

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): **May 31, 2015**

Kratos Defense & Security Solutions, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation)

001-34460
(Commission File Number)

13-3818604
(IRS Employer Identification No.)

4820 Eastgate Mall, Suite 200
San Diego, California 92121
(Address of Principal Executive Offices) (Zip Code)

(858) 812-7300
(Registrant's Telephone Number, Including Area Code)

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

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

Item 1.01. Entry into a Material Definitive Agreement.

Stock Purchase Agreement

On May 31, 2015, Kratos Defense & Security Solutions, Inc. (the "Company") entered into a Stock Purchase Agreement (the "Purchase Agreement") with Ultra Electronics Holdings plc, a public limited company formed under the laws of England and Wales and traded on the London Stock Exchange ("Ultra"), and Ultra Electronics Defense Inc. ("Buyer"), a Delaware corporation ultimately owned by Ultra, to sell the U.S. and U.K. operations of its Electronics Products Division. Pursuant to the terms of the Purchase Agreement, the Company agreed to sell to Buyer all of the issued and outstanding capital stock of its wholly-owned subsidiary Herley Industries, Inc. ("Herley") and certain of Herley's subsidiaries, including Herley-CTI, Inc., EW Simulation Technology, Ltd. and Stapor Research, Inc. (collectively, with Herley, the "Herley Entities"), for a purchase price of \$260 million in cash to be paid at closing and up to \$5 million for taxes incurred as part of the transaction, subject to certain working capital adjustments (the "Transaction"). The Company expects to pay approximately \$25 million in transaction-related costs and net cash taxes, resulting in net cash proceeds to the Company of approximately \$240 million. The boards of directors of the Company and Ultra have approved the Purchase Agreement and the Transaction.

Immediately prior to the closing of the Transaction, the outstanding shares of the capital stock of (i) General Microwave Corporation, a New York corporation, and its direct and indirect wholly-owned subsidiaries General Microwave Israel Corporation, a Delaware corporation, General Microwave Israel (1987) Ltd., an Israeli company, and Herley GMI Eyal Ltd., an Israeli company, (ii) MSI Acquisition Corp., a Delaware corporation and its wholly-owned subsidiary Micros Systems, Inc., a Florida corporation, and (iii) Herley-RSS, Inc., a Delaware corporation (collectively, the "Excluded Subsidiaries"), will be distributed as a dividend by Herley to Company, and will continue their current operations as wholly-owned subsidiaries of the Company. Pursuant to the terms of the Purchase Agreement, the Company and Buyer expect to cause each of the Herley entities to make an election under Section 338(h)(10) of the Internal Revenue Code, which will provide a "step up" in tax basis and certain other related future tax attributes to Buyer.

The completion of the Transaction is subject to customary closing conditions, including: (i) the expiration of all applicable waiting periods under the Hart-Scott Rodino Antitrust Improvements Act of 1974, as amended (the "HSR Act"); (ii) the release of all liens on the Herley Entities; (iii) the receipt of all necessary third party consents and governmental approvals; (iv) subject to certain materiality exceptions, the accuracy of the representations and warranties made by each of the Company and Herley; (v) the compliance by each of the Company and Herley with their respective obligations under the Purchase Agreement; (vi) the absence of a material adverse effect on the business, operations, assets, liabilities, financial condition or results of operations of Herley and (vii) the other closing conditions set forth in the Purchase Agreement.

The Company and Buyer have made customary representations, warranties and covenants in the Purchase Agreement, including covenants regarding (i) the operation of the Company's business prior to closing, (ii) non-competition and non-solicitation obligations by the Company and Buyer following the transaction and (iii) the parties' obligations to cooperate in seeking regulatory approvals, including under the HSR Act. The Purchase Agreement contains certain termination rights for each of the Company and Buyer. The Company and Buyer have agreed to indemnify each other for breaches of representations, warranties

and covenants and other customary matters. The Purchase Agreement does not have any financing condition for Buyer, and Ultra has guaranteed the payment of the purchase price by Buyer.

