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

February 28, 2018
Date of Report (Date of earliest event reported)

Kratos Defense & Security Solutions, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

001-34460	**13-3818604**
(Commission File Number)	(IRS Employer Identification No.)
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)

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:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Emerging growth company o

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. Yes o No o

Item 2.02. Results of Operations and Financial Condition.

On February 28, 2018, Kratos Defense & Security Solutions, Inc. (the "Company") issued a press release regarding the Company's financial results for the fourth quarter and full year of 2017. The full text of the Company's press release is attached hereto as Exhibit 99.1.

Item 9.01. Financial Statements and Exhibits.

Exhibit No.	Description
99.1	February 28, 2018 Press Release by Kratos Defense & Security Solutions, Inc.

SIGNATURES

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

Kratos Defense & Security Solutions, Inc.

Date: February 28, 2018	By: /s/ Deanna H. Lund
	Deanna H. Lund
	Executive Vice President, Chief Financial Officer

Exhibit 99.1

KRATOS DEFENSE & SECURITY SOLUTIONS

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FOR IMMEDIATE RELEASE

Kratos' Fourth Quarter and Fiscal 2017 Financial Results Exceed Company's Estimates

Fourth Quarter 2017 Revenues of $202.2 Million Increase 11.0 Percent over Fourth Quarter of 2016

Fiscal 2017 Revenues of $751.9 Million Increase 12.4 Percent over Fiscal 2016

Kratos Unmanned Systems Division Fiscal 2017 Revenues of $121.7 Million Increase 60.6 Percent over Fiscal 2016

SAN DIEGO, CA, February 28, 2018 - Kratos Defense & Security Solutions, Inc. (NASDAQ:KTOS), a leading National Security Solutions provider, today reported its fourth quarter and full year fiscal 2017 financial results.

Kratos' revenues and Adjusted EBITDA for the fourth quarter of 2017 were $202.2 million and $17.8 million, respectively. Fourth quarter 2017 revenues increased 11.0 percent over the fourth quarter of 2016 and 3.1 percent sequentially over the third quarter of 2017. Fourth quarter 2017 Adjusted EBITDA increased 32.8 percent over the fourth quarter of 2016 and 22.8 percent sequentially over the third quarter of 2017.

Kratos' Unmanned Systems Division (KUSD) generated year over year revenue growth of 65.9 percent, from $25.5 million in the fourth quarter of 2016 to $42.3 million in the fourth quarter of 2017. KUSD's Adjusted EBITDA of $4.1 million, or 9.7 percent of revenue, in the fourth quarter of 2017, increased 86.4 percent over Adjusted EBITDA of $2.2 million in the fourth quarter of 2016. Kratos' largest segment, Kratos Government Solutions (KGS), which includes Kratos Satellite Communications, Microwave Electronics and Training Systems businesses generated fourth quarter 2017 Adjusted EBITDA of $12.6 million, increasing sequentially 85.3 percent from the third quarter of 2017.

Kratos reported full fiscal year 2017 revenues of $751.9 million, increasing 12.4 percent from $668.7 million in fiscal year 2016. Adjusted EBITDA increased $9.4 million, or 20.9%, from $45.0 million in fiscal year 2016 to $54.4 million in fiscal year 2017. For fiscal year 2017, approximately 60% of Kratos' revenue was derived from U.S. Federal Government related customers, approximately 29% from commercial, state and local government customers, and approximately 11% from international customers.

In the fourth quarter of 2017, as a result of the Company's annual impairment test of the carrying value of its goodwill balances, the Company recorded a non-cash impairment charge of $24.2 million related to its Defense Rocket Support Services (DRSS) business within the KGS segment. The majority of DRSS's business and revenue includes Kratos' legacy government services business, which the Company has considered a non-core business and has de-emphasized since 2012.

