
**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): **August 21, 2015**

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
(IRS Employer Identification No.)

4820 Eastgate Mall, Suite 200
San Diego, California 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:

- 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))

Item 1.01 Entry into a Material Definitive Agreement.

Amendment to Credit Agreement

On August 19, 2015, Kratos Defense & Security Solutions, Inc. (the "Company") entered into a fourth amendment (the "Fourth Amendment") to our existing Credit and Security Agreement, dated as of May 14, 2014, as amended, with SunTrust Bank, a Georgia banking corporation, as administrative agent ("SunTrust") and certain other lenders party thereto (the "Credit Agreement"). Among other things, the Fourth Amendment provides for a modification of the Third Amendment as it relates to when the minimum fixed charge coverage ratio will be measured based upon the Company's outstanding borrowings. Outstanding borrowings for purposes of computing the applicable minimum fixed charge coverage ratio exclude any letter of credit exposure outstanding of \$17,000,000 plus the amount of letters of credit outstanding for the divested Herley Industries, Inc. entities for which a cash deposit held in escrow offsets the amount of such outstanding letters of credit.

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

Item 2.01 Completion of Acquisition or Disposition of Assets.

On August 21, 2015, the Company completed the sale to Ultra Electronics Holdings plc, a public limited company formed under the laws of England and Wales and traded on the London Stock Exchange ("Ultra"), and Ultra Electronics Defense Inc. ("Buyer"), a Delaware corporation ultimately owned by Ultra, of the U.S. and U.K. operations of the Company's Electronics Products Division (the "Transaction"). As previously disclosed, pursuant to the terms of the Stock Purchase Agreement the Company entered into on May 31, 2015 with Ultra and Buyer (the "Purchase Agreement"), the Company sold to the Buyer all of the issued and outstanding capital stock of its wholly owned subsidiary Herley Industries, Inc. ("Herley") and certain of Herley's subsidiaries, including Herley-CTI, Inc., EW Simulation Technology, Ltd. and Stapor Research, Inc. (collectively, the "Herley Entities"), for \$260.0 million in cash plus up to \$5.0 million for taxes incurred as part of the Transaction, less a \$2.0 million escrow to satisfy any purchase price adjustments and subject to certain working capital adjustments currently estimated as a net reduction of approximately \$7.6 million. Under the terms of the Purchase Agreement, a joint 338(h)(10) election will be made for income tax purposes, providing a "step up" in tax basis to Ultra. The Company expects to pay \$13.0 million in transaction-related costs, and expects to pay approximately \$10.0 million in federal and state income taxes on the sale, resulting in estimated net cash proceeds to the Company of \$232.4 million.

Immediately prior to the closing of the transaction, the outstanding shares of the capital stock of (i) General Microwave Corporation, a New York corporation, and its direct and indirect wholly owned subsidiaries General Microwave Israel Corporation, a Delaware corporation, General Microwave Israel (1987) Ltd., an Israeli company, and Herley GMI Eyal Ltd., an Israeli company, (ii) MSI Acquisition Corp., a Delaware corporation and its wholly owned subsidiary Micro Systems, Inc., a Florida corporation, and (iii) Herley-RSS, Inc., a Delaware corporation (collectively, the "**Excluded Subsidiaries**"), were distributed as a dividend by Herley to the Company and will continue their current operations as wholly owned subsidiaries of the Company.

The Company's 7% Senior Secured Notes (the "Notes") are governed by an Indenture dated May 14, 2014 (the "Indenture") among the Company, certain of the Company's subsidiaries (the "Guarantors") and Wilmington Trust, National Association, as Trustee and Collateral Agent. The terms of the Indenture require that the net cash proceeds from asset dispositions be either utilized to (1) repay or prepay amounts outstanding under the Company's Credit Agreement unless such amounts are reinvested in similar collateral, (2) make an investment in assets that replace the collateral of the Notes or (3) a combination of both (1) and (2). To the extent there are any remaining net proceeds from the asset disposition after application of (1) and (2), such amounts are required to be utilized to repurchase the Notes at par after 360 days following the asset disposition.

The Company intends to use the proceeds from the Transaction to initiate a repurchase process for up to \$175.0 million of the Notes at par, under the terms and conditions of the Indenture, and to pay down the \$41.0 million outstanding on the Company's \$110.0 million Credit Agreement.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

In connection with the closing of the Transaction, Richard Poirier ceased to serve as President of the Company's Electronic Products Division effective August 22, 2015.