The foregoing description of the Purchase Agreement, the Transaction and the other actions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Purchase Agreement, a copy of which the Company intends to file as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and the terms of which are incorporated herein by reference.

Amendment to Credit Agreement

On May 31, 2015, we entered into a third amendment (the "Third Amendment") to our existing Credit and Security Agreement, dated as of May 14, 2014, as amended, with SunTrust Bank, a Georgia banking corporation, as administrative agent ("SunTrust") and certain other lenders party thereto (the "Credit Agreement"). Among other things, the Third Amendment: (i) provides a permanent reduction in certain financial covenants under the Credit Agreement, including the maintenance covenant of the minimum fixed charge coverage ratio and (ii) allows the Company to consummate the Transaction. The minimum fixed charge coverage ratio will not be measured for the quarterly reporting period ending on or about June 30, 2015, and will be set at 1.05 to 1.00 if the Company's outstanding borrowings (as defined in the Third Amendment) are greater than 0.00% but less than 15.00%, at 1.10 to 1.00 if the Company's outstanding borrowings are equal to or greater than 15.00% but less than 25.00%, and at 1.15 to 1.00 for all other instances. Outstanding borrowings for purposes of computing the applicable minimum fixed charge coverage ratio exclude any letter of credit exposure outstanding of \$17,000,000.

The foregoing description of the Third Amendment does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Third Amendment, a copy of a copy of which the Company intends to file as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and the terms of which are incorporated herein by reference.

Item 7.01 Regulation FD Disclosure.

Conference Call

Management will conduct a conference call on Monday, June 1, 2015 at 9:00 a.m. Pacific (noon Eastern) to discuss the Transaction, the strategic rationale for the Transaction, the businesses the Company retained, the estimated uses of the net proceeds of the Transaction and the strategic focus of the Company going forward. Management will discuss the financial and accounting impacts of the Transaction and revised annual guidance for 2015. Analysts and institutional investors may listen to the call by dialing (866) 393-0674 and referencing the call ID number 56042138. The general public may access the conference call by dialing (877) 344-3935. International participants may access the call by dialing (970) 315-0304. The conference call will be broadcast simultaneously and available at <http://ir.kratosdefense.com/events.cfm>. Investors are advised to log on to the website at least 15 minutes prior to the call to register, download and install any necessary audio software to view the presentation the Company's management will be presenting. A copy of the presentation slide deck is furnished as Exhibit 99.1 hereto.

The information provided pursuant to this Item 7.01, including Exhibit 99.1, is "furnished" and shall not be deemed to be "filed" with the Securities and Exchange Commission or incorporated by reference in any filing under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in any such filings.

Item 8.01 Other Events

On June 1, 2015, the Company issued a press release announcing (i) the Transaction, (ii) the Third Amendment and (iii) the Company's intention to initiate a repurchase process for approximately \$175 to \$200 million of the Company's 7% Senior Secured Notes (the "Notes") at par, once the requisite requirements have been met in accordance with the Notes Indenture Agreement governing the Notes. A copy of the press release is attached hereto as Exhibit 99.2 and incorporated herein by reference.

This Current Report on Form 8-K and the press release do not constitute a solicitation or an offer to repurchase the Notes, nor shall there be a solicitation or offer in any state or jurisdiction in which such solicitation would be unlawful prior to qualification under the securities laws of such state or jurisdiction. In addition, the repurchase, if commenced, will be made only to such persons and in such jurisdictions as is permitted under applicable law.