For the full fiscal year 2017, Adjusted EPS* was $0.12 and net loss per share was $0.48. Net loss was $42.7 million. For the fourth quarter of 2017, Adjusted EPS* was $0.09 and net loss per share was $0.21. Net loss was $22.2 million, which included the loss on extinguishment of debt of $15.2 million related to the Company's refinancing of its Senior Secured Notes to replace its existing 7% Notes with 8-year 6.5% Notes, and included the $24.2 million impairment of goodwill.

Eric DeMarco, Kratos' President and CEO, said, "Kratos' fourth quarter and full year 2017 performance clearly demonstrated the continued upward trajectory of our Company and the successful execution of our strategy to build a business specializing in the rapid development, demonstration and fielding of affordable products and systems for national security. With the pending divestiture of PSS, Kratos is now primarily a pure play defense systems, product, technology and intellectual property company focused on well-funded mission critical DoD priority areas; including high performance unmanned aerial drone systems, satellite communications, missile defense, training systems and microwave electronics. Each of these markets, where Kratos is an industry leader, is expected to experience significant funding increases and growth, and continue to be long term, high priority areas."

Mr. DeMarco concluded, "We closed 2017 and began 2018 with many significant contract wins, including a $93 million, an $81 million, a $24.3 million and a $23 million unmanned aerial drone system award. Accordingly, for 2018, we are focused on execution, operational excellence and continued improved financial performance, and we expect Kratos' revenues and Adjusted EBITDA to continue to organically grow, profit margins to expand and a return to positive cash flow generation."

Financial Guidance

The Company also announced today that it has signed a definitive agreement to divest its PSS business for net cash proceeds of approximately $70 million, which transaction is expected to close in the next 90 days, contingent on customary closing conditions and regulatory approvals. As a result of the announced divestiture, PSS will now be reflected as a discontinued operation going forward in the Company's financial statements. Accordingly, all prior year comparative data in future financial statements will be recast to reflect this business as discontinued operations for all periods presented. Kratos' PSS business was forecast to achieve full year 2018 revenues and Adjusted EBITDA of approximately $140 to $150 million, and $9 to $12 million, respectively. Kratos' PSS business generated full year 2017 revenues and Adjusted EBITDA before corporate overhead costs of $149.9 million and $6.9 million, respectively. As a result of the pending sale, Kratos' 2018 Q1 and full year financial guidance provided today excludes PSS, as does all other financial information noted below.

Kratos' first quarter 2018 financial guidance for revenues excluding the PSS business is $140 to $150 million, as compared to $132.0 million for the first quarter of 2017, and first quarter 2018 Adjusted EBITDA guidance of $9 to $11 million, as compared to $10.2 million for the first quarter of 2017. Kratos' full year 2018 financial guidance for revenues excluding the PSS business is $640 to $650 million, as compared to $603.2 million for the full year of 2017, and full year 2018 Adjusted EBITDA guidance of $55 to $59 million, as compared to $47.5 million for the full year of 2017. Kratos is forecasting 2018 positive cash flow from operations of $35 to $45 million.

Management will discuss the Company's fourth quarter and fiscal year 2017 financial results, first quarter and full year 2018 guidance 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, and referencing the call by ID number 9678809. 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) develops transformative, affordable technology for the Department of Defense and commercial customers. Kratos is changing the way breakthrough technology for these industries is 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

