of (each a “Transfer”) or otherwise encumber any portion of the Minority Interests without the prior written consent of Acquiror; provided that the Holders may Transfer the Minority Interests to the Holding Company (as defined herein), in accordance with this Section 3.1. The Holders shall be permitted, without the need to obtain the consent of Acquiror, to Transfer all of the Minority Interests owned by the Holders to a holding company formed and controlled by the Holders (the “Holding Company”), provided that such Transfer shall become effective only upon the Holding Company becoming a party to this Agreement and agreeing to be bound by the terms and conditions hereof by executing and delivering a counterpart signature...
Section 3.2 Purchase and Sale Rights.

(a) Beginning in January 2024, the Holders will have an annual right (the “Put Right”) to sell all of the Minority Interests to Acquiror at a purchase price that is calculated based upon an assumed enterprise value derived from the following calculation: (i) the amount which is equal to 12 times the trailing 12 months EBITDA (as defined below) of the Acquired Companies for the previous fiscal year less (ii) the Reduction Amount (as defined below), and which resulting amount is then (iii) multiplied by 19.9% (the “Minority Interest Purchase Price”). For illustration purposes only, sample calculations of the Minority Interest Purchase Price are set forth on Schedule B attached hereto. Acquiror agrees to pay the Minority Interest Purchase Price with at least 30% cash, and the balance in shares of Acquiror Common Stock. The number of shares of Acquiror Common Stock to be issued for the stock component of the Minority Interest Purchase Price will be calculated by reference to the volume weighted average sale price per share of the Acquiror Common Stock on the NASDAQ Global Select Market as reported by Bloomberg Financial Markets or an equivalent, reliable reporting service, over the trailing 90-day period ending on the Trading Day immediately prior to the consummation of the sale. The Holders must notify Acquiror that they intend to exercise the Put Right, in writing, no earlier than the date that is 20 Business Days following the last day of the applicable fiscal year and no later than March 31 following the last day of the applicable fiscal year.

(b) If the Holders do not exercise the Put Right on or before by March 31, 2024, Acquiror will have an annual right (the “Call Right”), beginning in January 2025, to purchase all of the Minority Interests at the Minority Interest Purchase Price. Acquiror must notify the Holders that it intends to exercise the Call Right, in writing, no earlier than the date that is 20 Business Days following the last day of the applicable fiscal year and no later than March 31 following the last day of the applicable fiscal year.

(c) If, prior to January 2024, Acquiror experiences a Change of Control (as defined below) or the Issuers experience a FTT Change of Control (as defined below), the Holders will have an annual right, beginning the first January following the occurrence of a Change in Control or a FTT Change of Control, as applicable (the “Put Right Commencement Date”), to exercise their Put Right at a purchase price that is calculated based upon an assumed enterprise value of 14 times the trailing 12 months EBITDA of the Acquired Companies for the previous fiscal year minus any Reduction Amount. The Holders must notify the Acquiror or the acquiring entity, as applicable, that they intend to exercise the Put Right, in writing, no earlier than the date that is 20 Business Days following the last day of the applicable fiscal year and no later than March 31 following the last day of the applicable fiscal year (the “Put Right Exercise Period”). The Put Right Exercise Period and the exercise procedures described in the preceding sentence
shall continue annually following the Put Right Commencement Date, until the Put Right is exercised by the Holders or the Call Right is exercised by Acquiror. For purposes of this Agreement, “Change of Control” means the occurrence of any one or more of the following: (a) the acquisition of direct or indirect ownership or voting control, beneficially (within the meaning of Rules 13d-3 and 13d-5 of the Exchange Act) or of record, by any Person or group (within the meaning of Sections 13d and 14d of the Exchange Act), of more than fifty percent (50%) of the issued and outstanding shares of Acquiror Common Stock, whether by merger, consolidation, sale or other transfer (other than a merger or consolidation where the stockholders of Acquiror prior to the merger or consolidation are the holders of a majority of the voting securities of the entity that survives such merger or consolidation), or (b) a sale of all or substantially all of the assets of Acquiror; provided, however, that acquisitions of Acquiror Common Stock or securities convertible into Acquiror Common Stock directly from Acquiror primarily for financing purposes shall not constitute a Change of Control for the purposes of this Agreement. For purposes of this Agreement, “FTT Change of Control” means the occurrence of any one or more of the following: (a) the acquisition of direct or indirect ownership or voting control, beneficially (within the meaning of Rules 13d-3 and 13d-5 of the Exchange Act) or of record, by any Person or group (within the meaning of Sections 13d and 14d of the Exchange Act), of more than eighty percent (80%) of the issued and outstanding shares of Class A common stock of KTT Core and the Class A capital stock of FTT Inc., whether by merger, consolidation, sale or other transfer (other than a merger or consolidation where the stockholders of the Issuers prior to the merger or consolidation are the holders of a majority of the voting securities of the entity or entities that survives such merger or consolidation), or (b) a sale of all or substantially all of the assets of the Issuers (considered on a combined basis).