Forward-Looking Statements

Certain statements in the press release, conference call and management presentation may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, include, but are not limited to, statements regarding the Company's ability to complete the Transaction on a timely basis, or at all; the Company's use of its tax NOL carryforwards, the estimated net cash proceeds from the Transaction and the remaining tax NOL carryforwards that may be utilized by the Company after the Transaction; the Company's planned use of the proceeds from the Transaction, including the timing and proposed amounts of the Company's repurchase of its Notes; and the Company's business plans and prospects. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the Company's management and are subject to significant risks and uncertainty, including risks related to the Company's ability to complete the Transaction; potential adverse reactions or changes to business relationships resulting from the Transaction; unexpected costs, charges, or expenses resulting from the Transaction; litigation or adverse judgments related to the Transaction; the Company's inability to complete a repurchase of the Notes or the failure to realize interest expense savings from the repurchase or delay in realization thereof; product failure or delays; general economic conditions; and cutbacks in defense spending. Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update or revise these statements, whether as a result of new information, future events or otherwise. For a further discussion of risks and uncertainties that could cause actual results to differ from those expressed in these forward-looking statements, as well as risks relating to the business of the Company in general, see the risk disclosures in the Company's Annual Report on Form 10-K for the year ended December 28, 2014, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by the Company.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Management Presentation, dated June 1, 2015*
99.2	Press Release, dated June 1, 2015

* Furnished herewith.

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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.

Date: June 1, 2015

Kratos Defense & Security Solutions, Inc.

By: /s/ Deborah S. Butera
Name: Deborah S. Butera
Title: Senior Vice President, General Counsel/Registered In-House Counsel, Chief Compliance Officer, and Secretary

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DEFENSE & SECURITY SOLUTIONS

KRATOS
FROM STRENGTH TO SUCCESS

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

Divestiture of Kratos
Electronic Products Division
U.S. and U.K. Operations

June 1, 2015



Notice Regarding Forward-Looking Statements



Certain statements in this presentation may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements regarding the Company's ability to complete the Transaction on a timely basis, or at all; the Company's use of its tax NOL carryforwards, the estimated net cash proceeds from the Transaction and the remaining tax NOL carryforwards that may be utilized by the Company; the Company's planned use of the proceeds from the Transaction, including the timing and proposed amounts of the Company's repurchase of its Notes; and the Company's business plans and prospects. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the management of Kratos and are subject to significant risks and uncertainty, including risks related to the Company's ability to complete the Transaction; potential adverse reactions or changes to business relationships resulting from the Transaction; unexpected costs, charges, or expenses resulting from the Transaction; litigation or adverse judgments related to the Transaction; the Company's inability to complete a repurchase of the Notes or the failure to realize interest expense savings from the repurchase or delay in realization thereof; product failure or delays; general economic conditions; and cutbacks in defense spending. Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and Kratos undertakes no obligation to update or revise these statements, whether as a result of new information, future events or otherwise. For a further discussion of risks and uncertainties that could cause actual results to differ from those expressed in these forward-looking statements, as well as risks relating to the business of Kratos in general, see the risk disclosures in the Annual Report on Form 10-K of Kratos for the year ended December 28, 2014, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.



- Kratos' Board of Directors engaged SunTrust Robinson Humphrey to assist in a Strategic Review of the Company and its Businesses
 - Focus was to identify businesses which could provide the opportunity for the Company to realize Significant Proceeds and Stakeholder Value, and having the potential to accelerate Kratos' Core Growth Strategy

Strategic Alternatives Review – Update

The Strategic Alternatives Review Demonstrated that Certain Kratos' Businesses are Highly Sought After and Extremely Valuable:

- Unmanned Systems Business – Aerial, Ground, Seaborne
- Satellite Communications/Signal Monitoring/Cyber Security Business
- Electronic Products Supporting: Missile Systems, Radars, Electronic Warfare, Intelligence Surveillance & Reconnaissance
- Modular Systems Business Supporting: Missile Systems, Radars, Surface Combatants, Electromagnetic Rail Gun, Directed Energy Weapons, Unmanned Aerial Systems and Hardened Facilities
- Disruptive Systems Business Supporting: Hypersonics, Electromagnetic Rail Gun, Directed Energy Systems, BMD Missile Target Systems
- Public Safety & Security – Critical Infrastructure Security

What We Divested

- After several months of careful consideration of several alternatives and opportunities, Kratos' board of directors made the decision to divest the U.S. / U.K. operations of Kratos' electronic products division
- This segment designs and produces RF and microwave integrated systems and subsystems for use in radar, EW, communication, missile, flight test, and simulation applications, primarily for the U.S. market
- Customers include: Northrop Grumman, Boeing, Lockheed Martin, Raytheon, Republic of Korea Navy, U.S. Navy, U.S. Air Force, Harris, Government of Australia, and Airbus
- We are maintaining ownership of our Israeli-based subsidiary, Eyal / GMIC, which builds similar products for the Israeli and U.S. markets