The Company expects to provide Mr. Poirier with the cash bonus and the accelerated vesting of his unvested equity awards (excluding any equity awards tied to the market price of the Company's common stock) as provided under the terms of his bonus agreement, dated June 1, 2015. Mr. Poirier will also receive the compensation and benefits consistent with the severance provisions set forth in his employment agreement. A copy of Mr. Poirier's bonus agreement was attached as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission ("SEC") on June 2, 2015 and his employment agreement was attached as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on March 12, 2015.

Item 8.01 Other Events

On August 24, 2015, the Company issued press releases (1) announcing the closing of the Transaction and (2) announcing that the Company commenced a cash tender offer for up to \$175.0 million of the Company's Notes at par, upon the terms and conditions set forth in the Indenture and the Offer to Purchase and related Letter of Transmittal in connection with the tender offer. Copies of the press releases are attached hereto as Exhibit 99.1 and Exhibit 99.2, respectively, and are incorporated herein by reference.

This Current Report on Form 8-K and the press releases are neither an offer to purchase nor a solicitation of an offer to sell with respect to the Notes. The offer is made only by the Offer to Purchase and the related Letter of Transmittal.

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 proceeds from the Transaction, including the timing and proposed amounts of the Company's repurchase of its Notes and the Company's business plans and prospects. 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; the Company's inability to complete a repurchase of the Notes or the failure to realize interest expense savings from the repurchase or delay in realization thereof; 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 28, 2014, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by the Company.

Item 9.01 Financial Statements and Exhibits.

(b) *Pro forma financial information.*

Filed herewith as Exhibit 99.3 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 28, 2014, December 29, 2013, and December 30, 2012, of Kratos Defense & Security Solutions, Inc. to give effect to sale of all the issued and outstanding capital stock of its wholly owned subsidiary Herley Industries, Inc.

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 June 28, 2015, and the unaudited condensed consolidated statement of operations and comprehensive income (loss) for the six-month period ended June 28, 2015, in each case included in the Kratos Defense & Security Solutions, Inc. Form 10-Q for the quarterly period ended June 28, 2015, filed with the SEC on August 6, 2015.

(d) *Exhibits.*

Exhibit No.	Exhibit Description
2.1#†	Stock Purchase Agreement, dated May 31, 2015, by and among Kratos Defense & Security Solutions, Inc., Herley Industries, Inc., Ultra Electronics Defense Inc. and Ultra Electronics Holdings plc (incorporated by reference to Exhibit 2.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 28, 2015, filed with the SEC on August 6, 2015).
10.1	Fourth Amendment to Credit and Security Agreement, dated August 19, 2015, among Kratos Defense & Security Solutions, Inc., as Borrower, each of the Credit Parties and Required Lenders party thereto and SunTrust Bank as Agent.
99.1	Press release, dated August 24, 2015
99.2	Press release, dated August 24, 2015
99.3	Unaudited pro forma condensed consolidated statements of operations for the fiscal years ended December 28, 2014, December 29, 2013, and December 30, 2012, of Kratos Defense & Security Solutions, Inc.

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 Securities and Exchange Commission upon request.

† This Exhibit has been filed separately with the Secretary of the Securities and Exchange Commission without the redaction pursuant to a Confidential Treatment Request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

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: August 24, 2015

Kratos Defense & Security Solutions, Inc.

By: /s/ Deborah S. Butera

Name: Deborah S. Butera

Title: Senior Vice President, General Counsel/Registered In-House Counsel, Chief Compliance Officer, and Secretary

EXHIBIT INDEX

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FOURTH AMENDMENT TO CREDIT AND SECURITY AGREEMENT

This FOURTH AMENDMENT TO CREDIT AND SECURITY AGREEMENT, LIMITED CONSENT, AND WAIVER (this “Agreement”) is made as of August 20, 2015, 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 Credit and Security Agreement, dated as of May 14, 2014 (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 Guaranty of Payment, dated as of May 14, 2014, 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 Security Agreement, dated as of May 14, 2014, executed by the Credit Parties in favor of Agent.