(d) If, at any time following the Closing, Joseph Brostmeyer (“JB”) is terminated by Acquiror without Cause (as defined in the Employment Agreement) or resigns for Good Reason (as defined in the Employment Agreement) (a “Covered Termination”), the Holders will have the ability to exercise their Put Right at a purchase price that is calculated based upon an assumed enterprise value of 14 times the trailing 12 months EBITDA of the Acquired Companies minus any Reduction Amount. In such circumstances, the Holders must notify Acquiror that they intend to exercise the Put Right, in writing, no later than 20 calendar days following the last day of the month in which the Covered Termination occurred. For example, if in October 2022, JB experiences a Covered Termination, the Holders will have the right to sell the Minority Interest to Acquiror at a purchase price that is calculated based upon an assumed enterprise value of 14 times the trailing 12 months EBITDA of the Acquired Companies for the 12 month period ending October 31, 2022 (with such Put Right to be exercised, in writing, no later than November 20, 2022). For purposes of this Agreement, “Employment Agreement” means that certain Employment Agreement, by and between Acquiror and JB, dated as of even date herewith.

(e) If, at any time following the Closing, JB is terminated by Acquiror for Cause (as defined in the Employment Agreement) or voluntarily resigns other than for Good Reason (as defined in the Employment Agreement) (a “Covered Departure”), the Acquiror will have the ability to exercise its Call Right at a purchase price that is calculated based upon an assumed enterprise value of 10 times the trailing 12 months EBITDA of the Acquired Companies minus any Reduction Amount. In such circumstances, Acquiror must notify the Holders that it intends to exercise the Call Right, in writing, no later than 20 calendar days following the last day of the
month in which the Covered Departure occurred. For example, if in October 2022, JB experiences a Covered Departure, Acquiror will have the right to purchase the Minority Interest from the Holders at a purchase price that is calculated based on an assumed enterprise value of 10 times the trailing 12 months EBITDA of the Acquired Companies for the 12 month period ending October 31, 2022 (with such Call Right to be exercised, in writing, no later than November 20, 2022).

(f) For purposes of this Agreement, “EBITDA” means the earnings of the Acquired Companies on a consolidated basis before corporate tax, interest expense, depreciation and amortization, determined in accordance with GAAP. For the avoidance of doubt, the calculation of EBITDA for purposes of the Put Right and the Call Right will not include any post-Closing corporate allocations of indirect costs (including, without limitation, normal public company operating costs incurred by Acquiror), but shall include costs incurred by Acquiror that are directly attributable to the Business.

(g) For purposes of this Agreement, the term “Reduction Amount” shall mean the amount, if any, by which the total cash spent by Acquiror in furtherance of the execution of the business plan attached hereto as Schedule C, between the Closing Date (as defined in the Purchase Agreement) and the last day of fiscal 2023, exceeds $25 million. The parties acknowledge and agree that the business plan attached as Schedule C is a working draft subject to continued review, discussion and modification by the parties.

(h) Notwithstanding the foregoing, in no event shall the aggregate number of shares of Acquiror Common Stock issuable pursuant to this Section 3.2 exceed 19.99% of the outstanding shares of Acquiror Common Stock as of immediately prior to the exercise of any Put Right or Call Right; provided that any reduction in Acquiror Common Stock issued as a result of the foregoing clause shall require a corresponding increase in the cash component of the Minority Interest Purchase Price.

