

**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): **June 11, 2018**

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
(I.R.S. Employer
Identification Number)

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

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

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

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 1.01 Entry into a Material Definitive Agreement.

Amendment to Credit Agreement

On June 11, 2018, Kratos Defense & Security Solutions, Inc. (the “Company”) entered into the first amendment (the “First Amendment”) to its existing Amended and Restated Credit and Security Agreement, dated as of November 20, 2017, with SunTrust Bank, a Georgia banking corporation, as administrative agent, and certain other lenders party thereto (the “Credit Agreement”). Among other things, the First Amendment permits the consummation of the Transaction (as defined below), provided that certain conditions, including application of the proceeds in accordance with the terms of documents governing the Company’s outstanding indebtedness, are satisfied.

The foregoing description of the First Amendment does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the First Amendment, a copy of which is furnished as Exhibit 10.1 hereto.

Item 2.01 Completion of Acquisition or Disposition of Assets.

On June 11, 2018, the Company completed the previously announced sale of all of the issued and outstanding capital stock of Kratos Public Safety & Security Solutions, Inc., a Delaware corporation (“PSS”), to Securitas Electronic Security, Inc., a Delaware corporation (“Buyer”), pursuant to the terms of that certain Stock Purchase Agreement, dated February 28, 2018, by and among the Company, PSS and Buyer, for a purchase price of \$69 million in cash, subject to a working capital adjustment (the “Transaction”). The Company expects to receive approximately \$70 million of net cash proceeds from the Transaction, after taking into account amounts to be paid by the Company pursuant to a negotiated transition services agreement between the Company and Buyer, receipt by the Company of approximately \$7 million in net working capital to be retained by the Company, and associated transaction fees and expenses.

The Company's use of proceeds from the Transaction will be controlled by the Indenture dated, November 17, 2017 (the “Indenture”), among the Company, certain of the Company’s subsidiaries as guarantors, and Wilmington Trust, National Association, as trustee and collateral agent, which Indenture governs the Company’s 6.5% Senior Secured Notes (the “Notes”). The terms of the Indenture require that the net cash proceeds from asset dispositions (within 365 days from the date of the sale) 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 secured indebtedness and equally and ratably reduce obligations under the Notes through open market purchases of Notes at or above par, (iii) make an investment in assets that replace the collateral for the 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 Notes at par.

The Company intends to utilize the net proceeds from the Transaction to fund growth initiatives by making investments in similar collateral in accordance with the terms of the Indenture.

Item 8.01 Other Events

On June 11, 2018, the Company issued a press release announcing the closing of the Transaction. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

Forward-Looking Statements

Certain statements in the 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 planned use of the net proceeds from the Transaction. 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 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; 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 31, 2017, and in subsequent reports on Form 8-K and other filings made with the Securities and Exchange Commission (“SEC”) by the Company.

Item 9.01 Financial Statements and Exhibits.

(b) *Pro forma financial information.*

Filed herewith as Exhibit 99.2 to this Form 8-K and incorporated herein by reference are unaudited pro forma condensed consolidated statements of operations for the fiscal years ended December 31, 2017, December 25, 2016 and December 27, 2015, of the Company to give effect to the Transaction.

The balance sheet and interim consolidated statement of operations required by Item 9.01(b) to this Current Report on Form 8-K are incorporated herein by reference to the unaudited condensed consolidated balance sheet as of April 1, 2018, and the unaudited condensed consolidated statement of operations and comprehensive income (loss) for the three-month period ended April 1, 2018, in each case included in the Company's Form 10-Q for the quarterly period ended April 1, 2018, which was filed with the SEC on May 10, 2018.

(d) *Exhibits.*

Exhibit No.	Exhibit Description
2.1#	<u>Stock Purchase Agreement, dated February 28, 2018, among Kratos Defense & Security Solutions, Inc., Kratos Public Safety & Security Solutions, Inc. and Securitas Electronic Security, Inc. (incorporated by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 1, 2018, filed with the SEC on May 10, 2018).</u>
10.1	<u>First Amendment to Amended and Restated Credit and Security Agreement, dated June 11, 2018, among Kratos Defense & Security Solutions, Inc., as Borrower, each of the Credit Parties and Required Lenders party thereto and SunTrust Bank as Agent.</u>
99.1	<u>Press release, dated June 11, 2018.</u>
99.2	<u>Unaudited pro forma condensed consolidated statements of operations for the fiscal years ended December 31, 2017, December 25, 2016, and December 27, 2015, of Kratos Defense & Security Solutions, Inc.</u>

Certain schedules and exhibits referenced in this document 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 SEC upon request.

