



Kratos Acquires Critical Infrastructure Security and Public Safety Business

SAN DIEGO, Jan. 3, 2012 (GLOBE NEWSWIRE) -- [Kratos Defense & Security Solutions, Inc.](#) (Nasdaq:KTOS), a leading National Security Solutions provider, announced today that it has acquired selected assets of a critical infrastructure security and public safety system integration business (the "Business") from a large international public company. The Business that Kratos has acquired is one of Kratos' Public Safety & Security (PSS) business unit's primary competitors across the United States. Kratos' PSS business has recently been generating both sequential and year over year organic revenue growth of approximately 20 percent. Similar to Kratos' PSS business, the Business that Kratos has acquired designs, engineers, deploys, manages and maintains specialty security systems at some of the United States' most strategic asset and critical infrastructure locations. Additionally, these security systems are typically integrated into command and control system infrastructure or command centers. Also similar to Kratos' PSS business unit, approximately 15 percent of the acquired Business' revenues are recurring in nature due to the operation, maintenance or sustainment of the security systems once deployed.

Ben Goodwin, President of Kratos' Public Safety & Security Division, said, "The acquisition of this critical infrastructure and security Business is a significant step for our PSS Division and all of Kratos. With this acquisition, we have essentially acquired one of our business' most formidable competitors and significantly expanded Kratos' PSS business capabilities, qualifications, customer relationships, contract portfolio and geographic depth and breadth. Together, the combined business will be one of the largest and most capable critical infrastructure security system integrators in the industry, with the scale and wherewithal to bid on and pursue some of this country's largest, most sophisticated and important security deployments. Also very importantly, the Business we have acquired has previously been awarded a multi-year security system deployment at one of our country's highest profile locations, with a potential future value of tens of millions of dollars, which provides added confidence in the success of this Business going forward."

For 2012, the acquired Business is expected to generate at least \$35 to \$45 million in revenue and at least \$4 to \$5 million in Adjusted EBITDA, after the realization of expected cost savings and synergies. The acquired Business has over \$20 million in customer accounts receivable and approximately \$18 million in working capital. Kratos will also receive a tax benefit from the acquisition. The purchase price paid by Kratos for the Business is \$20 million in cash, subject to potential adjustment for working capital at closing, and the purchase agreement contains standard and typical indemnifications and other provisions. The acquisition is expected to be accretive to Kratos.

Eric DeMarco, President and CEO of Kratos, said, "The acquisition of this critical infrastructure security Business for what we believe to be very favorable terms completes a 2011 where we believe we have advantageously positioned our Company for sustained future success. With the completion of this transaction, approximately 50 percent of Kratos' business is in the growing cyber warfare, critical infrastructure security and satellite communications areas, with an additional approximately 35 percent of our business focused on the solidly funded areas of electronic warfare, electronic attack, C5ISR, BMD and missile programs." Mr. DeMarco continued, "We believe that Kratos' business model is positioned to continue to generate significant free cash flow, some of which we utilized to acquire this Business and also to recently buy back 2 million shares of Kratos common stock, or approximately 6 percent of Kratos' outstanding shares. Additionally, we now have a 2012 Federal DoD budget which brings additional clarity and confidence as we enter the New Year."

B. Riley & Co. LLC acted as exclusive financial advisor to Kratos on this transaction. Bryant Riley, B. Riley's Founder and Chairman, provides strategic advice to Kratos and is assisting Kratos in the execution of its strategic business plan.

About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (Nasdaq:KTOS) is a specialized National Security technology business providing mission critical products, services and solutions for United States National Security priorities. 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, unmanned systems, cyber warfare, cyber security, information assurance, critical infrastructure security and weapons systems sustainment. Kratos has primarily an engineering and technical oriented work force of approximately 3,900, many of whom hold an active National Security clearance, including Secret, Top Secret and higher. The vast majority of Kratos' work is performed on a military base, in a secure facility or at a critical infrastructure location. Kratos' primary end customers are United States Federal Government agencies, including the Department of Defense, classified agencies, intelligence agencies and Homeland Security related agencies. News and information are available at www.KratosDefense.com.

The Kratos Defense & Security Solutions, Inc. logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=3519>

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. Factors that could cause actual results to differ materially from the forward-looking statements contained herein include, but are not limited to: any operational or cultural difficulties associated with the integration of the acquired assets into the business of Kratos; potential adverse reactions or changes to business relationships resulting from the asset purchase; unexpected costs, charges or expenses resulting from the asset purchase; litigation or adverse judgments relating to the asset purchase; the failure to realize synergies and cost savings from the transaction or delay in realization thereof; and any changes in general economic and/or industry-specific conditions. 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 26, 2010, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.

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Source: Kratos Defense & Security Solutions, Inc.

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