(i) In the event the Put Right or the Call Right is exercised in accordance with this Section 3.2, the closing of the transactions to effectuate the Transfer of the Minority Interests (the “Put/Call Right Closing”) shall be consummated within ninety (90) calendar days (or such longer period as the parties may mutually agree) following delivery of the exercise notice by either Acquiror or the Holders, as applicable. Any representations and warranties to be made by the Holders in connection with the Put/Call Right Closing shall be limited to representations and warranties related to authority, ownership and the ability to convey title to such Minority Interests, free and clear of all liens and encumbrances. The liability for indemnification, if any, of such Holder in connection with the Put/Call Right Closing shall be limited to the inaccuracy of any of the foregoing representations and warranties made by such Holder in connection with the Put/Call Right Closing, and shall be several and not joint with any other Person, and shall be pro rata in proportion to the amount of consideration paid to such Holder in connection with such Put/Call Right Closing. The cash consideration payable by Acquiror to the Holders at the Put/Call Right Closing shall be made by wire transfer of immediately available federal funds to the account or accounts designated in writing by the Holders at least two (2) Business Days prior to such Put/Call Right Closing. Shares of Acquiror Common Stock included as part of the payment of the Minority Interest Purchase Price shall be issued on the date of the Put/Call Right Closing and shall be subject to registration rights in favor of the Holders and related
indemnification obligations that are no less favorable to the Holders than the registration rights
and related indemnification obligations provided in the Purchase Agreement.

ARTICLE IV
MISCELLANEOUS

Section 4.1 Notices. Any notice or other communication required or permitted to be
delivered to any party under this Agreement shall be in writing and shall be deemed properly
delivered, given and received (a) when received if hand delivered, (b) on the first Business Day
of confirmation by sender of receipt if sent by facsimile or electronic mail or (c) on the first
Business Day after being sent by registered overnight mail, return receipt requested, by overnight
courier or by overnight express delivery service, to the address or facsimile telephone number set
forth beneath the name of such party below (or to such other address or facsimile telephone
number as such party shall have specified in a written notice given to the other parties hereto):

(a) if to the Holders, to the following address:
c/o Joseph Brostmeyer
1701 Military Tr., Suite 110
Jupiter, FL 33458
Email: JBrostmeyer@ftamerica.com

with a copy, which shall not constitute notice, to:
Alston & Bird LLP
One Atlantic Center
1201 West Peachtree Street
Atlanta, GA 30309
Attention: Jeremy C. Silverman, Esq.
          Jeniffer Roberts, Esq.
Email: Jeremy.Silverman@alston.com
       Jeniffer.Roberts@alston.com

(b) if to the Issuers or the Acquiror, to the following address:
Kratos Defense & Security Solutions, Inc.
10680 Treena St., Suite 600
San Diego, California 92131
Attention: General Counsel
Telephone no.: (858) 812-7300
Email address: marie.mendoza@kratosdefense.com

with a copy, which shall not constitute notice, to:
Paul Hastings LLP
4747 Executive Drive, 12th Floor
San Diego, California 92121
Section 4.2 Time of the Essence. With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

Section 4.3 Counterparts; Delivery. This Agreement may be executed in several counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement. This Agreement may be executed and delivered by facsimile transmission, by electronic mail in “portable document format” (“.pdf”) form, or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, or by combination of such means. No party may raise the use of facsimile or electronic delivery or the fact that any signature or this Agreement was transmitted or communicated through the use of facsimile or electronic delivery as a defense to the formation of a contract, and each party forever waives any such defense, except to the extent such defense relates to lack of authenticity.

Section 4.4 Governing Law; Consent to Jurisdiction; Waiver of Jury Trial. This Agreement shall be governed by and interpreted and enforced in accordance with the Laws of the State of Delaware, without giving effect to any choice of Law or conflict of Laws rules or provisions (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware. All Proceedings (whether at law, in contract, in tort or otherwise) arising out of or relating to this Agreement or the negotiation, validity or performance of this Agreement and the Exchange shall be heard and determined in any state or Federal court of competent subject matter jurisdiction sitting in New Castle County, Delaware, and the parties irrevocably submit to the jurisdiction of such courts (and, in the case of appeals, the appropriate appellate court therefrom), in any such Proceeding and irrevocably waive the defense of an inconvenient forum to the maintenance of any such Proceeding. The parties agree that service of any court paper may be made in any manner as may be provided under the Applicable Laws or court rules governing service of process in such courts. The parties hereto agree that a final judgment in any such Proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Applicable Law.

Section 4.5 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns (if any). Neither party shall assign this Agreement or any rights or obligations hereunder (by operation of law or otherwise) to any Person without the consent of the other parties hereto. Anything in this Agreement to the contrary notwithstanding, Acquiror shall have the right (without the prior written consent of the Issuers or the Holders), at any time, and in its sole discretion, to assign for security interest purposes any or all of its rights under this Agreement to any lender providing financing to Acquiror, any of Acquiror’s permitted assigns, or any Affiliates of Acquiror or Acquiror’s permitted assigns (Acquiror, such assigns, and such Affiliates, collectively, the “Acquiror Parties”) and, upon the occurrence and during the continuance of any event of default under the financing agreements between any such lender and any of the Acquiror Parties, such lender may
exercise any or all of the rights, interests, and remedies of any of the Acquiror Parties under this Agreement, but does not release any Acquiror Party from any obligation hereunder.

