

Kratos Reports Full Year and Fourth Quarter Fiscal 2014 Financial Results

Fourth Quarter Highlights Include:

Revenue \$221.5 Million

Adjusted EBITDA \$23.0 Million

Cash Flow From Operations \$25.9 Million

Adjusted EPS of \$0.11

New Contract Awards and Bookings \$320 Million

Book-to-Bill Ratio 1.4 to 1.0

Funded Backlog Increases \$129 Million

Bid Pipeline Increases to \$7.4 Billion

SAN DIEGO, March 12, 2015 (GLOBE NEWSWIRE) -- [Kratos Defense & Security Solutions, Inc.](#) (Nasdaq:KTOS), a leading National Security Solutions provider, today reported fiscal year 2014 revenues of \$868.0 million and Adjusted EBITDA of \$82.2 million, or 9.5 percent of revenue. For the fourth quarter ended December 29, 2014, Kratos reported revenues of \$221.5 million, Adjusted EBITDA of \$23.0 million, or 10.4 percent of revenue, and Cash Flow from Operations of \$25.9 million. In fiscal 2014, revenues for Kratos' Government Solutions Segment (KGS), where Kratos' customers are primarily U.S. DoD and other agencies, grew sequentially every quarter throughout the fiscal year. In the fourth quarter of 2014, Kratos received new contract awards and bookings of \$320 million, generated a book-to-bill ratio of 1.4 to 1.0, and the Company's funded backlog increased \$129 million, up to \$662 million, with total backlog increasing to \$1.1 billion. For the fourth quarter of fiscal 2014, Kratos' bid and proposal pipeline increased to \$7.4 billion, including large new program opportunities in the Unmanned System, Satellite Communication, Electronic Warfare, Missile, Radar and Command, Control, Communication, Intelligence, Surveillance and Reconnaissance areas.

In the fourth quarter of 2014, Kratos received and announced a number of large and strategic contract awards and bookings, including:

- An \$81 Million Critical Infrastructure Security System Integration award
- A \$72.3 Million Unmanned Aerial Target System and Technical Support award from the United States Air Force
- \$40 Million in Satellite Communication System, Earth Station and Ground Equipment contract awards
- \$13 Million in Helicopter Air Crew Training contract option awards
- \$9 Million in Electronic Warfare, Missile and Radar System contract awards
- An \$8.5 Million Airborne Communication System contract award
- \$6.5 Million in Task Orders from the U.S. Army Targets Management Office

Programs supported by Kratos in the fourth quarter of fiscal 2014 included: SEWIP, EA-18G, Patriot, P-8 Poseidon, Aegis, E-2D Hawkeye, Trident, Barak, Arrow, Iron Dome, Sling of David, DDG-1000, LCS, WGS, SBIRs, AEHF, Electromagnetic Rail Gun, HATS, NYMTA and SFMTA.

For the full year and fourth quarter ended December 28, 2014, Adjusted EPS was \$0.16 and \$0.11, respectively. Adjusted EPS excludes non-cash amortization expenses, as the Company has historically been acquisitive, non-cash stock compensation costs, and certain non-recurring items such as favorable litigation related settlement credits, changes in the unused office space accrual, excess capacity and restructuring costs, contract design retrofit costs and contract conversion adjustments, costs related to pending customer change orders, non-cash charges, and the loss from extinguishment of debt, and includes cash actually expected to be paid for income taxes in order to reflect the benefit of the Company's net operating loss carryforwards of over \$390 million. Kratos believes that reporting Adjusted EPS is a meaningful metric to present the Company's financial results. For the full year and fourth quarter ended December 28, 2014, GAAP EPS was a loss of \$0.04 and \$1.35, respectively.

Eric DeMarco, Kratos' President & CEO, said, "Kratos' bookings in the fourth quarter were particularly strong, with a number of previously delayed contract opportunities being awarded. We are beginning work on these new awards, with initial product deliveries expected to begin in the second quarter of 2015 and continuing throughout the year. In the fourth quarter, Kratos realized a book-to-bill ratio of 1.4 to 1.0 and a \$129 million increase in funded backlog. Also importantly, Kratos' bid and proposal pipeline increased up to \$7.4 billion, even after receiving \$320 million of fourth quarter contract awards, providing us confidence in our 2015 business plan and our future. We believe that we are extremely well positioned to expand and obtain significant product content positions on a number of large and new program opportunities including SEWIP, AEGIS BMD, Patriot, APR-39, AESA, 3DELRR, NGJ, Barak, Arrow, Spyder and AMDR, and we continue to make significant internal research, development and other investments in new franchise program and large opportunity areas."