C. The Borrower has requested certain modifications to the Credit Agreement, and Agent and the Required Lenders have agreed to the modification of certain provisions contained in the Credit Agreement upon the terms and conditions hereinafter set forth.

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.** Effective as of the date hereof:

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

“Herley” means Herley Industries, Inc., a Delaware corporation.

“Herley Letter of Credit” means each Letter of Credit issued by a Fronting Lender for the account of Herley, Herley – CTI, Inc., EW Simulation Technology Ltd. or Stapor Research.

“LC Escrow Account” means that certain deposit account no. 7959637 Kratos Def Ultra Electronics Def SL with SunTrust established pursuant to that certain Cash Collateral Escrow Agreement dated as of August 21, 2015, among the Borrower, Herley, Ultra Electronics Defense Inc., a Delaware corporation, and Ultra Electronics Holdings plc, a public limited company formed under the laws of England and Wales.

“LC Escrow Amount” means, at any time, the aggregate amount on deposit at such time in the LC Escrow Account.

“Third Amendment” means that certain Third Amendment to Credit and Security Agreement, Limited Consent and Waiver dated as of May 31, 2015, by and among the Borrower, each of the other Credit Parties identified as such on the signature pages thereof, each of the lenders signatory thereto constituting the Required Lenders and Agent.”

(b) Amendment to Section 5.7 of the Credit Agreement. Section 5.7 of the Credit Agreement is amended and restated to read in its entirety as follows:

“(a) Fixed Charge Coverage Ratio. The Borrower and its Subsidiaries will maintain at all times a Fixed Charge Coverage Ratio of at least 1.15 to 1.00, measured on a Consolidated basis as of the end of each Quarterly Reporting Period, commencing with the Quarterly Reporting Period ending on or about June 30, 2014. Notwithstanding the foregoing, the Fixed Charge Coverage Ratio will not be measured as of the end of (i) the Quarterly Reporting Period ending on or about June 30, 2015, or (ii) any Quarterly Reporting Period ending after June 30, 2015, if on such date (A) there are no outstanding Revolving Loans or Swingline Loans and (B) the Letter of Credit Exposure is less than or equal to the sum of (x) \$17,000,000 plus (y) the LC Escrow Amount on such date; provided, however, that for each Quarterly Reporting Period ending after June 30, 2015, that does not satisfy the conditions set forth in clause (ii) above, the Borrower and its Subsidiaries will maintain a Fixed Charge Coverage Ratio of at least the amount specified below for the applicable category, in each case measured on a Consolidated basis as of the end of such Quarterly Reporting Period:

Category

Ratio

(A) If on such date the ratio of (1) the sum of (xx) the outstanding principal amount of Revolving Loans plus (yy) the outstanding amount of Swingline Exposure plus (zz) the amount of Letter of Credit Exposure in excess of the sum of (1) \$17,000,000 plus (2) the LC Escrow Amount, to (2) (xx) the amount of the Revolving Credit Commitment minus (yy) the amount of the Herley Disposition Proceeds Reinvestment Reserve, is greater than 0.00% but less than 15.00%: (A) 1.05 to 1.00

(B) If on such date the ratio of (1) the sum of (xx) the outstanding principal amount of Revolving Loans plus (yy) the outstanding amount of Swingline Exposure plus (zz) the amount of Letter of Credit Exposure in excess of the sum of (1) \$17,000,000 plus (2) the LC Escrow Amount, to (2) (xx) the amount of the Revolving Credit Commitment minus (yy) the amount of the Herley Disposition Proceeds Reinvestment Reserve, is equal to or greater than 15.00% but less than 25.00%: (B) 1.10 to 1.00

(C) In all other cases: (C) 1.15 to 1.00

For purposes of this Section 5.7, the undrawn amount of any Herley Letter of Credit for which the Borrower has both (a) caused to be deposited with the applicable Fronting Lender, in its capacity as a Fronting Lender, either cash or a Supporting Letter of Credit that, in either case, is (i) in an amount equal to at least one hundred five percent (105%) of the amount of such Letter of Credit) and (ii) free and clear of all rights and claims of third parties, and (b) executed all such documentation as the applicable Fronting Lender has requested in connection with the continued existence of such Letter of Credit as a stand-alone obligation, shall not be considered outstanding "Letter of Credit Exposure."

