

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **December 24, 2008**

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation)

0-27231
(Commission
File Number)

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

**4810 Eastgate Mall
San Diego, CA 92121**
(Address of Principal Executive Offices) (Zip Code)

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

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

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

Item 2.01 Completion of Acquisition or Disposition of Assets.

On December 24, 2008, Kratos Defense & Security Solutions, Inc., a Delaware corporation ("Kratos"), Dakota Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Kratos ("Merger Sub"), and Digital Fusion, Inc., a Delaware corporation ("Digital Fusion"), consummated the merger of the Merger Sub with and into Digital Fusion (the "Merger") pursuant to the terms of that certain Agreement and Plan of Merger, dated as of November 21, 2008 (the "Merger Agreement").

In connection with the Merger, each issued and outstanding share of Digital Fusion common stock as of December 24, 2008, the effective date of the Merger, was converted into the right to receive 1.7933 shares of Kratos common stock. Pursuant to the Merger Agreement Kratos has or will issue approximately 22,876,905 shares of its common stock and may issue up to an additional 10,023,629 shares of Kratos common stock pursuant to outstanding Digital Fusion stock options and warrants assumed by Kratos in connection with the Merger. The Merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended. The consideration for and the other terms and conditions of the Merger were determined by arms-length negotiations between Kratos, Merger Sub and Digital Fusion.

Digital Fusion specializes in providing technical expertise in Aeronautics & Engineering Analysis; Sensor and Space Systems; Optics; System Engineering & Integration; Modeling & Simulation; and Advanced Design, Development & Prototyping for both government and commercial customers.

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by the Merger Agreement attached as Exhibit 2.1 to the Current Report on Form 8-K filed by Kratos on November 24, 2008. Kratos issued a press release on December 24, 2008 regarding the closing of the Merger, a copy of which is attached as Exhibit 99.1 to this Current Report on Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired.*

The financial information required by this item, if any, with respect to the Merger, will be filed as soon as practicable, and in any event not later than 75 days after the date on which any Current Report on Form 8-K is required to be filed pursuant to Item 2.01.

(b) Pro Forma Financial Information.

The pro forma financial information required by this item, if any, with respect to the Merger, will be filed as soon as practicable, and in any event not later than 75 days after the date on which any Current Report on Form 8-K is required to be filed pursuant to Item 2.01.

(d) Exhibits.

2.1(1) Merger Agreement, dated November 21, 2008, by and among Kratos Defense & Security Solutions, Inc., Dakota Merger Sub, Inc. and Digital Fusion, Inc. Certain schedules and exhibits referenced in the Merger Agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

99.1 Press Release of Kratos Defense & Security Solutions, Inc. issued on December 24, 2008.

(1) Previously filed as Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 24, 2008 and incorporated herein by reference.

2

SIGNATURES

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

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

Date: December 30, 2008

/s/ Deanna H. Lund

Deanna H. Lund
Senior Vice President and Chief Financial Officer

3

EXHIBIT INDEX

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4



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FOR IMMEDIATE RELEASE

KRATOS DEFENSE & SECURITY SOLUTIONS COMPLETES MERGER WITH DIGITAL FUSION, INC.

Merger Significantly Enhances Kratos' C4ISR Capabilities and Provides Unmanned Aerial Vehicle (UAV) Products and Technology

SAN DIEGO, CA, December 24, 2008 — Kratos Defense & Security Solutions, Inc. (Nasdaq: KTOS) announced today that it has completed its merger with Digital Fusion, Inc. (DFI). DFI, headquartered in Huntsville, AL., significantly enhances Kratos' C4ISR and technical engineering capabilities, provides Unmanned Aerial Vehicle (UAV) products and technology, and adds significant engineering, modeling & simulation capabilities.

The merger of DFI into Kratos furthers Kratos' strategy and position as a premier federal government contractor in the areas of legacy weapon system life cycle extension, sustainment & equipment reset, C4ISR, weapons and targets range operations & services, and information technology, assurance, & security. The transaction increases Kratos' employee count to approximately 2,300, the majority of whom hold security clearances, and is expected to be immediately accretive to Kratos' valuation metrics.