This news release 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, including the Company's expectations of the first quarter and full year 2018 revenue, Adjusted EBITDA and Adjusted EPS, and ability to generate positive cash flow from operations in 2018, the Company's ability to achieve projected growth in certain of the Company's business units and the expected timing of such growth, its bid and proposal pipeline, demand for its products and services, including the Company's ability to successfully compete in the tactical unmanned aerial system area and expected new customer awards, performance of key contracts, including the timing of production and demonstration related to certain of the Company’s contracts and product offerings, the impact of the Company’s restructuring efforts and cost reduction measures, including its ability to improve profitability and cash flow in certain business units as a result of these actions, benefits to be realized from the Company’s net operating loss carryforwards and the availability and timing of government funding for the Company’s offerings, timing of LRIP related to the Company’s unmanned aerial target system offerings, as well as the level of recurring revenues expected to be generated by these programs once they achieve full rate production, ability to close the pending divestiture of its PSS business, and market and industry developments, including projected growth. Such statements are only predictions, and the Company’s actual results may differ materially from the results expressed or implied by these statements. 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 Senior Notes and the repurchase of 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. DoD 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, as amended); risks of increases in the Federal government initiatives related to in-sourcing; risks related to security breaches, including cybersecurity 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 associated with 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 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; risks that we are not able to close the pending divestiture of the PSS business on our anticipated timeline or at all; 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 31, 2017, 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 income (loss) per share (computed using income (loss) from continuing operations before income taxes, excluding amortization of intangible assets and capitalized contract and development costs, stock compensation expense, loss on extinguishment of debt, contract design retrofit costs, acquisition and restructuring related items and other, and impairment of goodwill, which includes but is not limited to unused office space expense, excess capacity, investments in unmanned combat systems initiatives, and foreign transaction gains and losses, less the estimated tax cash payments) and Adjusted EBITDA (which excludes, among other things, losses and gains from discontinued operations, restructuring and transaction related items, investments in unmanned combat systems initiatives, stock compensation expense, unused office space expense, impairment of goodwill, loss on extinguishment of debt, and foreign transaction gains and losses, and the associated margin rates). Additional non-GAAP financial measures include Revenues and Adjusted EBITDA related to our PSS business. 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.

*Adjusted earnings per share (Adjusted EPS) excludes loss from discontinued operations, non-cash amortization expenses, as the Company has historically been acquisitive, non-cash stock compensation costs, foreign transaction gains and losses, certain non-recurring items such as acquisition and restructuring related items and other, the loss on extinguishment of debt, and the non-cash impairment of goodwill, and includes cash actually expected to be paid for income taxes on continuing operations, reflecting the benefit of the Company's net operating loss carryforwards of over $300 million. Kratos believes that reporting adjusted income (loss) per share is a meaningful metric to present the Company's financial results.

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

	Three Months Ended		Twelve Months Ended	
	December 31, 2017	December 25, 2016	December 31, 2017	December 25, 2016
Service revenues	$ 83.1	$ 90.1	$ 346.4	$ 348.1
Product sales	119.1	92.0	405.5	320.6
Total revenues	202.2	182.1	751.9	668.7
Cost of service revenues	57.9	66.4	247.5	255.8
Cost of product sales	87.6	69.1	307.1	259.3
Total costs	145.5	135.5	554.6	515.1
Gross profit - service revenues	25.2	23.7	98.9	92.3
Gross profit - product sales	31.5	22.9	98.4	61.3
Total gross profit	56.7	46.6	197.3	153.6
Selling, general and administrative expenses	37.3	33.4	147.5	132.6
Unused office space, restructuring expenses, and other	—	1.5	0.5	12.0
Research and development expenses	5.1	3.8	17.8	13.9
Impairment of goodwill	24.2	—	24.2	—
Depreciation	0.8	0.7	2.7	3.2
Amortization of intangible assets	2.5	2.6	10.4	10.5
Operating income (loss) from continuing operations	(13.2)	4.6	(5.8)	(18.6)
Interest expense, net	(5.5)	(8.6)	(28.6)	(34.7)
Gain (loss) on extinguishment of debt	(15.2)	0.2	(17.3)	0.2
Other income, net	(0.1)	0.2	0.9	0.8
Loss from continuing operations before income taxes	(34.0)	(3.6)	(50.8)	(52.3)
Provision (benefit) for income taxes from continuing operations	(11.7)	0.8	(8.2)	8.1
Loss from continuing operations	(22.3)	(4.4)	(42.6)	(60.4)
Income (loss) from discontinued operations, net of income taxes	0.1	0.1	(0.1)	(0.1)
Net loss	$ (22.2)	$ (4.3)	$ (42.7)	$ (60.5)
Basic and diluted loss per common share:				
Loss from continuing operations	$ (0.21)	$ (0.07)	$ (0.48)	$ (0.99)
Income (loss) from discontinued operations	—	—	—	—
Net loss	$ (0.21)	$ (0.07)	$ (0.48)	$ (0.99)
Basic and diluted weighted average common shares outstanding	103.5	65.5	89.5	61.3
Adjusted EBITDA (1)	$ 17.8	$ 13.4	$ 54.4	$ 45.0