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 12, 2018

Kratos Defense & Security Solutions, Inc.

By: /s/ Deanna H. Lund

Name: Deanna H. Lund

Title: Executive Vice President and Chief Financial Officer

FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT

This FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT (this "Agreement") is made as of June 11, 2018, and effective upon the Effective Date (as defined below), by and among KRATOS DEFENSE & SECURITY SOLUTIONS, INC., a Delaware corporation (the "Borrower"), each of the other Credit Parties identified as such on the signature pages hereof, each of the lenders signatory hereto constituting the Required Lenders (as defined in the Credit Agreement described below) and SUNTRUST BANK, a Georgia banking corporation, as administrative agent (together with its successors and assigns in such capacity, "Agent").

RECITALS

A. The Borrower, Agent and certain lenders (collectively, the "Lenders") are parties to that certain Amended and Restated Credit and Security Agreement, dated as of November 20, 2017 (as amended to date and as it may be further amended, restated, supplemented and/or otherwise modified from time to time prior to the date hereof, the "Credit Agreement"). Except as otherwise defined herein, capitalized terms used herein have the respective meanings assigned to them in the Credit Agreement.

B. In connection with the Credit Agreement, each Credit Party (other than the Borrower) guaranteed the Obligations of the Borrower pursuant to that certain Amended and Restated Guaranty of Payment, dated as of November 20, 2017, and each Credit Party granted to Agent, for the benefit of the Lenders, a first priority security interest (subject only to Permitted Liens) in substantially all of such Credit Party's assets pursuant to that certain Amended and Restated Security Agreement, dated as of November 20, 2017, executed by the Credit Parties in favor of Agent.

C. Borrower has requested certain modifications to the Credit Agreement in connection with the Borrower's consummation of the KPSSS Disposition (as defined herein), and subject to the terms and conditions herein, Agent and the undersigned Lenders (constituting Required Lenders) have agreed to amend the Credit Agreement as set forth herein.

NOW THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENTS

1. **Amendments to the Credit Agreement.** Effective as of the Effective Date, the Credit Agreement is hereby amended as follows:

(a) Amendment to Section 1.1-New Definition. Section 1.1 of the Credit Agreement is hereby amended by adding the following new definitions thereto in proper alphabetical order therefor:

"KPSSS Disposition" means the sale by the Borrower of 100% of its equity interests in Kratos Public Safety & Security Solutions, Inc., a Delaware corporation

(“KPSSS”), and each wholly-owned Subsidiary of KPSSS, pursuant to and in accordance with the KPSSS Disposition Documents.

“KPSSS Disposition Documents” means that certain Stock Purchase Agreement, dated as of February 28, 2018, by and among the Borrower, KPSSS and Securitas Electronic Security, Inc., a Delaware corporation, as amended, supplemented or modified from time to time.

(b) Amendment to Section 5.8(l). Section 5.8(l) of the Credit Agreement is amended by deleting the reference to “Indenture Documents” in clause (i) thereof and replacing it with “Senior Notes Documents”.

(c) Amendment to Section 5.12. Section 5.12 of the Credit Agreement is amended by (i) deleting the “and” at the end of clause (h) thereof, (ii) replacing the “.” at the end of clause (i) with “; and” and (iii) adding a new clause (j) to provide in its entirety as follows:

“(j) the Companies may consummate the KPSSS Disposition, so long as (i) immediately prior to and after giving effect to such Disposition, no Default or Event of Default then exists; (ii) such Disposition is permitted under the Senior Notes Documents and (iii) the proceeds of such Disposition are applied in accordance with the Senior Notes Documents and the Intercreditor Agreement.”