(c) Amendment to Section 2 of the Third Amendment. Section 2 of the Third Amendment is amended and restated in its entirety to read as follows:

"2. **Limited Consent and Waiver.** Agent and the Required Lenders hereby (a) consent to the Herley Disposition and (b) waive any Default or Event of Default that would otherwise occur under the Credit Agreement solely as a result of the Herley Disposition or any action taken by a Credit Party under or pursuant to any of the Herley Purchase Documents. Notwithstanding the foregoing, the consent and waiver granted hereby are subject to the conditions that (i) the Herley Disposition shall have been effectuated in a manner consistent with the definition of the Herley Disposition; (ii) the Borrower shall have delivered to Agent (A) copies of the Herley Purchase Documents certified by an Authorized Officer of the Borrower as being true, correct and complete, (B) specimen signature and incumbency certificates for the officers of each Credit Party executing any of the Herley Purchase Documents, and (C) resolutions of the board of directors (or similar governing body) of each Credit Party that is a party to any of the Herley Purchase Documents approving and authorizing the execution, delivery and performance of the Herley Purchase Documents to which it is a party and all other documents executed by such Credit Party in connection therewith, certified by its secretary or an assistant secretary as being in full force and effect without modification or amendment; (iii) all conditions precedent to the closing of the Herley Disposition shall have been satisfied or waived; (iv) immediately prior to, and after giving effect to, the Herley Disposition (A) no Event of Default (other than any Event of Default that would occur solely as a result of the Herley Disposition) shall have occurred or be continuing and (B) the representations and warranties contained herein and in the Credit Agreement and the other Loan Documents are true and correct as of such date, as if made on such date, except for those representations and warranties specifically made as of the earlier date, which shall be true and correct as of such earlier date; and (v) with respect to each outstanding Herley Letter of Credit for which SunTrust is the Fronting Lender, Borrower shall have (A) caused to be deposited with SunTrust, in its capacity as a Fronting Lender, either cash or a Supporting Letter of Credit that, in either case, is (1) in an amount equal to one hundred ten percent (110%) of the undrawn amount of such Outstanding Herley Letters of Credit and (2) free and clear of all rights and claims of third parties, and (B) executed all such documentation as SunTrust shall request in connection with the survival of such Outstanding Herley Letters of Credit as stand-alone obligations, and upon Borrower's satisfaction of such conditions, such Herley Letters of Credit shall no longer be considered outstanding under the Revolving Credit Commitment. Except as expressly set forth in this Agreement, the

consent and waiver by Agent and the Required Lenders under this Agreement is not intended, and shall not be construed (a) to modify or otherwise affect any of the provisions of the Credit Agreement or the other Loan Documents, (b) as a waiver of any of Agent's or any Lender's rights under the Credit Agreement or any other Loan Document, or (c) as an authorization or a consent by Agent and the Lenders to any further actions by any Credit Party not otherwise permitted by the Loan Documents."

(d) Amendment to Section 3 of the Third Amendment. Section 3 of the Third Amendment is amended and restated in its entirety to read as follows:

"3. **Covenant of the Credit Parties.** In consideration of the agreements set forth herein, the Credit Parties shall deliver to SunTrust for cancellation all of the outstanding Herley Letters of Credit issued by SunTrust, as Fronting Lender, within one (1) Business Day following the expiration date thereof and, for the avoidance of doubt, shall not permit any renewal thereunder."

2. **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.

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 Amendment.

3. **Representations and Warranties.** To induce Agent and the Required Lenders to enter into this Agreement, each Credit Party, by its signature below, hereby:

(a) 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;

(b) 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;

(c) 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

(d) 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.

4. **Miscellaneous.**

(a) The Credit Parties are hereby notified that irrespective of (i) any waivers previously granted by Agent regarding the Loan Documents, (ii) any previous failures or delays of Agent in exercising any right, power or privilege under the Loan Documents, or (iii) any previous failures or delays of Agent in the monitoring or in the requiring of compliance by the Credit Parties with their respective duties, obligations and agreements under the Loan Documents, hereafter the Credit Parties will be expected to comply strictly with their duties, obligations and agreements under the Loan Documents. All of the Liens of Agent in the Collateral shall continue.

(b) 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.

(c) 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.

(d) 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.

(e) 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).