Note: (1) Adjusted EBITDA is a non-GAAP measure defined as GAAP net income (loss) plus (income) loss from discontinued operations, net interest expense, income taxes, depreciation and amortization, stock compensation, amortization of intangible assets, amortization of capitalized contract and development costs, foreign transaction gain (loss), acquisition and restructuring related items, impairment of goodwill, contract design retrofit costs, investment in unmanned combat systems, litigation related charges, unused office space expense, and costs related to pending customer change orders.

Adjusted EBITDA as calculated by us may be calculated differently than Adjusted 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. The adjustments to calculate this non-GAAP financial measure and the basis for such adjustments, are outlined below. Please refer to the following table below that reconciles GAAP net income (loss) to Adjusted EBITDA.

The adjustments to calculate this non-GAAP financial measure, and the basis for such adjustments, are outlined below:

Interest income and expense. The Company receives interest income on investments and incurs interest expense on loans, capital leases and other financing arrangements, including the amortization of issue discounts and deferred financing costs. These amounts may vary from period to period due to changes in cash and debt balances.

Income taxes. The Company's tax expense can fluctuate materially from period to period due to tax adjustments that may not be directly related to underlying operating performance or to the current period of operations and may not necessarily reflect the impact of utilization of our NOLs.

Depreciation. The Company incurs depreciation expense (recorded in cost of revenues and in operating expenses) related to capital assets purchased or constructed to support the ongoing operations of the business. The assets are recorded at cost or fair value and are depreciated over the estimated useful lives of individual assets.

Amortization of intangible assets. The Company incurs amortization of intangible expense related to acquisitions it has made. These intangible assets are valued at the time of acquisition and are amortized over the estimated useful lives.

Amortization of capitalized contract and development costs. The Company incurs amortization of previously capitalized software development and non-recurring engineering costs related to certain aerial targets in its Unmanned Systems business as these units are sold.

Stock-based compensation expense. The Company incurs expense related to stock-based compensation included in its GAAP presentation of selling, general and administrative expense. Although stock-based compensation is an expense of the Company and viewed as a form of compensation, these expenses vary in amount from period to period, and are affected by market forces that are difficult to predict and are not within the control of management, such as the market price and volatility of the Company's shares, risk-free interest rates and the expected term and forfeiture rates of the awards. Management believes that exclusion of these expenses allows comparison of operating results to those of other companies that disclose non-GAAP financial measures that exclude stock-based compensation.

Foreign transaction (gain) loss. The Company incurs transaction gains and losses related to transactions with foreign customers in currencies other than the U.S. dollar. In addition, certain intercompany transactions can give rise to realized and unrealized foreign currency gains and losses.

Acquisition and restructuring related items. The Company incurs transaction related costs, such as legal and accounting fees and other expenses, related to acquisitions and divestiture activities. Management believes these items are outside the normal operations of the Company's business and are not indicative of ongoing operating results.

Excess capacity and restructuring costs. The Company incurs excess capacity and excess overhead costs related to certain of its manufacturing businesses within its Unmanned Systems and Modular Systems businesses due primarily to underutilization of manufacturing facilities and support costs resulting from less than optimal volumes and efficiencies. The Company incurs restructuring costs for cost reduction actions which include employee termination costs, facility shut-down related costs and remaining lease commitment costs for excess or exited facilities. Management believes that these costs are not indicative of ongoing operating results as they are either non-recurring and/or not expected when full capacity and volumes are achieved.

Litigation related items. The Company periodically incurs expenses related to pending claims and litigation and associated legal fees and potential case settlements and/or judgments. Although we may incur such costs and other related charges and adjustments, we do not believe it is indicative of any particular outcome until the matter is fully resolved. Management believes these items are outside the normal operations of the Company's business and are not indicative of ongoing operating results.