Eric DeMarco, Kratos' President and Chief Executive Officer, said "The merger with DFI is another important step forward in executing our strategy of building a premier national, homeland and public security services and solutions provider. DFI has virtually all of the key characteristics Kratos looks for in a merger, including a solid management team led by Mike Wicks, a close strategic fit with Kratos' core business focus areas, a key geographic location in Huntsville, AL., and being immediately accretive financially."

Mike Wicks, Chief Operating Officer of Digital Fusion, commented, "We are extremely pleased to be joining the Kratos family. The expanded resources, capabilities, and past performance of Kratos will

1

enable DFI to pursue larger and broader contract opportunities which we believe will increase our ability to grow organically and provide additional opportunities for our most valuable asset, DFI's employees. In addition, DFI's unique technical qualifications, particularly in the areas of Unmanned Aerial Vehicles and Modeling & Simulation, will nicely complement Kratos' core competencies. We are very excited at what the future holds, and look forward to being a part of the dominant mid-tier federal contractor."

The combination of Kratos and DFI provides Kratos with new customers and an expanded contract vehicle portfolio, in addition to broadening the range of service offerings to the existing Kratos customer base. Principal customers of DFI include the Army Aviation and Missile Research, Development and Engineering Center (AMRDEC), Army Space and Missile Defense Command/Army Forces Strategic Command ARSTRAT), NASA Marshall Space Flight Center, and certain classified customers.

Pursuant to the acquisition, all outstanding shares of DFI common stock have been converted into Kratos stock at an exchange rate of 1.7933 shares of Kratos common stock for each outstanding share of DFI common stock. The transaction has been structured to be tax-free to shareholders of both Kratos and DFI for U.S. federal income tax purposes.

DeMarco concluded, "Since the end of 2007, we have now brought together four outstanding small businesses to create what Kratos is today. As we have stated previously, we have just recently reorganized our company to take advantage of our increased customer base, number of contract vehicles, and overall resources. We are in the process of streamlining the business, reducing cost and exiting certain non-core or underperforming businesses, which once completed will position Kratos to be an approximately \$400 million business in 2009, with target EBITDA margins consistent with those of our peers."

About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (Nasdaq: KTOS) provides mission critical engineering, IT services and war fighter solutions for the U.S. federal government and for state and local agencies. Principal services include C4ISR, weapon systems lifecycle support, military weapon range and technical services, network engineering services, advanced IT services, security and surveillance systems, and critical infrastructure design and integration. The Company is headquartered in San

2

Diego, California, with resources throughout the U.S. and at key strategic military locations. News and information are available at www.KratosDefense.com.

Notice Regarding Forward-Looking Statements

This news release and filing contains certain forward-looking statements that involve risks and uncertainties, including, without limitation, expressed or implied statements concerning the anticipated benefits of the proposed transaction, Kratos' expectations regarding future financial performance, performance of key contracts and market developments. Such statements are only predictions, and the Company's actual results may differ materially. Factors that may cause the Company's results to differ include, but are not limited to: risks that the anticipated benefits will not be realized; risks that the DFI integration will

prove more costly, take more time, or be more distracting than currently anticipated; risks of adverse regulatory action or litigation; risks associated with debt leverage; risks that changes or cutbacks in spending by the U.S. Department of Defense may occur, which could cause delays or cancellations of key government contracts; risks that changes may occur in Federal government (or other applicable) procurement laws, regulations, policies and budgets; risks relating to contract performance; changes in the competitive environment (including as a result of bid protests); and failure to successfully consummate acquisitions or integrate acquired operations and competition in the marketplace which could reduce revenues and profit margins. The Company undertakes no obligation to update any forward-looking statements. These and other risk factors are more fully discussed in the Company's Annual Report on Form 10-K for the period ended December 31, 2007, Form 10-Q for the period ended September 28, 2008, and in other filings made with the Securities and Exchange Commission.