(f) 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.

(g) 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.

(h) Borrower shall promptly pay to Agent all fees and expenses (including attorneys' fees) owed to or incurred by Agent or Lenders arising in connection with the Loan Documents or this Agreement.

[Signatures on following page]

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 Required Lender

By:
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.

PNC BANK, NATIONAL ASSOCIATION,
a Required Lender

By:
Name:
Title:

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.

CATHAY BANK,

a Required Lender

By:
Name:
Title:

[Kratos] Fourth Amendment
#36998848

BORROWER:

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

By:
Name:
Title:

[Signature Page to Limited Consent and Fourth Amendment]

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
KPSS GOVERNMENT SOLUTIONS, INC.
KRATOS INTEGRAL HOLDINGS, LLC
KRATOS INTEGRAL SYSTEMS INTERNATIONAL, INC.
KRATOS NETWORKS, INC.
KRATOS SYSTEMS AND SOLUTIONS, INC.
KRATOS DEFENSE & ROCKET SUPPORT SERVICES, INC.
KRATOS PUBLIC SAFETY & SECURITY
SOLUTIONS, INC.
KRATOS SOUTHEAST, INC.
KRATOS TEXAS, INC.
WFI NMC CORP.
KRATOS TECHNOLOGY & TRAINING
SOLUTIONS, INC.
KRATOS UNMANNED SYSTEMS SOLUTIONS, INC.

By: __
Deanna H. Lund
Executive Vice President & Chief Financial Officer

REALITY BASED IT SERVICES, LTD.
SHADOW I, INC.
SHADOW II, INC.
DIGITAL FUSION, INC.
DIGITAL FUSION SOLUTIONS, INC.
SUMMIT RESEARCH CORPORATION
HENRY BROS. ELECTRONICS, INC.,
a Delaware corporation
HENRY BROS. ELECTRONICS, INC.,
a Colorado corporation
HENRY BROS. ELECTRONICS, INC.,
a New Jersey corporation
HENRY BROS. ELECTRONICS, INC.,
a California corporation
DIVERSIFIED SECURITY SOLUTIONS, INC.
HENRY BROS. ELECTRONICS, L.L.C.
NATIONAL SAFE OF CALIFORNIA
LVDM, INC.
AIRORLITE COMMUNICATIONS, INC.
HERLEY INDUSTRIES, INC.
GENERAL MICROWAVE CORPORATION
GENERAL MICROWAVE ISRAEL
CORPORATION
HERLEY CTI, INC.
STAPOR RESEARCH, INC.
MSI ACQUISITION CORP.
MICRO SYSTEMS, INC.
HERLEY RSS, INC.
REAL TIME LOGIC, INC.
SAT CORPORATION
SECUREINFO CORPORATION
AI METRIX, INC.
POLEXIS, INC.

By: __
Deanna H. Lund
Executive Vice President & Chief Financial Officer

KRATOS SOUTHWEST L.P.,
by Kratos Texas, Inc., its General Partner

By: __
Deanna H. Lund
Executive Vice President & Chief Financial Officer



Press Contact:
Yolanda White
858-812-7302 Direct

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877-934-4687
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Kratos Completes Sale of the U.S. and U.K. Operations of Its Electronic Products Division

Kratos Intends to Use Proceeds To Initiate a Repurchase Process for \$175 million of 7 Percent Senior Secured Notes at Par

SAN DIEGO, CA, August 24, 2015 – Kratos Defense & Security Solutions, Inc. (Nasdaq: KTOS), a leading National Security Solutions provider, announced today that it has completed the previously announced sale of the U.S. and U.K. operations of its Electronic Products Division (the “EPD Operations”) to Ultra Electronics Holdings plc for \$260 million in cash plus up to \$5 million for taxes incurred as part of the transaction, less a \$2.0 million escrow to satisfy any purchase price adjustments and a working capital adjustment currently estimated as a net reduction of \$7.6 million (the “Transaction”). The Company expects to pay \$13 million in transaction-related costs and approximately \$10 million in federal and state income taxes, resulting in net cash proceeds to the Company of approximately \$232.4 million.