Investment in unmanned combat systems. The Company makes discretionary investments related to its tactical unmanned combat systems initiative with the intention of retaining the intellectual property and data package rights of the technology it is developing. Management believes these rights will result in securing future sole source positions on new platforms which will provide an attractive rate of return. Management believes that these costs are not indicative of ongoing operating results.

Contract design retrofits. The Company makes certain design retrofits primarily related to its development programs in its Unmanned Systems business which are necessary for the final design and configuration of these vehicles. Management believes that these costs are not indicative of ongoing operating results.

Impairment of goodwill. Management has de-emphasized its legacy government services business since 2012 and has considered this business non-core, management believes that this non-cash charge is not indicative of ongoing operating results.

Adjusted EBITDA is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. The Company expects to continue to incur expenses similar to the Adjusted EBITDA financial adjustments described above, and investors should not infer from the Company's presentation of this non-GAAP financial measure that these costs are unusual, infrequent, or non-recurring.

Reconciliation of Net income (loss) to Adjusted EBITDA and Pro Forma Adjusted EBITDA is as follows:

	Three Months Ended		**Twelve Months Ended**	
	December 31, 2017	**December 25, 2016**	**December 31, 2017**	**December 25, 2016**
Net loss	$ (22.2)	$ (4.3)	$ (42.7)	$ (60.5)
Income (loss) from discontinued operations, net of income taxes	(0.1)	(0.1)	0.1	0.1
Interest expense, net	5.5	8.6	28.6	34.7
(Income) loss on extinguishment of debt	15.2	(0.2)	17.3	(0.2)
Provision (benefit) for income taxes from continuing operations	(11.7)	0.8	(8.2)	8.1
Depreciation (including cost of service revenues and product sales)	3.0	2.9	12.1	12.3
Stock-based compensation	1.0	0.9	7.8	5.1
Foreign transaction (gain)/loss	0.2	0.1	(0.4)	(0.4)
Amortization of intangible assets	2.5	2.6	10.4	10.5
Amortization of capitalized contract and development costs	0.2	—	0.5	—
Impairment of goodwill	24.2	—	24.2	—
Acquisition and restructuring related items and other	—	2.1	4.7	35.3
Adjusted EBITDA	$ 17.8	$ 13.4	$ 54.4	$ 45.0

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

	Three Months Ended		Twelve Months Ended	
	December 31, 2017	**December 25, 2016**	**December 31, 2017**	**December 25, 2016**
Acquisition and transaction related items	$ —	$ —	$ 0.3	$ —
Excess capacity and restructuring costs	—	2.1	4.4	13.4
Litigation related items	—	—	—	1.9
Investment in unmanned combat systems	—	—	—	20.0
	$ —	$ 2.1	$ 4.7	$ 35.3

Kratos Defense & Security Solutions, Inc.

Unaudited Segment Data

(in millions)

	Three Months Ended		Twelve Months Ended	
	December 31, 2017	**December 25, 2016**	**December 31, 2017**	**December 25, 2016**
Revenues:				
Unmanned Systems	$ 42.3	$ 25.5	$ 121.7	$ 75.8
Kratos Government Solutions	123.9	124.4	480.3	465.8
Public Safety & Security	36.0	32.2	149.9	127.1
Total revenues	$ 202.2	$ 182.1	$ 751.9	$ 668.7
Operating income (loss) from continuing operations:				
Unmanned Systems	$ 2.1	$ (0.1)	$ (3.0)	$ (27.7)
Kratos Government Solutions	(15.3)	6.9	1.7	17.3
Public Safety & Security	1.0	(1.3)	3.8	(3.0)
Unallocated corporate expense, net	(1.0)	(0.9)	(8.3)	(5.2)
Total operating income (loss) from continuing operations	$ (13.2)	$ 4.6	$ (5.8)	$ (18.6)

Note: The operating performance for Kratos Government Solutions for the three months and twelve months ended December 31, 2017 includes the non-cash impairment of goodwill of $24.2 million. Unallocated corporate expense, net includes costs for certain stock-based compensation programs (including stock-based compensation costs for stock options, employee stock purchase plan and restricted stock units), the effects of items not considered part of management's evaluation of segment operating performance, merger and acquisition expenses, corporate costs not allocated to the segments, and other miscellaneous corporate activities.