2. **Limited Waiver.** Effective on the Effective Date, Agent and the undersigned Lenders hereby waive any Event of Default that would otherwise occur under the Credit Agreement solely as a result of the KPSSS Disposition. Except as expressly set forth in this Agreement, nothing contained in this Agreement, or any other communication between or among Agent, Lenders and any Credit Party, shall be construed as a waiver by Agent or Lenders of any covenant or provision of the Credit Agreement, the other Loan Documents, this Agreement or any other contract or instrument between or among any Credit Party, Agent and/or Lenders, or of any similar future transaction and the failure of Agent and/or Lenders at any time or times hereafter to require strict performance by any Credit Party of any provision thereof shall not waive, affect or diminish any right of Agent and/or Lenders to thereafter demand strict compliance therewith. Nothing contained in this Agreement shall directly or indirectly in any way whatsoever either: (i) impair, prejudice or otherwise adversely affect Agent’s or any Lender’s right at any time to exercise any right, privilege or remedy in connection with the Credit Agreement or any other Loan Documents, each as amended hereby, (ii) except as expressly provided herein, amend or alter any provision of the Credit Agreement or any other Loan Documents or any other contract or instrument, or (iii) constitute any course of dealings or other basis for altering any obligation of any Credit Party under the Credit Agreement or any other Loan Documents or any right, privilege or remedy of Agent or any Lender under the Credit Agreement, any other Loan Documents or any other contract or instrument. Agent and Lenders hereby reserve all rights granted under the Credit Agreement, the other Loan Documents, this Agreement and any other contract or instrument between or among any Credit Party, Agent and Lenders, each as amended hereby.

3. **Release of Guarantors and Security Interests.** The Agent and the undersigned Lenders hereby acknowledge and agree that upon consummation of the KPSSS Disposition, (i) KPSSS and each of the Company Subsidiaries (as defined in the KPSSS Disposition Documents) shall be released from all obligations as Credit Parties under the Credit Agreement and the other Loan Documents, and (ii) any and all Liens granted to the Agent, on behalf of the Lenders, on any of the Shares (as defined in the KPSSS Disposition Documents) and any and all assets of KPSSS or the Company Subsidiaries shall be

automatically and unconditionally released, without representation or warranty. The Agent and the undersigned Lenders hereby authorize the Borrower, its assigns and any party authorized by the Borrower to file the UCC termination statements attached hereto as Schedule I.

4. **Conditions to Effectiveness of Agreement.** This Agreement shall be effective on the earliest date on which all of the following conditions have been satisfied (such date being the "Effective Date"):

- (a) Agent shall have received this Agreement, duly executed by the Credit Parties and the Required Lenders;
- (b) If a consent is required under the Senior Notes Documents, Agent shall have received evidence, in form and substance satisfactory to Agent, that the Credit Parties have received consent under the Senior Notes Documents permitting the KPSSS Disposition and the transactions contemplated hereby;
- (c) Immediately prior to, and after giving effect to this Agreement, (i) no Event of Default shall have occurred or be occurring and (ii) the representations and warranties contained herein and in the Credit Agreement and the other Loan Documents, as each is amended hereby, are true and correct as of such date, as if made on such date, except for those representations and warranties specifically made as of an earlier date, which shall be true and correct as of such earlier date; and
- (d) The Credit Parties shall have paid and hereby agree to pay to Agent, all expenses (including attorneys' fees) owed to or incurred by the Agent arising in connection with this Agreement.

The Credit Parties shall be deemed to represent and warrant to Agent and Lenders that each of the foregoing conditions have been satisfied upon the release of their respective signatures to this Agreement. All fees and other amounts payable in connection with this Agreement shall be non-refundable and fully earned upon the Agents' receipt of such fees or amounts.

5. **Ratification, Further Assurances and Representations and Warranties.**

(a) Each Credit Party confirms that all of its obligations under the Loan Documents (as amended by this Agreement) are in full force and effect and are performable in accordance with their respective terms without setoff, defense, counter-claim or claims in recoupment.

(b) Each Credit Party agrees that at any time and from time to time, upon the written request of Agent, each Credit Party will execute and deliver such further documents and do such further acts and things as Agent may reasonably request in order to effect the provisions of this Agreement.