Mr. DeMarco continued, "Since our third quarter 2014 financial report, every previously announced contract award protest adverse to Kratos has now been successfully resolved in our favor, except one that is currently in a re-procurement situation with a potential favorable resolution later this year. Kratos' success in prevailing in these protest situations was not unexpected, as only 13 percent of all protests decided on the merits are actually decided in favor of the protestor, according to the GAO's most recent report. Significant industry protest activity is continuing and is impacting Kratos from a timing standpoint, including most recently 3DELRR, and accordingly we are excluding certain opportunities from our 2015 business plan until final award resolution is complete."

Mr. DeMarco went on, "Since the third quarter, we have made significant progress on our largest new program opportunity, SSAT, and we remain on track to begin low rate initial production next year. Additionally, Kratos' UCAS initiative remains on schedule for demonstration flights later this year, and we have successfully negotiated with our government sponsor that all intellectual property and data rights belonging to Kratos will remain Kratos' IP, which is critically important to our Company. We are also currently pursuing a number of new unmanned system opportunities, including where Kratos' UCAS or derivatives of existing Kratos' unmanned aerial platforms could be used."

Mr. DeMarco concluded, "With Kratos' very strong fourth quarter bookings, including several large multi-year programs, increased backlog, a Federal Fiscal 2015 Defense Budget in place, the President's larger than expected Federal Fiscal 2016 DoD budget request along with recent world security related events, we believe that there is currently an improving DoD and overall security focused industry environment, with increased opportunities and programmatic clarity as we begin 2015 and look toward to the future. Additionally, over the past several months we have taken significant discretionary cost cutting actions across the Company, which we believe will provide us operating margin leverage in the second half of this year and into 2016 as we perform and deliver on our recent contract awards and the business returns to organic revenue growth."

Kratos' Board of Directors continues to work with an investment banking firm to assist it in formally reviewing its businesses, markets and competitive positioning and in evaluating strategic alternatives, including the potential divestment of certain of the Company's businesses.

Management will discuss the financial results and provide its initial guidance for the first quarter and fiscal year 2015 in a conference call beginning at 2:00 p.m. Pacific (5:00 p.m. Eastern) today. Analysts and institutional investors may participate in the conference call by dialing 866-393-0674, referencing the call by ID number 92090541. The general public may access the conference call by dialing (877) 344-3935 or on the day of the event by visiting www.kratosdefense.com for a simultaneous webcast. A replay of the webcast will be available on the Kratos web site approximately two hours after the conclusion of the conference call.

About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (Nasdaq:KTOS) is a specialized National Security technology business 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 Systems, Intelligence, Surveillance and Reconnaissance (C5ISR), satellite communication systems, electronic warfare, unmanned systems, missile defense, cyber warfare, cyber security, 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

This news release and filing contains certain forward-looking statements that involve risks and uncertainties, including, without limitation, express or implied statements concerning the Company's expectations regarding its future financial performance, bid and proposal pipeline, demand for its products and services, performance of key contracts, timing and expected impact of integration and cost-cutting activities, expected impact of the Company's initiative to evaluate strategic alternatives, including potential divestment of certain of its businesses, and market and industry developments, including the potential impacts on the