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

	Three Months Ended		Twelve Months Ended	
	December 31, 2017	**December 25, 2016**	**December 31, 2017**	**December 25, 2016**
Unmanned Systems	$ 4.1	$ 2.2	$ 6.8	$ 2.2
% of revenue	9.7%	8.6 %	5.6%	2.9 %
Kratos Government Solutions	12.6	12.1	43.0	43.1
% of revenue	10.2%	9.7 %	9.0%	9.3 %
Public Safety & Security	1.1	(0.9)	4.6	(0.3)
% of revenue	3.1%	(2.8)%	3.1%	(0.2)%
Total Adjusted EBITDA	$ 17.8	$ 13.4	$ 54.4	$ 45.0
% of revenue	8.8%	7.4 %	7.2%	6.7 %

Kratos Defense & Security Solutions, Inc.
Unaudited Condensed Consolidated Balance Sheets
(in millions)

	December 31, 2017	December 25, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 129.6	$ 69.1
Restricted cash	0.4	0.5
Accounts receivable, net	268.4	229.4
Inventoried costs	50.4	55.4
Prepaid expenses	12.9	8.9
Other current assets	9.6	9.8
Total current assets	471.3	373.1
Property, plant and equipment, net	61.2	49.8
Goodwill	461.2	485.4
Intangible assets, net	22.0	32.6
Other assets	8.3	7.7
Total assets	$ 1,024.0	$ 948.6
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 48.8	$ 52.7
Accrued expenses	45.6	50.0
Accrued compensation	34.8	39.1
Accrued interest	1.7	3.6
Billings in excess of costs and earnings on uncompleted contracts	47.2	41.8
Other current liabilities	9.7	7.7
Other current liabilities of discontinued operations	1.1	1.6
Total current liabilities	188.9	196.5
Long-term debt principal, net of current portion	293.5	431.0
Other long-term liabilities	26.3	41.0
Other long-term liabilities of discontinued operations	3.8	3.7
Total liabilities	512.5	672.2
Commitments and contingencies		
Stockholders' equity:		
Common stock	—	—
Additional paid-in capital	1,233.7	956.2
Accumulated other comprehensive loss	(1.4)	(1.7)
Accumulated deficit	(720.8)	(678.1)
Total stockholders' equity	511.5	276.4
Total liabilities and stockholders' equity	$ 1,024.0	$ 948.6

Kratos Defense & Security Solutions, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(in millions)

	Twelve Months Ended	
	December 31, 2017	December 25, 2016
Operating activities:		
Net loss	$ (42.7)	$ (60.5)
Less: loss from discontinued operations	(0.1)	(0.1)
Loss from continuing operations	(42.6)	(60.4)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities from continuing operations:		
Depreciation and amortization	22.5	22.8
Deferred income taxes	(10.2)	4.7
Stock-based compensation	7.8	5.1
Impairment of goodwill	24.2	—
Litigation related charges	—	1.7
Amortization of deferred financing costs	1.3	1.5
Amortization of discount on Senior Secured Notes	0.7	0.9
Loss on extinguishment of debt	17.3	(0.2)
Provision for non-cash restructuring costs	—	9.1
Provision for doubtful accounts	0.1	0.3
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(39.1)	(24.7)
Inventoried costs	7.1	(2.7)
Prepaid expenses and other assets	(6.6)	5.0
Accounts payable	(3.4)	2.9
Accrued compensation	(4.4)	2.3
Accrued expenses	(5.4)	16.5
Accrued interest	(1.9)	(0.3)
Billings in excess of costs and earnings on uncompleted contracts	5.4	(0.4)
Income tax receivable and payable	1.7	1.2
Other liabilities	(1.5)	2.3
Net cash used in operating activities from continuing operations	(27.0)	(12.4)
Investing activities:		
Cash paid for acquisitions, net of cash acquired	—	(5.1)
Change in restricted cash	—	0.3
Proceeds from the sale of assets	0.7	0.1
Capital expenditures	(26.5)	(9.2)
Net cash used in investing activities from continuing operations	(25.8)	(13.9)
Financing activities:		
Proceeds from the issuance of long-term debt	300.0	—
Payment of long-term debt	(448.8)	(14.1)
Proceeds from the issuance of common stock	269.1	76.2
Repayment of debt	(1.0)	(1.0)
Debt issuance costs	(6.6)	—