Section 4.6 Remedies Cumulative; Specific Performance. The rights and remedies of the parties hereto shall be cumulative (and not alternative). The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. The parties accordingly agree that, in addition to any other remedy to which they are entitled at law or in equity, the parties are entitled to injunctive relief to prevent breaches of this Agreement and otherwise to enforce specifically the provisions of this Agreement. Each party expressly waives any requirement that any other party obtain any bond or provide any indemnity in connection with any action seeking injunctive relief or specific enforcement of the provisions of this Agreement.

Section 4.7 Waiver. No failure on the part of any Person to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of any Person in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy, and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy. No Person shall be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of such Person; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

Section 4.8 Amendments. This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of all of the parties hereto.

Section 4.9 Severability. In the event that any provision of this Agreement, or the application of any such provision to any Person or set of circumstances, shall be determined to be invalid, unlawful, void or unenforceable to any extent, the remainder of this Agreement, and the application of such provision to Persons or circumstances other than those as to which it is determined to be invalid, unlawful, void or unenforceable, shall not be impaired or otherwise affected and shall continue to be valid and enforceable to the fullest extent permitted by Law.

Section 4.10 Entire Agreement. This Agreement, the Purchase Agreement and the other Related Agreements set forth the entire understanding of the parties hereto relating to the subject matter hereof and thereof and supersede all prior agreements and understandings among or between any of the parties relating to the subject matter hereof and thereof.

Section 4.11 Titles and Subtitles. The titles and subtitles used in this Agreement are for convenience only and are not to be considered in construing or interpreting any term or provision of this Agreement.

Section 4.12 Interpretations. Whenever the context requires: the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and
neuter genders; the feminine gender shall include the masculine and neuter genders; and the
neuter gender shall include the masculine and feminine genders.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

KRAITOS DEFENSE & SECURITY SOLUTIONS, INC.,
a Delaware corporation

By: ________________________________
Name: Eric M. DeMarco
Title: President and Chief Executive Officer

[Signature Page to Exchange Agreement]
FTT CORE, LLC, a Delaware limited liability company
By: 
Name: Joseph D. Brostmeyer
Title: Manager

FLORIDA TURBINE TECHNOLOGIES, INC., a Florida corporation
By: 
Name: Shirley C. Brostmeyer
Title: President and Secretary

By: 
Name: Shirley C. Brostmeyer
Title: Trustee

By: 
Name: Joseph D. Brostmeyer
Title: Trustee

By: 
Name: Joseph D. Brostmeyer
Title: Trustee

By: 
Name: Shirley C. Brostmeyer
Title: Trustee
FTT CORE, LLC, a Delaware limited liability company

By: __________________________
Name: Joseph D. Brostmeyer
Title: Manager

FLORIDA TURBINE TECHNOLOGIES, INC., a Florida corporation

By: __________________________
Name: Shirley C. Brostmeyer
Title: President and Secretary


By: __________________________
Name: Shirley C. Brostmeyer
Title: Trustee

By: __________________________
Name: Joseph D. Brostmeyer
Title: Trustee


By: __________________________
Name: Joseph D. Brostmeyer
Title: Trustee

By: __________________________
Name: Shirley C. Brostmeyer
Title: Trustee

[Signature Page to Exchange Agreement]
The Shirley Brostmeyer Family Trust u/a/d December 17, 2018

By: 
Name: Joseph D. Brostmeyer
Title: Trustee

By: 
Name: Sara J. Brostmeyer
Title: Trustee

By: 
Name: Shirley C. Brostmeyer
Title: Trustee

By: 
Name: Julia A. Brostmeyer
Title: Trustee

[Signature Page to Exchange Agreement]
The Shirley Brostmeyer 2018 Family Trust u/a/d December 17, 2018

By: ____________________________
Name: Joseph D. Brostmeyer
Title: Trustee

By: ____________________________
Name: Sara I. Brostmeyer
Title: Trustee

The Joseph D Brostmeyer 2018 Irrevocable Trust u/a/d December 17, 2018

By: ____________________________
Name: Shirley C. Brostmeyer
Title: Trustee

By: ____________________________
Name: Julia A. Brostmeyer
Title: Trustee
The Shirley Brostmeyer 2018 Family Trust u/a/d December 17, 2018