(c) To induce Agent and the Required Lenders to enter into this Agreement, each Credit Party, by its signature below, hereby:

(i) acknowledges and agrees that, except as expressly set forth in this Agreement, the terms, covenants and conditions of the Credit Agreement and the other Loan Documents are in full force and effect and are hereby ratified and confirmed;

(ii) ratifies and reaffirms the notes and its obligations under the Credit Agreement and the other Loan Documents, and all of such Credit Party's respective covenants, duties, indebtedness and liabilities owing under such documents;

(iii) acknowledges and agrees that it has taken all organizational actions necessary to approve and authorize the execution, delivery and performance of this Agreement and all other documents executed in connection therewith; and

(iv) acknowledges and agrees that immediately prior to, and after giving effect to this Agreement, (i) no Event of Default shall have occurred or be occurring and (ii) the representations and warranties contained herein and in the Credit Agreement and the other Loan Documents, as each is amended hereby, are true and correct as of such date, as if made on such date, except for those representations and warranties specifically made as of an earlier date, which shall be true and correct as of such earlier date.

1. **Miscellaneous.**

(a) This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Agreement is not intended to be, nor shall it be construed to create, a novation or accord and satisfaction, and the Credit Agreement and other Loan Documents, as modified by this Agreement, shall continue in full force and effect. This Agreement shall constitute a Loan Document for all purposes.

(b) This Agreement may be executed in any number of counterparts and by each party hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. Delivery of a signature page of this Agreement by telecopy, pdf or other electronic means shall be effective as delivery of a manually executed counterpart of such Agreement. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

(c) The provisions of this Agreement and the respective rights and duties of the parties hereunder shall be governed by, and construed in accordance with, the laws of the State of New York (without giving effect to the conflict of law principles thereof except for Sections 5-1401 and 5-1402 of the New York General Obligations Law).

(d) THE CREDIT PARTIES HEREBY ACKNOWLEDGE THAT THEY HAVE NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY THE LIABILITIES OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM AGENT AND THE LENDERS. EACH CREDIT PARTY HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES AGENT, THE LENDERS, THEIR RESPECTIVE PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AGREEMENT IS EXECUTED, WHICH ANY CREDIT PARTY MAY NOW OR HEREAFTER HAVE AGAINST AGENT OR ANY LENDER, THEIR RESPECTIVE PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE,

AND ARISING FROM ANY ADVANCE INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE CREDIT AGREEMENT OR OTHER AGREEMENTS AND NEGOTIATION FOR AND EXECUTION OF THIS AGREEMENT.

(c) **THE CREDIT AGREEMENT, AS AMENDED BY THIS AGREEMENT, AND THE OTHER LOAN DOCUMENTS TOGETHER REPRESENT THE ENTIRE EXPRESSION OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF AND THEREOF ON THE DATE THIS AGREEMENT IS EXECUTED. THE CREDIT AGREEMENT, AS AMENDED BY THIS AGREEMENT, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NO MODIFICATION, RESCISSION, WAIVER, RELEASE OR AMENDMENT OF ANY PROVISION OF THIS AGREEMENT SHALL BE MADE EXCEPT BY A WRITTEN AGREEMENT SIGNED BY THE BORROWER, AGENT AND THE REQUIRED LENDERS.**

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

SUNTRUST BANK,
as Administrative Agent and a Lender

By: /s/ Brian O'Fallon
Name: Brian O'Fallon
Title: Director

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

J.P. MORGAN CHASE

a Lender

By: /s/ Jason Beyerlein
Name: Jason Beyerlein
Title: Authorized Signer

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

GOLDMAN SACHS BANK USA
a Lender

By: /s/ Megan Sullivan
Name: Megan Sullivan
Title: Authorized Signatory

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

PNC BANK, NATIONAL ASSOCIATION

a Lender

By: /s/ Laurie Dee
Name: Laurie Dee
Title: Assistant Vice President

BORROWER:

KRATOS DEFENSE SECURITY AND SOLUTIONS, INC.