Top Customers



Electronic Products Division Structure

New England (MA)	Lancaster (PA)	CTI (NJ)	EWST (UK)	EYAL / GMIC
<ul style="list-style-type: none"> ▪ Integrated Microwave Assemblies ▪ Microwave Switches and Components ▪ High Power Coaxial and Waveguide Components ▪ Receiver Protectors ▪ Hybrids 	<ul style="list-style-type: none"> ▪ Flight Instrumentation & Telemetry Products ▪ Flight Termination ▪ Integrated Microwave Assemblies ▪ Radar Altimeters ▪ IFF Systems ▪ Automatic Carrier Landing Systems 	<ul style="list-style-type: none"> ▪ Signal Generation Products ▪ Up/Down Conversion Products ▪ Synthesizers ▪ Oscillators ▪ Radar Target Generators ▪ Digital RF Memories 	<ul style="list-style-type: none"> ▪ EW Simulation Equipment for Operator Training and System Test ▪ Radar Threat Simulators ▪ Digital RF Memory based Simulators ▪ Mobile EW and Radar Test System (MERTS) 	<ul style="list-style-type: none"> ▪ Solid State Power Amplifiers ▪ Integrated Microwave Assemblies ▪ Synthesizers ▪ Voltage Controlled and Digital Tuned Oscillators ▪ Catalog Switches and Attenuators
Representative Platforms: EA-18, Growler, P-8 Poseidon, E-2D Hawkeye, Trident II D-5, AMRAAM, SEWIP, SABR				Representative Platforms: Iron Dome, Sling of David, Barak, Arrow, Spyder

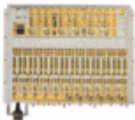
Included in sale

What We Retained

Israeli Division

Radar

- Solid State Power Amplifiers (SSPAs)
- Integrated Microwave Assemblies (IMAs)
- Beam Forming Modules
- Sources
- Control Components



Electronic Warfare

- Integrated Microwave Assemblies (IMAs)
- Fast Switching Direct and Indirect Synthesizers
- Broadband Up/Down Converters
- Switched Filter Banks
- Superheterodyne Receiver (SHR)
- Digitally Tuned Oscillators (DTOs)
- Control Components



Satellite

Communications

- Integrated Microwave Assemblies (IMAs)
- Block Upconverters
- Transceivers
- Solid State Power Amplifiers (SSPAs)



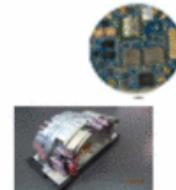
Missile Seekers

- Transmit/Receive (T/R) Modules
- Solid State Power Amplifiers (SSPAs)
- Synthesizers and Waveform Generators
- RF Front Ends
- Transceivers
- Proximity Sensors
- Next Generation Seeker Assemblies



Navigation Warfare, Data Links and Guided Munitions

- GPS Immune Modules
- Integrated Mixed Signal Assemblies
- Transceivers



Select Customers



Panasonic



BAE SYSTEMS



Select Platforms



David's Sling



F-16



Iron Dome



BARAK 8



Guided Munitions



Commercial Aircraft



Naval EW

What We Retained





Why Did We Execute This Transaction?