Company's business as a result of sequestration, Federal budget cuts and increased protest actions submitted against the Company's projects by its competitors. Such statements are only predictions, and the Company's actual results may differ materially. 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. Factors that may cause the Company's results to differ include, but are not limited to: risks to our business and financial results related to the reductions and other spending constraints imposed on the U.S. Government and our other customers, including as a result of sequestration, the Federal budget deficit and Federal government shut-downs; risks of adverse regulatory action or litigation; risks associated with debt leverage and expected cost savings and cash flow improvements expected as a result of the refinancing of our outstanding senior notes; risks that our cost-cutting initiatives will not provide the anticipated benefits; risks that changes, cutbacks or delays in spending by the U.S. Department of Defense may occur, which could cause delays or cancellations of key government contracts; risks of delays to or the cancellation of our projects as a result of protest actions submitted by our competitors; risks that changes may occur in Federal government (or other applicable) procurement laws, regulations, policies and budgets; risks of the availability of government funding for the Company's products and services due to performance, cost growth, or other factors, changes in government and customer priorities and requirements (including cost-cutting initiatives, the potential deferral of awards, terminations or reduction of expenditures to respond to the priorities of Congress and the Administration, or budgetary cuts resulting from Congressional committee recommendations or automatic sequestration under the Budget Control Act of 2011); risks of increases in the Federal government initiatives related to in-sourcing; risks related to security breaches, including cyber security attacks and threats or other significant disruptions of our information systems, facilities and infrastructures; risks related to our compliance with applicable contracting and procurement laws, regulations and standards; risks relating to contract performance; risks related to failure of our products or services; risks of our subcontractors' or suppliers' failure to perform their contractual obligations, including the appearance of counterfeit or corrupt parts in our products; changes in the competitive environment (including as a result of bid protests); failure to successfully integrate acquired operations and competition in the marketplace, which could reduce revenues and profit margins; risks associated with undertaking strategic alternatives, including the divestment of certain of the Company's businesses; risks that potential future goodwill impairments will adversely affect our operating results; risks that anticipated tax benefits will not be realized in accordance with our expectations; risks that a change in ownership of our stock could cause further limitation to the future utilization of our net operating losses; risks that the current economic environment will adversely impact our business; changes in our business, or other reasons; and risks related to natural disasters or severe weather. These and other risk factors are more fully discussed in the Company's Annual Report on Form 10-K for the period ended December 29, 2013, and in our other filings made with the Securities and Exchange Commission.

Note Regarding Use of Non-GAAP Financial Measures

This news release contains non-GAAP financial measures, including Adjusted EPS (computed using net income (loss) from continuing operations before income taxes, excluding amortization of purchased intangibles, stock compensation expense, acquisition and restructuring related items and other, unused office space expense, contract design retrofit costs and contract modification adjustment, costs related to pending customer change orders, non-cash charges, and the loss on extinguishment of debt, less the estimated tax cash payments), and Adjusted EBITDA (which excludes losses from discontinued operations, transaction gains and losses, restructuring and acquisition related items and other, stock compensation expense, unused office space expense, contract design retrofit costs and contract modification adjustment, costs related to pending customer change orders, non-cash charges, loss on extinguishment of debt and other and the associated margin rates). Kratos believes this information is useful to investors because it provides a basis for measuring the Company's available capital resources, the actual and forecasted operating performance of the Company's business and the Company's cash flow, excluding extraordinary items and non-cash items that would normally be included in the most directly comparable measures calculated and presented in accordance with generally accepted accounting principles. The Company's management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating the Company's actual and forecasted operating performance, capital resources and cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and investors should carefully evaluate the Company's financial results calculated in accordance with GAAP and reconciliations to those financial statements. In addition, non-GAAP financial measures as reported by the Company may not be comparable to similarly titled amounts reported by other companies. As appropriate, the most directly comparable GAAP financial measures and information reconciling these non-GAAP financial measures to the Company's financial results prepared in accordance with GAAP are included in this news release.

Kratos Defense & Security Solutions
Unaudited Condensed Consolidated Statements of Operations
(in millions, except per share data)

Three Months Ended		Twelve Months Ended	
December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013