By: /s/ Deanna H. Lund

Name: Deanna H. Lund

Title: Executive Vice President & Chief Financial Officer

Agreed to and Accepted: OTHER CREDIT PARTIES:

AVTEC SYSTEMS, INC.
BSC PARTNERS, LLC
CARLSBAD ISI, INC.
COMPOSITE ENGINEERING, INC. DEFENSE SYSTEMS, INCORPORATED
HAVERSTICK CONSULTING, INC.
HGS HOLDINGS, INC.
DTI ASSOCIATES, INC.
HAVERSTICK GOVERNMENT SOLUTIONS, INC.
ROCKET SUPPORT SERVICES, LLC
JMA ASSOCIATES, INC.
MADISON RESEARCH CORPORATION
GICHNER SYSTEMS GROUP, INC.
GICHNER SYSTEMS INTERNATIONAL , INC.
CHARLESTON MARINE CONTAINERS INC.
DALLASTOWN REALTY I, LLC
DALLASTOWN REALTY II, LLC
DEI SERVICES CORPORATION
SCT ACQUISITION, LLC
SCT REAL ESTATE, LLC
KRATOS INTEGRAL HOLDINGS, LLC
KRATOS INTEGRAL SYSTEMS INTERNATIONAL, INC.
KRATOS NETWORKS, INC.
KRATOS SYSTEMS AND SOLUTIONS, INC.
KRATOS DEFENSE & ROCKET SUPPORT
SERVICES, INC.
KRATOS TECHNOLOGY & TRAINING
SOLUTIONS, INC.
KRATOS UNMANNED SYSTEMS SOLUTIONS,
INC.
DFI REALTY, LLC
REALITY BASED IT SERVICES, LTD.
SHADOW I, INC.
SHADOW II, INC.
DIGITAL FUSION, INC.
DIGITAL FUSION SOLUTIONS, INC.
SUMMIT RESEARCH CORPORATION
NATIONAL SAFE OF CALIFORNIA
LVDM, INC.

By: /s/ Deanna H. Lund

Deanna H. Lund

Executive Vice President & Chief Financial Officer

GENERAL MICROWAVE CORPORATION
GENERAL MICROWAVE ISRAEL CORPORATION
MSI ACQUISITION CORP. MICRO SYSTEMS, INC. KRATOS-RSS, INC.
REAL TIME LOGIC, INC.
SAT CORPORATION
SECUREINFO CORPORATION
AI METRIX , INC.
POLEX, INC.

By: /s/ Deanna H. Lund

Deanna H. Lund
Executive Vice President & Chief Financial Officer



Press Contact:
Yolanda White
858-812-7302 Direct

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

FOR IMMEDIATE RELEASE

Kratos Completes Sale of Public Safety & Security Division to Securitas Electronic Security, Inc.

SAN DIEGO, CA, June 11, 2018, (GLOBE NEWSWIRE) - [Kratos Defense & Security Solutions, Inc.](#) (NASDAQ:KTOS), a leading National Security Solutions provider, announced today that it has completed the previously announced sale of its Public Safety & Security Division (PSS) to Securitas Electronic Security, Inc. At the transaction close, Kratos received \$70.7 million in cash, subject to a working cash adjustment, and Kratos expects to ultimately receive approximately \$70 million of net cash proceeds from the transaction, net of related transaction expenses, as previously described. With the closing of this transaction, Kratos' pro forma cash balance at April 1, 2018 would have been \$198.5 million, with pro forma net leverage of approximately 2.0X.

Eric DeMarco, Kratos' President and CEO, said, "This divestiture continues the successful execution of Kratos' strategy of being a high technology, product and systems aerospace and defense company. Kratos is the recognized industry leader in the development, demonstration and fielding of affordable systems and this divestiture will allow us greater focus and financial flexibility for our high growth core businesses, including unmanned aerial drones, satellite communications, missile defense, training systems and microwave electronics."

Canaccord Genuity served as exclusive financial advisor to Kratos in connection with the transaction and Paul Hastings LLP served as legal counsel.