- ✓ Premium Valuation
- ✓ Significantly Deleveraging and Financially Accretive
- ✓ Significant Value Generation for Kratos' Stakeholders
- ✓ Maintains Kratos' Core and Strategic Business Areas:
 - Unmanned Systems
 - Satellite Communications
 - Signal Monitoring / Intelligence & Cyber
 - Disruptive Technologies – Rail Gun, Directed Energy, Hypersonics
 - Missile System, Radar and Electronic Warfare Electronic Products and Subsystems
- ✓ Enhances Kratos' Ability to Execute on Our Long-Term Strategy
- ✓ Minimal Tax "Leakage" Due to Kratos' Net Operating Loss Tax Benefits

Kratos Business Post Divestiture



Image Credit: NASA/John Grant



Kratos Is The Industry Leader

- *High Performance Unmanned Aerial Aircraft, Drone and Target Systems*
- *Unmanned Aerial, Ground and Seaborne Platform Command, Control and Communication (C³) Systems*
- *Short and Medium Range Ballistic Missile Target Systems*
- *Design, Engineering and Deployment of Satellite Communications Ground Stations, Signal Intelligence and Signal Monitoring Systems*
- *Satellite Command and Control (C²) Systems – Epoch C² Platform*
- *Satellite Radio Frequency Interference (RFI) Systems – Monics and Sat ID RFI Platforms*



Kratos Is An Industry Leader In:

- *High Powered Microwave Products and Technology, and its “Packaging” for Radar, Missile, Electronic Warfare and Intelligence, Surveillance & Reconnaissance Systems – Integrated Microwave Assemblies, Solid State Power Amplifiers, GaN Technology*
- *Specialized Integrated Modular Systems which are an integral element of Critical National Security Platforms, i.e., Radar and Missile Systems, Surface Combatants, Intelligence, Surveillance and Reconnaissance Platforms, Electro Magnetic Rail Gun, CBRNE Systems, Unmanned Aerial Systems*
- *Full Scale Operations and Maintenance Training Systems for Helicopters, Tanks, Military and Combat Vehicles & Systems*



- *U.S. Air Force Subscale Aerial Target – AFSAT*
- *U.S. Navy Subsonic Subscale Aerial Target – SSAT*
- *U.S. Government – MQM 178 – Fire Jet*
- *Aegis Readiness Assessment Vehicle Family of Ballistic Missile Defense & Sounding Rockets*
- *Hypersonic Programs*
- *Electromagnetic Railgun*
- *Combat Platform Training Systems*
- *U.S. Government “Confidential” Programs*

Representative Major Programs Supported By Kratos



- *Patriot*
- *Terminal High Altitude Aerial Defense (THAAD)*
- *Aegis*
- *Spaced Based Infrared System (SBIRS)*
- *Wide Band Global Satellite (WGS)*
- *Advanced Extremely High Frequency (AEHF) System*
- *QF-16*
- *Electromagnetic Rail Gun*
- *Directed Energy Weapons*
- *Hypersonic Systems*
- *Littoral Combat Ship*
- *Hardened Facilities*

Representative Major Programs Supported By Kratos' Electronic Microwave Business



- *Iron Dome*
- *Arrow*
- *Magic Wand*
- *Barak*
- *Spyder*
- *Guided Munition (Confidential)*
- *F-16*
- *NAVAL EW (Confidential)*
- *Rivot Joint*
- *Euro Fighter*
- *LAMPS*

Kratos – Industry Leader – Representative Programs



U.S.
DoS
HATS



THAAD
AN/TPY-2



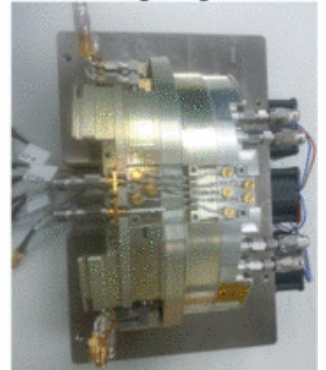
AVET/NATS

Patriot
Missile
System

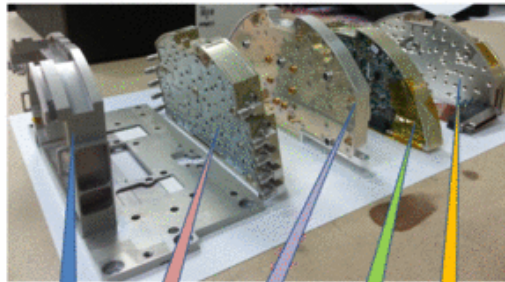


LCS
Combat
Ship

David's Sling Integrated IMA



David's Sling Stunner Missile



CHASSIS TRX IS LOGIC FREQ UC

David's Sling Separated IMA Modules

NASDAQ: KTOS



Hypersonic Vehicles



Directed Energy Weapons



Electromagnetic Rail Gun



Aegis Readiness Assessment Vehicle (ARAV)