Service revenues	\$ 91.3	\$ 108.6	\$ 390.8	\$ 443.6
Product sales	130.2	127.1	477.2	507.0
Total revenues	221.5	235.7	868.0	950.6
Cost of service revenues	74.9	80.9	304.6	335.2
Cost of product sales	90.4	93.3	345.2	375.4
Total costs	165.3	174.2	649.8	710.6
Gross profit - services	16.4	27.7	86.2	108.4
Gross profit - products	39.8	33.8	132.0	131.6
Total gross profit	56.2	61.5	218.2	240.0
Selling, general and administrative expenses	32.3	38.5	146.9	153.0
Acquisition and restructuring related items and other	0.2	(1.9)	1.7	(2.4)
Research and development expenses	6.0	6.9	23.0	21.4
Impairment of goodwill and intangibles	--	0.9		0.9
Unused office space expense and other	--	2.1	0.2	(4.7)
Depreciation	1.5	0.7	4.0	3.8
Amortization of intangible assets	5.5	8.9	22.5	36.2
Operating income	10.7	5.4	19.9	31.8
Interest expense, net	(12.1)	(15.0)	(54.3)	(63.7)
Loss on extinguishment of debt	--	--	(39.1)	--
Other income (expense), net	0.6	(0.2)	0.6	--
Loss from continuing operations before income taxes	(0.8)	(9.8)	(72.9)	(31.9)
Provision (benefit) for income taxes	1.4	(2.9)	5.1	--
Loss from continuing operations	(2.2)	(6.9)	(78.0)	(31.9)
Income (loss) from discontinued operations, net of taxes	--	(0.5)	--	(5.3)
Net loss	\$ (2.2)	\$ (7.4)	\$ (78.0)	\$ (37.2)
Basic and diluted loss per common share:				
Loss from continuing operations	\$ (0.04)	\$ (0.12)	\$ (1.35)	\$ (0.56)
Loss from discontinued operations, net of taxes	--	(0.01)	--	(0.09)
Net loss	\$ (0.04)	\$ (0.13)	\$ (1.35)	\$ (0.65)
Weighted average common shares outstanding				
Basic and diluted	57.8	57.1	57.6	56.8
Adjusted EBITDA (1)	\$ 23.0	\$ 24.6	\$ 82.2	\$ 100.3

Note: (1) Adjusted EBITDA is a non-GAAP measure defined as GAAP net income (loss) plus (income) loss from discontinued operations, interest expense, net, income taxes, depreciation and amortization, stock compensation, amortization of intangible assets, loss on extinguishment of debt, contract design retrofit costs, Foreign transaction gain (loss), refinancing related costs and restructuring and acquisition related items and other.

Adjusted EBITDA as calculated by us may be calculated differently than EBITDA for other companies. We have provided Adjusted EBITDA because we believe it is a commonly used measure of financial performance in comparable companies and is provided to help investors evaluate companies on a consistent basis, as well as to enhance an understanding of our operating results. Adjusted EBITDA should not be construed as either an alternative to net income or as an indicator of our operating performance or an alternative to cash flows as a measure of liquidity. Please refer to the following table that reconciles GAAP net loss to Adjusted EBITDA:

Reconciliation of Net loss to Adjusted EBITDA is as follows:

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>December 28,</u>	<u>December 29,</u>	<u>December 28,</u>	<u>December 29,</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net loss	\$ (2.2)	\$ (7.4)	\$ (78.0)	\$ (37.2)
Loss from discontinued operations	--	0.5	--	5.3
Interest expense, net	12.1	15.0	54.3	63.7
Loss on extinguishment of debt	--	--	39.1	--
Provision (benefit) for income taxes	1.4	(2.9)	5.1	--
Depreciation *	4.4	3.8	16.6	17.2
Stock compensation	(3.8)	1.4	3.8	7.4
Foreign transaction (gain)/loss	0.5	--	0.6	--
Unused office space expense and other	--	2.1	0.2	(4.7)
Amortization of intangible assets	5.5	8.9	22.5	36.2
Acquisition and restructuring related items, excess capacity and other	5.0	0.8	13.2	4.6
Contract design retrofit and contract conversion adjustment	0.1	2.4	4.8	7.8
Adjusted EBITDA	<u>\$ 23.0</u>	<u>\$ 24.6</u>	<u>\$ 82.2</u>	<u>\$ 100.3</u>

* Includes depreciation reported in cost of service revenues and product sales.

Reconciliation of acquisition and restructuring related items and other included in Adjusted EBITDA:

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>December 28,</u>	<u>December 29,</u>	<u>December 28,</u>	<u>December 29,</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Acquisition and transaction related items	\$ --	\$ --	\$ --	\$ 0.2
Excess capacity and restructuring costs	0.7	1.5	3.4	7.6
Refinancing related costs	--	--	0.8	--
Litigation related items	(1.0)	(1.6)	(1.0)	(4.1)
Refinancing costs and other	--	0.9	--	0.9
Non-cash charges	1.9	--	4.5	--
Costs related to pending customer change orders	3.4	--	5.5	--
	<u>\$ 5.0</u>	<u>\$ 0.8</u>	<u>\$ 13.2</u>	<u>\$ 4.6</u>

Kratos Defense & Security Solutions
Unaudited Segment Data
(in millions)