About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (NASDAQ:KTOS) develops transformative, affordable technology for the Department of Defense and commercial customers. Kratos is changing the way breakthrough technology for these industries are brought to market through proactive research and a streamlined development process. Kratos specializes in unmanned systems, satellite communications, cyber security/warfare, microwave electronics, missile defense, training and combat systems. For more information go to 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 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. 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. Although Kratos believes that the expectations reflected in these forward-looking statements are reasonable, these statements involve many risks and uncertainties that may cause actual results to differ materially from what may be expressed or implied in these forward-looking statements. 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 31, 2017, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Pro Forma Condensed Consolidated Financial Statements
(Unaudited)

On June 11, 2018, Kratos Defense & Security Solutions, Inc. (“Kratos” or the “Company”), completed the sale of all of the issued and outstanding capital stock of its wholly-owned subsidiary Kratos Public Safety & Security Solutions, Inc., (“PSS”) for a purchase price of approximately \$69 million in cash, subject to a working capital adjustment (the “Transaction”). The Company expects to receive approximately \$70 million of net cash proceeds from the Transaction, after taking into account amounts to be paid by the Company pursuant to a negotiated transition services agreement, receipt by the Company of approximately \$7 million in net working capital to be retained by the Company, and associated transaction fees and expenses.

The unaudited pro forma condensed consolidated statement of operations of Kratos presented on the following pages was derived from the Company’s historical consolidated financial statements and is being presented to give effect to the Transaction. The unaudited pro forma condensed consolidated statement of operations does not purport to be indicative of the results that would have been obtained if the sale had been completed as of the dates indicated in the notes to the pro forma condensed consolidated financial statements.

The pro forma adjustments are based on the best information available and assumptions that management believes are directly attributable to the transaction and are factually supportable. The unaudited pro forma condensed consolidated statement of operations should be read in conjunction with the historical financial information and related notes contained in the Company’s 2017 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) on February 28, 2018.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year ended December 31, 2017
(in millions, except per share amounts)
(Unaudited)

	Historical	Pro Forma Adjustments		Pro Forma
		(a)		
Service revenues	\$ 346.4	\$ (149.8)	\$ 1.2 (c)	\$ 197.8
Product sales	405.5	—	—	405.5
Total revenues	751.9	(149.8)	1.2	603.3
Cost of service revenue	247.5	(110.1)	1.2 (c)	138.6
Cost of product sales	307.1	—	—	307.1
Total costs	554.6	(110.1)	1.2	445.7
Gross profit	197.3	(39.7)	—	157.6
Selling, general and administrative expenses	160.6	(33.5)	0.2 (d)	127.3
Merger and acquisition expenses	—	—	—	—
Research and development expenses	17.8	—	—	17.8
Impairment of goodwill	24.2	—	—	24.2
Unused office space and other restructuring	0.5	—	(0.2) (d)	0.3
Operating income (loss) from continuing operations	(5.8)	(6.2)	—	(12.0)
Other income (expense):				
Interest expense, net	(28.6)	—	—	(28.6)
Loss on extinguishment of debt	(17.3)	—	—	(17.3)
Other income, net	0.9	(0.1)	—	0.8
Total other expense, net	(45.0)	(0.1)	—	(45.1)
Income (loss) from continuing operations before income taxes	(50.8)	(6.3)	—	(57.1)
Provision (benefit) for income taxes from continuing operations	(8.2)	—	2.0 (b)	(10.2)
Income (loss) from continuing operations	\$ (42.6)	\$ (6.3)	\$ 2.0	\$ (46.9)
Basic income (loss) per common share:				
Income (loss) from continuing operations	\$ (0.48)			\$ (0.52)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	\$ (0.48)			\$ (0.52)
Weighted average common shares outstanding:				
Basic	89.5			89.5
Diluted	89.5			89.5

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year ended December 25, 2016
(in millions, except per share amounts)
(Unaudited)

	Historical	Pro Forma Adjustments		Pro Forma
		(a)		
Service revenues	\$ 348.1	\$ (127.1)	\$ 0.3 (c)	\$ 221.3
Product sales	320.6	—	—	320.6
Total revenues	668.7	(127.1)	0.3	541.9
Cost of service revenue	255.8	(94.0)	0.3 (c)	162.1
Cost of product sales	259.3	—	—	259.3
Total costs	515.1	(94.0)	0.3	421.4
Gross profit	153.6	(33.1)	—	120.5
Selling, general and administrative expenses	146.3	(33.7)	2.0 (d)	114.6
Merger and acquisition expenses	1.9	—	(1.9) (d)	—
Research and development expenses	13.9	—	—	13.9
Unused office space and other restructuring	10.1	—	(0.1) (d)	10.0
Operating income (loss) from continuing operations	(18.6)	0.6	—	(18.0)
Other expense:				
Interest expense, net	(34.7)	—	—	(34.7)
Loss on extinguishment of debt	0.2	—	—	0.2
Other income, net	0.8	(0.1)	—	0.7
Total other expense, net	(33.7)	(0.1)	—	(33.8)
Income (loss) from continuing operations before income taxes	(52.3)	0.5	—	(51.8)
Provision (benefit) for income taxes from continuing operations	8.1	—	2.3 (b)	5.8
Income (loss) from continuing operations	\$ (60.4)	\$ 0.5	\$ 2.3	\$ (57.6)
Basic income (loss) per common share:				
Income (loss) from continuing operations	\$ (0.99)			\$ (0.94)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	\$ (0.99)			\$ (0.94)
Weighted average common shares outstanding:				
Basic	61.3			61.3
Diluted	61.3			61.3