Kratos – Key Differentiators

- *Kratos Makes the Internal Research & Development (IR&D) Investment, and has Intellectual Property (IP) Ownership on a Substantial Number of Our Products and Platforms*
- *Kratos Designs, Engineers and Manufacturers Specialized Products and Systems Where We Are One of Very Few Providers*
- *Kratos' Products, IP and Technology is "Designed-In" on Numerous Critical or Foundational National Security Platforms and Programs – Significant "Barrier to Entry"*
- *Kratos is Sole Source on a Significant Portion of Our Unmanned Systems, Satellite Communications and Electronic Products Business Due to our Investments, Technology, IP and "Designed In" Positions*



- *High Performance Unmanned Aerial Systems*
- *Satellite Communications, Bandwidth Optimization and Cyber/RF/Information Security/Assurance*
- *Missile, Radar and Intelligence, Surveillance & Reconnaissance Programs*

Kratos is a recognized industry leader in each of these areas, and there are a number of Large and New Program opportunities that Kratos is pursuing

Kratos – Market Drivers

- Demand for Next Generation High Performance, Survivable Unmanned Aerial Systems is Growing
- Small Sat Growth – Low Earth Orbit (LEO), Satellites
 - Demand for Data Communications Increasing
 - Mass Production Techniques & Commodity Electronics in Space
 - New Funding Sources from Information Industry and Venture Capitalists
- Threats to Attack U.S. National Security Satellites
 - Pentagon to Increase Defense of Satellites
 - Pentagon “Desegregation” and “Dispersing” Space Capabilities Across Numerous Satellites

Kratos – Market Drivers

- 2016 DoD Budget for Communications, Electronics and Intelligence Increasing
- Futuristic Weapons Development Increasing
 - Directed Energy and Lasers
 - Electromagnetic Rail Gun
 - Hypersonics
 - Microwave Rays

Kratos – Defense Industry Macro Outlook

- Invasion and Takeover of Crimea
- War in the Ukraine, Russia Backed Insurgency
- ISIS and Syrian Conflict
- Continued Saber-Rattling by North Korea
- High Tensions Over Disputed Ownership of East and South China Sea

Increasing Threats and the Need to Safeguard the Interest of Nations and People Have Increased Demand for U.S. Weapons Exports to an All Time High



- **Kratos' Strategy is to make Internal Investments and own the Intellectual Property in key growing defense market segments where Disruptive Technology provides an opportunity for exponential growth**
- We are making significant investments (IRAD, NRE, Capital Expenditures and Business Development) in areas where our capabilities align with key defense priorities
 - Unmanned Aerial Drone Systems
 - Satellite Communications / Signal Monitoring / Cyber Security
 - Missile Systems, Radars and BMD
- We expect these investments to generate robust growth in revenue, profit and cash flow beginning in 2017/2018



KRATOS STRATEGY

Build a Technology and Products Based Business that Supports Strategic and Transformational National Security Programs, Significantly Increasing the Valuation of the Company by Bringing Disruptive Technology and Products to the Market



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Yolanda White
858-812-7302 Direct

Investor Information:
877-934-4687
investor@kratosdefense.com

Kratos to Sell U.S. and U.K. Operations of Electronic Products Division for \$265 Million

Divestiture Positions Company for Continued Execution of Long Term Strategy in Unmanned Systems, Satellite Communications, Signal Intelligence and Disruptive Technology Areas

SAN DIEGO, CA, June 1, 2015 – Kratos Defense & Security Solutions, Inc. (Nasdaq: KTOS), a leading National Security Solutions provider, announced today that it has entered into a Definitive Agreement (the “Agreement”) to sell the U.S. and U.K. operations (the “Operations”) of its Electronic Products Division (“EPD”) to Ultra Electronics Holdings plc (“Ultra”) for \$260 million in cash to be paid at closing and the reimbursement of up to \$5 million for taxes incurred as part of the transaction, for a total of \$265 million in total gross cash proceeds (the “Transaction”), subject to certain working capital adjustments. The EPD Operations to be divested include those located in Massachusetts, Pennsylvania, New Jersey and the United Kingdom. The divested operations provide electronic systems, subsystems and components for electronic warfare, missile, radar, intelligence surveillance and reconnaissance programs. Closing of the Transaction is subject to the receipt of certain regulatory approvals and other conditions.