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>December 28,</u>	<u>December 29,</u>	<u>December 28,</u>	<u>December 29,</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:				
Unmanned Systems	\$ 21.1	\$ 28.7	\$ 81.5	\$ 121.6
Government Solutions	159.3	151.4	590.1	619.3
Public Safety & Security	41.1	55.6	196.4	209.7
Total revenues	<u>\$ 221.5</u>	<u>\$ 235.7</u>	<u>\$ 868.0</u>	<u>\$ 950.6</u>

Operating income (loss) from continuing operations:

Unmanned Systems	\$ (2.6)	\$ (4.1)	\$ (9.6)	\$ (16.9)
Government Solutions	\$ 13.9	\$ 6.7	\$ 38.5	\$ 43.3
Public Safety & Security	(4.3)	2.6	(4.4)	8.3
Other activities	3.7	0.2	(4.6)	(2.9)
Total operating income from continuing operations	<u>\$ 10.7</u>	<u>\$ 5.4</u>	<u>\$ 19.9</u>	<u>\$ 31.8</u>

Note: Other activities in the three months ended December 28, 2014 and December 29, 2013 include stock compensation, restructuring, excess capacity, costs related to pending customer change orders and contract modification adjustments, non-cash impairment and other of \$5.0 million and \$0.8 million, respectively. For the twelve months ended December 28, 2014 and December 29, 2013, other activities include restructuring, excess capacity, refinancing costs related to pending customer change orders, non-cash impairment and other and acquisition related expenses of \$13.2 million and \$4.6 million, respectively.

Reconciliation of consolidated Adjusted EBITDA to Adjusted EBITDA by segment is as follows:

	Three Months Ended		Twelve Months Ended	
	December 28,	December 29,	December 28,	December 29,
	2014	2013	2014	2013
Unmanned Systems	\$ 0.3	\$ 2.9	\$ 4.6	\$ 13.3
% of revenue	1.4%	10.1%	5.6%	10.9%
Government Solutions	22.0	18.0	70.5	73.9
% of revenue	13.8%	11.9%	11.9%	11.9%
Public Safety & Security	0.7	3.7	7.1	13.1
% of revenue	1.7%	6.7%	3.6%	6.2%
Total	<u>\$ 23.0</u>	<u>\$ 24.6</u>	<u>\$ 82.2</u>	<u>\$ 100.3</u>
% of revenue	<u>10.4%</u>	<u>10.4%</u>	<u>9.5%</u>	<u>10.6%</u>

Kratos Defense & Security Solutions
Unaudited Condensed Consolidated Balance Sheet
(in millions)

	As of	
	December 28, 2014	December 29, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 34.7	\$ 55.7
Restricted cash	5.4	5.0
Accounts receivable, net	248.2	265.8
Inventoried costs	68.0	74.6
Prepaid expenses	8.5	10.4
Other current assets	10.1	18.8
Total current assets	374.9	430.3
Property, plant and equipment, net	82.6	84.8
Goodwill	596.4	596.4
Intangible assets, net	52.3	69.9
Other assets	32.6	35.2

Total assets	<u>\$ 1,138.8</u>	<u>\$ 1,216.6</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 48.4	\$ 61.9
Accrued expenses	34.2	46.2
Accrued compensation	46.4	44.9
Accrued interest	5.6	5.2
Billings in excess of costs and earnings on uncompleted contracts	52.1	52.5
Deferred income tax liability	30.3	28.4
Other current liabilities	9.1	11.9
Total current liabilities	<u>226.1</u>	<u>251.0</u>
Long-term debt principal, net of current portion	622.0	628.8
Long-term debt premium	--	14.5
Line of credit	41.0	--
Other long-term liabilities	25.4	26.5
Total liabilities	<u>914.5</u>	<u>920.8</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock	--	--
Additional paid-in capital	863.4	856.0
Accumulated other comprehensive loss	(1.7)	(0.8)
Accumulated deficit	(637.4)	(559.4)
Total stockholders' equity	<u>224.3</u>	<u>295.8</u>
Total liabilities and stockholders' equity	<u>\$ 1,138.8</u>	<u>\$ 1,216.6</u>

Kratos Defense & Security Solutions
Unaudited Condensed Consolidated Statement of Cash Flows
(in millions)