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year ended December 27, 2015
(in millions, except per share amounts)
(Unaudited)

	Historical	Pro Forma Adjustments		Pro Forma
		(a)		
Service revenues	\$ 354.2	\$ (144.7)	\$ 0.1 (c)	\$ 209.6
Product sales	302.9	—	—	302.9
Total revenues	657.1	(144.7)	0.1	512.5
Cost of service revenue	266.5	(107.1)	0.1 (c)	159.5
Cost of product sales	228.8	—	—	228.8
Total costs	495.3	(107.1)	0.1	388.3
Gross profit	161.8	(37.6)	—	124.2
Selling, general and administrative expenses	150.7	(32.5)	—	118.2
Merger and acquisition expenses	0.1	—	—	0.1
Research and development expenses	16.2	—	—	16.2
Unused office space and other restructuring	(0.7)	—	—	(0.7)
Operating income (loss) from continuing operations	(4.5)	(5.1)	—	(9.6)
Other expense:				
Interest expense, net	(36.0)	—	—	(36.0)
Loss on extinguishment of debt	(3.4)	—	—	(3.4)
Other income, net	(0.7)	0.1	—	(0.6)
Total other expense, net	(40.1)	0.1	—	(40.0)
Income (loss) from continuing operations before income taxes	(44.6)	(5.0)	—	(49.6)
Provision (benefit) for income taxes from continuing operations	(11.4)	—	2.4 (b)	(13.8)
Income (loss) from continuing operations	\$ (33.2)	\$ (5.0)	\$ 2.4	\$ (35.8)
Basic income (loss) per common share:				
Income (loss) from continuing operations	\$ (0.56)			\$ (0.61)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	\$ (0.56)			\$ (0.61)
Weighted average common shares outstanding:				
Basic	58.7			58.7
Diluted	58.7			58.7

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Description of the Transaction and Basis of Presentation

The unaudited pro forma condensed consolidated statements of operations are based upon the historical consolidated financial statements of the Company, which were included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 28, 2018. Pursuant to SEC rules and regulations, the unaudited pro forma condensed consolidated statements of operations include only the portion of the historical statements of operations and comprehensive income through income (loss) from continuing operations and exclude discontinued operations. The unaudited pro forma condensed consolidated statement of operations for each respective fiscal period reflects the completion of the sale of all of the issued and outstanding capital stock of PSS as if it had occurred on the first day of the respective fiscal year.

Pro Forma Adjustments

(a) Deconsolidation of PSS for the fiscal years ended December 31, 2017, December 25, 2016 and December 27, 2015, respectively, to reflect as discontinued operations.

(b) Income tax expense or benefit for continuing and discontinued operations for the fiscal year ended December 25, 2016 was computed under the “with-and-without” approach. Under the “with-and-without” approach the income tax expense or benefit for continuing operations was determined by excluding the tax effects of pre-tax items recorded in discontinued operations. For fiscal years ended December 31, 2017 and December 27, 2015, an exception to the “with-and-without” approach applied and the income tax benefit for continuing operations was increased by the income tax expense recorded in discontinued operations.

(c) Adjustment to service revenues and cost of service revenues reflects sales activity between the Company and PSS that was previously eliminated upon consolidation but as a result of the disposition has been reflected as product sales and cost of product sales to outside customers.

(d) Restructuring costs of PSS have been allocated to discontinued operations.