By: ______________________________
Name: Joseph D. Brostmeyer
Title: Trustee

By: ______________________________
Name: Sara J. Brostmeyer
Title: Trustee

The Joseph D Brostmeyer 2018 Irrevocable Trust u/a/d December 17, 2018

By: ______________________________
Name: Shirley C. Brostmeyer
Title: Trustee

By: ______________________________
Name: Julia A. Brostmeyer
Title: Trustee

[Signature Page to Exchange Agreement]
The Shirley Brostmeyer 2018 Family Trust u/a/d
December 17, 2018

By: 
Name: Joseph D. Brostmeyer
Title: Trustee

By: 
Name: Sara J. Brostmeyer
Title: Trustee

The Joseph D Brostmeyer 2018 Irrevocable Trust
u/a/d December 17, 2018

By: 
Name: Shirley C. Brostmeyer
Title: Trustee

By: 
Name: Julia A. Brostmeyer
Title: Trustee
## SCHEDULE A

<table>
<thead>
<tr>
<th>Holder</th>
<th>Interests Owned Prior to Exchange</th>
<th>Interests Owned After Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KTT CORE, Inc. (formerly FIT CORE, LLC)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kratos Defense &amp; Security Solutions, Inc.</td>
<td>8,431.33 Company Units</td>
<td>8,431.33 shares of Class A common stock</td>
</tr>
<tr>
<td>Shirley C. Brostmeyer 2018 Family Trust u/a/d December 17, 2018</td>
<td>104.73 Company Units</td>
<td>104.73 shares of Class B common stock</td>
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<tr>
<td>The Joseph D. Brostmeyer 2018 Irrevocable Trust u/a/d December 17, 2018</td>
<td>104.73 Company Units</td>
<td>104.73 shares of Class B common stock</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Holder</th>
<th>Interests Owned Prior to Exchange</th>
<th>Interests Owned After Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Florida Turbine Technologies, Inc.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kratos Defense &amp; Security Solutions, Inc.</td>
<td>8,431.33 shares of capital stock</td>
<td>8,431.33 shares of Class A capital stock</td>
</tr>
<tr>
<td>Name</td>
<td>Shares of Capital Stock</td>
<td>Shares of Class B Capital Stock</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Shirley C. Brostmeyer 2018 Family Trust u/a/d December 17, 2018</td>
<td>104.73</td>
<td>104.73</td>
</tr>
<tr>
<td>The Joseph D. Brostmeyer 2018 Irrevocable Trust u/a/d December 17, 2018</td>
<td>104.73</td>
<td>104.73</td>
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</table>
### Schedule B

**Example Calculations of Minority Interest Purchase Price**

<table>
<thead>
<tr>
<th>EBITDA of Acquired Companies for the 12 months ended December 31, 2023</th>
<th>Assumed Enterprise Value (12x multiple of EBITDA)</th>
<th>Less the Reduction Amount</th>
<th>Resulting Difference, multiplied by 19.9%</th>
<th>Equals the Minority Interest Purchase Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,000,000</td>
<td>$240,000,000</td>
<td>($0)</td>
<td>$240,000,000 x 0.1999</td>
<td>$47,760,000</td>
</tr>
<tr>
<td>$20,000,000</td>
<td>$240,000,000</td>
<td>($5,000,000)</td>
<td>$235,000,000 x 0.1999</td>
<td>$46,765,000</td>
</tr>
</tbody>
</table>

The Minority Interest Purchase Price will be paid with at least 50% cash, as provided by Section 3.2 of the Agreement.
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric M. DeMarco, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kratos Defense & Security Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 8, 2019

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

/s/ ERIC M. DEMARCO

Eric M. DeMarco
Chief Executive Officer, President
(Principal Executive Officer)
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Deanna H. Lund, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kratos Defense & Security Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 8, 2019

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

/s/ DEANNA H. LUND
Deanna H. Lund
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Acting Principal Accounting Officer)
In connection with the accompanying Quarterly Report of Kratos Defense & Security Solutions, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2019 (the “Report”), I, Eric M. DeMarco, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2019

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

/s/ ERIC M. DEMARCO

Eric M. DeMarco
Chief Executive Officer, President
(Principal Executive Officer)
CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Quarterly Report of Kratos Defense & Security Solutions, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2019 (the “Report”), I, Deanna H. Lund, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2019

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

/s/ DEANNA H. LUND
Deanna H. Lund
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Acting Principal Accounting Officer)