	<u>Twelve Months Ended</u>	
	<u>December 28,</u> <u>2014</u>	<u>December 29,</u> <u>2013</u>
Operating activities:		
Net loss	\$ (78.0)	\$ (37.2)
Less: Loss from discontinued operations	--	(5.3)
Loss from continuing operations	(78.0)	(31.9)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities from continuing operations:		
Depreciation and amortization	39.1	53.4
Deferred income taxes	2.3	(0.4)
Stock-based compensation	3.8	7.4
Change in unused office space accrual	0.2	(4.7)
Amortization of deferred financing costs	3.2	5.1
Amortization of premium on Senior Secured Notes	(0.9)	(4.2)
Loss on extinguishment of debt	39.1	--
Provision for doubtful accounts	1.5	1.0
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	16.1	4.9

Inventoried costs	6.5	20.0
Prepaid expenses and other assets	3.6	(5.1)
Accounts payable	(13.5)	(22.0)
Accrued compensation	1.4	(3.0)
Accrued expenses	(12.1)	(0.7)
Accrued interest payable	0.4	(1.1)
Billings in excess of costs and earnings on uncompleted contracts	(2.4)	8.8
Income tax receivable and payable	0.8	1.6
Other liabilities	(3.4)	(6.5)
Net cash provided by operating activities from continuing operations	<u>7.7</u>	<u>22.6</u>
Investing activities:		
Cash paid for acquisitions, net of cash acquired	(2.6)	2.2
Decrease in restricted cash	(0.4)	0.4
Proceeds from the disposition of discontinued operations	--	1.3
Capital expenditures	(14.2)	(16.6)
Net cash used in investing activities from continuing operations	<u>(17.2)</u>	<u>(12.7)</u>
Financing activities:		
Proceeds from the issuance of long-term debt	618.5	--
Payment of long-term debt	(661.5)	
Cash paid for contingent acquisition consideration	--	(2.1)
Borrowings under line of credit	41.0	--
Repayment of debt	(1.0)	(1.0)
Debt issuance costs	(10.0)	--
Other	3.3	1.1
Net cash used in financing activities from continuing operations	<u>(9.7)</u>	<u>(2.0)</u>
Net cash flows from continuing operations	(19.2)	7.9
Net operating cash flows from discontinued operations	(1.6)	(1.3)
Effect of exchange rate changes on cash and cash equivalents	(0.2)	0.1
Net increase (decrease) in cash and cash equivalents	(21.0)	6.7
Cash and cash equivalents at beginning of period	55.7	49.0
Cash and cash equivalents at end of period	<u>\$ 34.7</u>	<u>\$ 55.7</u>

Kratos Defense & Security Solutions
Unaudited Non-GAAP Measures
Computation of Adjusted Earnings Per Share
(in millions, except per share data)

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>December 28,</u>	<u>December 29,</u>	<u>December 28,</u>	<u>December 29,</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Loss from continuing operations before taxes	\$ (0.8)	\$ (9.8)	\$ (72.9)	\$ (31.9)
Add: Amortization of intangible assets	5.5	8.9	22.5	36.2
Add: Stock compensation	(3.8)	1.4	3.8	7.4
Add: Unused office space expense and other	--	2.1	0.2	(4.7)
Add: Loss on extinguishment of debt	--	--	39.1	--
Add: Foreign transaction (gain)/loss	0.5	--	0.6	--
Add: Contract design retrofit costs and contract conversion adjustment	0.1	2.4	4.8	7.8

Add: Restructuring and acquisition related items and other	<u>5.0</u>	<u>0.8</u>	<u>13.2</u>	<u>4.6</u>
Adjusted income from continuing operations before income taxes	6.5	5.8	11.3	19.4
Estimated cash tax provision	<u>0.4</u>	<u>0.7</u>	<u>2.3</u>	<u>2.9</u>
Adjusted income from continuing operations	<u>\$ 6.1</u>	<u>\$ 5.1</u>	<u>\$ 9.0</u>	<u>\$ 16.5</u>
Diluted income per common share:				
Adjusted income from continuing operations	<u>\$ 0.11</u>	<u>\$ 0.09</u>	<u>\$ 0.16</u>	<u>\$ 0.29</u>
Weighted average common shares outstanding				
Diluted	<u>57.8</u>	<u>57.1</u>	<u>57.6</u>	<u>56.8</u>

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