Under the terms of the Agreement, Kratos will be making a 338(h)(10) election for income tax purposes, providing a “step up” in tax basis and certain other related future tax attributes to Ultra. As a result of the Transaction, Kratos will be utilizing approximately \$180 million of its total aggregate approximate \$400 million in income tax net operating loss (NOL) carryforwards, reducing the total taxable gain of the Transaction to Kratos. Total Transaction related costs and net cash taxes to be paid are estimated to aggregate approximately \$25 million, resulting in total initial estimated net cash proceeds from the Transaction to Kratos of approximately \$240 million. Post Transaction close, Kratos will have over \$200 million in NOL’s and over \$110 million in additional income tax related deductions available to reduce future taxable income.

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Kratos’ Microwave and Electronic Products business post Transaction close will include operations and manufacturing facilities in Israel, which provide solid state power amplifiers, integrated microwave assemblies, beam forming modules, wave form generators and other electronic systems and subsystems for radar, missile, electronic warfare, satellite communications, guided munitions, unmanned systems, navigation warfare and other platforms, primarily for international security customers. Major programs supported by Kratos’ microwave business include Iron Dome, David’s Sling, Arrow, Barak and Euro Fighter. Additionally, in 2013 Kratos reorganized to better align its businesses with the Company’s strategic plan, combining its unmanned command, control, communications, airborne avionics, ground and seaborne systems business, formally part of EPD, with Kratos’ Unmanned Systems Division. These assets also remain with Kratos post Transaction close.

Following the closing of the Transaction, Kratos currently intends to initiate a repurchase process for approximately \$175 to \$200 million of the Company’s 7 Percent Senior Secured Notes (the “Notes”) at par, once all requisite requirements have been met in accordance with the Notes Indenture Agreement. In addition, Kratos intends to pay down all outstanding amounts on the Company’s \$110 million bank credit facility, which total approximately \$41 million. In connection with the Transaction, the Company also amended its credit facility to allow for this divestiture as well as provide a permanent reduction in the financial covenants for future periods under the credit agreement.

Eric DeMarco, Kratos’ President & CEO, said, “The divestiture of these Operations to Ultra is the culmination and conclusion of a detailed and thorough strategic alternatives review performed by Kratos’ board of directors that we announced late last year. Through this process, our strategy of building a technology and products based business that supports strategic National Security programs while generating significant value for our stakeholders has been both verified and demonstrated through the strong interest we received for several Kratos businesses. The Operations that Ultra is acquiring provide industry leading and formidable high technology microwave products that are established on a significant number of the DoD’s strategic national security electronic warfare, missile, radar, intelligence, surveillance and reconnaissance programs and platforms. I believe that this business is well

positioned to continue to take market share from the competition and generate significant organic revenue and profit growth over the next several years.”

Mr. DeMarco continued, “This Transaction is financially accretive, deleveraging and positions Kratos to continue to execute our long term strategy. Post Transaction close, Kratos remains a leader in unmanned systems, satellite communications, signal monitoring, cyber security, microwave technology,

and certain disruptive technology areas, including hypersonics, directed energy and railgun. We see solid funding and opportunity in each of these areas over the next several years, and we will continue to make significant internal investments and own the intellectual property in key and growing defense market segments where disruptive technology provides an opportunity for exponential growth and value creation.”

