



## Kratos Defense & Security Solutions Acquires Southside

### Acquisition of Leading National Security Command and Control Center, Military Aviation, Law Enforcement, and Data Center Product and Solution Provider

#### Transaction Expected to be Immediately Accretive

SAN DIEGO, Dec. 7, 2010 (GLOBE NEWSWIRE) -- Kratos Defense & Security Solutions, Inc. (Nasdaq:KTOS), a leading national security solutions provider, announced today that it has acquired Southside Container & Trailer, LLC (Southside), a privately-held, premier provider of National Security related Command and Control Center, Law Enforcement, Military Aviation and Data Center Products, Shelters and Solutions for the United States Department of Defense, National Security agencies and related customers. Southside also provides products and solutions for specialized war fighter and critical asymmetric warfare related missions.

Founded in 2002 and headquartered in Walterboro, South Carolina, Southside designs, engineers, manufactures and delivers various products, shelters and solutions used primarily by the war fighter and first responder in fulfilling their respective National Security missions. Representative end customers and program locations include the United States Army, Marine Corps, Special Operations Command, SPAWAR, Fort Bragg, Fort Lewis, Fort Bliss, Fort McGregor, Fort Irwin, Fort Stewart, the Border Patrol and the National Guard. Southside is known for its superior design, engineering, and construction and its on schedule and on budget delivery of cost effective products and solutions that meet critical and special mission National Security and Asymmetric Warfare requirements.

"The acquisition of Southside has been an objective of our company's strategic road map for a long time, and the combination of our business and Southside is very exciting for our entire organization," said Tom Mills, President of Kratos' Gichner business unit. "Southside's reputation in the specialty military and war fighter product, shelter and systems market is extremely well known, as is Southside's reputation for innovation, rapid and on time solution delivery and unparalleled quality. We are confident that with Kratos' critical mass, added production capabilities, business development and financial resources, together the combined companies will be able to address new and larger market opportunities, and be meaningful contributors to Kratos' organic growth as we execute our business plan."

Southside will operate as part of Kratos' Gichner business unit, within Kratos' Weapons Systems Solutions Division. Gichner specializes in the design, engineering, manufacture and production of specialized products and solutions for critical National Security missions. Gichner products, shelters and solutions support the war fighter. Gichner's end customers include the Army, Navy, Air Force, Marine Corps and other National Security related customers.

"We are extremely excited to be joining forces with Kratos," said Sonny Miles, Founder and CEO of Southside, who will continue to lead the Southside business within Kratos. "We share the same dedication to providing outstanding products and solutions to our customers, on time and at an affordable cost. Additionally, both companies have an entrepreneurial culture, and we believe that as part of Kratos there will be significant new opportunities for Southside's employee base and customers, and for us to substantially grow our business."

Completion of the transaction is effective immediately and is expected to be immediately accretive to Kratos. The base purchase price paid at the closing of the transaction was \$12.5 million in cash. Up to an additional \$3.5 million may become payable by Kratos upon the future achievement by Southside of certain stipulated EBITDA amounts. Southside was acquired on a debt free and cash free basis, and is expected to contribute approximately \$8 to \$10 million of revenue and approximately \$2.5 million of EBITDA to Kratos' operations in 2011. Additionally, the parties have agreed to treat the transaction as an asset purchase for income tax purposes so that a step up in Southside's asset basis will result in favorable tax attributes and a reduction in Southside's expected future cash taxes to be paid on income.

Eric DeMarco, Kratos' President and CEO said, "From a strategic standpoint the acquisition of Southside is an outstanding fit for Kratos and our weapons systems sustainment business. Southside is in business areas that Kratos knows extremely well, are National Security priorities, and that demand a quick turnaround from product or solution requirements, through engineering, design and deployment at an affordable price. The key Southside executives have known the Kratos Gichner management team for a long period of time and are extremely comfortable with Kratos' culture, and Southside's Founder and CEO Sonny Miles has signed a long term employment agreement with our Company. On the financial side, the transaction is expected to be immediately accretive to all Kratos financial matrices at an approximate 5X EBITDA purchase price multiple."

B. Riley & Co. LLC and KeyBanc Capital Markets acted as/are financial advisors to Kratos Defense & Security Solutions, Inc.

## About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (Nasdaq:KTOS) provides mission critical products, services and solutions for United States National Security. Principal products, services and solution offerings relate to and support C5ISR, weapon systems sustainment, military weapon range operations and technical services, network engineering services, information assurance and cyber security solutions, security and surveillance systems, and critical infrastructure security system design and integration. The Company is headquartered in San Diego, California, with resources located throughout the U.S. and at key strategic military locations. News and information are available at [www.KratosDefense.com](http://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. Such statements relate to a variety of matters, including but not limited to: the benefits and synergies expected to result from the acquisition; the Company's expectations regarding the amount of revenue and EBITDA that will ultimately be recognized as a result of the acquisition; and other statements that are not purely statements of historical fact. 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 the Company 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 businesses of Kratos and Southside; potential adverse reactions or changes to business relationships resulting from the acquisition; unexpected costs, charges or expenses resulting from the acquisition; litigation or adverse judgments relating to the acquisition; 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 27, 2009, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.

CONTACT: Kratos Defense & Security Solutions, Inc.

Press Contact:

Yolanda White

858-812-7302

Investor Information:

877-934-4687

[investor@kratosdefense.com](mailto:investor@kratosdefense.com)



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