Proceeds from exercise of restricted stock units, employee stock options, and employee stock purchase plan	1.5	2.0
Other	(0.8)	—
Net cash provided by financing activities from continuing operations	113.4	63.1
Net cash flows from continuing operations	60.6	36.8
Net operating and investing cash flows of discontinued operations	(0.6)	4.1
Effect of exchange rate changes on cash and cash equivalents	0.5	(0.3)
Net increase in cash and cash equivalents	60.5	40.6
Cash and cash equivalents at beginning of period	69.1	28.5
Cash and cash equivalents at end of period	$ 129.6	$ 69.1

Kratos Defense & Security Solutions, Inc.

Unaudited Non-GAAP Measures

Computation of Adjusted Earnings Per Share

(in millions, except per share data)

Adjusted income (loss) from continuing operations and adjusted earnings per share (Adjusted EPS) are non-GAAP measure for reporting financial performance, exclude the impact of certain items and, therefore, have not been calculated in accordance with GAAP. Management believes that exclusion of these items assists in providing a more complete understanding of the Company's underlying continuing operations results and trends and allows for comparability with our peer company index and industry. The Company uses these measures along with the corresponding GAAP financial measures to manage the Company's business and to evaluate its performance compared to prior periods and the marketplace. The Company defines adjusted income (loss) from continuing operations before amortization of intangible assets, stock-based compensation, foreign transaction gain/loss, contract design retrofit costs, acquisition and restructuring related items and other, and impairment of goodwill. The Company uses the estimated cash tax provision in computing adjusted earnings per share to reflect the benefit from the utilization of the Company's net operating losses. Adjusted EPS expresses adjusted income (loss) from continuing operations on a per share basis using weighted average diluted shares outstanding.

The following table reconciles the most directly comparable GAAP financial measures to the non-GAAP financial measures.

	Three Months Ended		Twelve Months Ended	
	December 31, 2017	December 25, 2016	December 31, 2017	December 25, 2016
Loss from continuing operations before taxes	$ (34.0)	$ (3.6)	$ (50.8)	$ (52.3)
Add: Amortization of intangible assets	2.5	2.6	10.4	10.5
Add: Amortization of capitalized contract and development costs	0.2	—	0.5	—
Add: Stock-based compensation	1.0	0.9	7.8	5.1
Add: Loss/(gain) on extinguishment of debt	15.2	(0.2)	17.3	(0.2)
Add: Foreign transaction (gain)/loss	0.2	0.1	(0.4)	(0.4)
Add: Impairment of goodwill	24.2	—	24.2	—
Add: Acquisition and restructuring related items and other	—	2.1	4.7	35.3
Adjusted income (loss) from continuing operations before income taxes	9.3	1.9	13.7	(2.0)
Estimated cash tax provision	0.3	0.7	2.4	2.4
Adjusted income (loss) from continuing operations	$ 9.0	$ 1.2	$ 11.3	$ (4.4)
Diluted income per common share:				
Adjusted income (loss) from continuing operations	$ 0.09	$ 0.02	$ 0.12	$ (0.07)
Weighted average common shares outstanding				
Diluted	105.4	67.0	91.5	61.3

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