Mr. DeMarco concluded, “We are focused on successful demonstration flights with our new unmanned combat aircraft later this year, achieving initial production on certain unmanned system programs currently under contract in 2016, and introducing our new satellite communication, signal monitoring and related cyber products to the market over the next 24 months. We expect these programs and initiatives and our internal investments to generate strong revenue, profit and cash flow growth beginning in 2017-2018. Kratos’ strategic alternatives review is now complete, and the Company is focused on executing the stated business plan, investing in our core business areas and generating further long term value for our stakeholders.”

SunTrust Robinson Humphrey, Inc. is serving as financial advisor to Kratos. DLA Piper LLP (US) provided legal counsel to Kratos and its Board of Directors. Bryant Riley, Founder, Chairman and CEO of B. Riley & Company, provides Kratos with strategic planning and advice.

This press release does not constitute a solicitation or an offer to repurchase the Company’s Notes, nor shall there be a solicitation or offer in any state or jurisdiction in which such solicitation would be unlawful prior to qualification under the Securities laws of such state or jurisdiction. In addition, the repurchase will be made only to such persons and in such jurisdictions as is permitted under applicable law.

Management will conduct a conference call Monday, June 1, 2015 at 9:00 a.m. Pacific (noon Eastern) to discuss the EPD Transaction, the strategic rationale for the Transaction, the businesses the Company will retain following the Transaction, the Company’s planned uses of the net proceeds of the Transaction and the strategic focus of the Company going forward. Management will also discuss the financial and accounting impacts of the Transaction and revised annual guidance for 2015. Analysts and institutional investors may listen to the call by dialing (866) 393-0674 and referencing the call ID number 56042138. The general public may access the conference call by dialing (877) 344-3935. International participants may access the call by dialing (970) 315-0304. The conference call will be broadcast simultaneously

and available at <http://ir.kratosdefense.com/events.cfm>. Investors are advised to log on to the website at least 15 minutes prior to the call to register, download and install any necessary audio software to view the presentation Kratos’ management will be presenting.

About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (Nasdaq:KTOS) is a specialized National Security Technology Company providing mission critical products, solutions and services for United States National Security. Kratos’ core capabilities are sophisticated engineering, manufacturing and system integration offerings for National Security platforms and programs. Kratos’ areas of expertise include Command, Control, Communications, Computing, Combat and Intelligence, Surveillance and Reconnaissance (C5ISR) systems, satellite communications, electronic warfare, unmanned systems, hypersonic systems, directed and high power energy systems, electromagnetic railgun, missile defense, cyber warfare, cybersecurity, information assurance, and critical infrastructure security. Kratos has primarily an engineering and technically oriented work force of approximately 3,600. Substantially all of Kratos’ work is performed on a military base, in a secure facility or at a critical infrastructure location. Kratos’ primary end customers are National Security related agencies. News and information are available at www.KratosDefense.com.

Notice Regarding Forward-Looking Statements

Certain statements in this press release may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, include, but are not limited to, statements regarding the Company’s ability to complete the Transaction on a timely basis, or at all; the Company’s use of its tax NOL carryforwards, the estimated net cash proceeds from the Transaction and the remaining tax NOL carryforwards that may be utilized by the Company after the Transaction; the Company’s planned use of the proceeds from the Transaction, including the timing and proposed amounts of the Company’s repurchase of its Notes; and the Company’s business plans and prospects. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the management of Kratos and are subject to significant risks and uncertainty, including risks related to the Company’s ability to complete the Transaction; potential adverse reactions or changes to business relationships resulting from the Transaction; unexpected costs, charges, or expenses resulting from the Transaction; litigation or adverse judgments related to the Transaction; the Company’s inability to complete a repurchase of the Notes or the failure to realize interest expense savings from the repurchase or delay in realization thereof; product failure or delays; general economic conditions; and cutbacks in defense spending.

Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and Kratos undertakes no obligation to update or revise these statements, whether as a result of new information, future events or otherwise. For a further discussion of risks and uncertainties that could cause actual results to differ from those expressed in these forward-looking statements, as well as risks relating to the business of Kratos in general, see the risk disclosures in the Annual Report on Form 10-K of Kratos for the year ended December 28, 2014, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.