Kratos’ Microwave Electronic Products business post-Transaction includes operations and manufacturing facilities in Israel that provide Solid State Power Amplifiers (SSPAs), Integrated Microwave Assemblies (IMAs), beam forming modules, waveform and signal generators and other electronic subsystems for missile, electronic warfare, radar, satellite communications, precision guided munitions, unmanned systems, navigation warfare and other platforms, primarily for international defense customers. Major programs supported by Kratos’ Microwave Electronic Products business include Iron Dome, BARAK, SPYDER, David’s Sling, Arrow, and Eurofighter. Additionally, in 2013, Kratos reorganized to better align its businesses with the Company’s strategic plan, combining its unmanned command, control, communications, airborne avionics, ground and seaborne systems business, formerly a part of EPD, with Kratos’ Unmanned Systems Division. These assets also remain with Kratos post-Transaction.

Kratos currently intends to use proceeds from the Transaction to initiate a repurchase process for up to \$175 million of its 7 Percent Senior Secured Notes (the “Notes”) at par. In addition, Kratos has paid down all outstanding amounts on its \$110 million bank credit facility, which totaled approximately \$41 million. In connection with the Transaction, the Company also amended its credit facility to allow for this divestiture as well as provide a permanent reduction in the financial covenants for future periods under the credit agreement.

This press release does not constitute a solicitation or an offer to repurchase the Company’s Notes, nor shall there be a solicitation or offer in any state or jurisdiction in which such solicitation would be unlawful prior to qualification under the Securities laws of such state or jurisdiction. The offer

will be made only by the Offer to Purchase and the related Letter of Transmittal. In addition, the repurchase will be made only to such persons and in such jurisdictions as is permitted under applicable law.

About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (Nasdaq:KTOS) is a specialized Technology Company 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 and Intelligence, Surveillance and Reconnaissance (C5ISR) systems, satellite communications, electronic warfare, unmanned systems, hypersonic systems, directed and high power energy systems, electromagnetic railgun, missile defense, cyber warfare, cybersecurity, information assurance, and critical infrastructure security. Kratos has primarily an engineering and technically oriented work force of approximately 3,100. 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

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, include, but are not limited to, statements regarding the estimated net cash proceeds from the Transaction and the remaining tax NOL carryforwards that may be utilized by the Company after the Transaction; the Company's planned use of the proceeds from the Transaction, including the timing and proposed amounts of the Company's repurchase of its Notes; and the Company's business plans and prospects. 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, including risks related to the Company's ability to complete the Transaction; 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; the Company's inability to complete a repurchase of the Notes or the failure to realize interest expense savings from the repurchase or delay in realization thereof; 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 Kratos 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 Kratos in general, see the risk disclosures in the Annual Report on Form 10-K of Kratos for the year ended December 28, 2014, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.



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**Kratos Announces Cash Tender Offer For Up To
\$175 Million Aggregate Principal Amount of its
7.000% Senior Secured Notes due 2019**

SAN DIEGO, CA, August 24, 2015 — Kratos Defense & Security Solutions, Inc. (Nasdaq: KTOS), a leading National Security Solutions provider, announced today the commencement of a tender offer for up to \$175 million aggregate principal amount of its 7.000% Senior Secured Notes due 2019 (CUSIP No. 50077BAL2) (“Notes”) on the terms and conditions set forth in the Offer to Purchase, dated August 24, 2015, and related Letter of Transmittal, which set forth a more detailed description of the offer.

Under the terms of the offer, Kratos will purchase outstanding Notes for cash at par plus accrued and unpaid interest. The offer will be funded with a portion of the net proceeds resulting from the sale of the U.S. and U.K. operations of Kratos’ Electronic Products Division. The tender offer is being made in connection with Kratos’ obligation following a sale of assets under the Indenture pursuant to which the Notes were issued. If more than \$175 million aggregate principal amount of Notes are validly tendered and not withdrawn, Kratos will purchase Notes on a pro-rata basis (with such adjustments as may be deemed appropriate so that only Notes in denominations of \$2,000 or integral multiples of \$1,000 in excess thereof are purchased in part or remain outstanding in part) (subject to DTC procedures).

The tender offer will expire at 11:59 p.m., New York City time, on September 21, 2015, unless extended or earlier terminated. Settlement is expected to occur on the first business day after the expiration date.

Kratos has retained SunTrust Robinson Humphrey, Inc. to act as dealer manager and D.F. King & Co. to act as tender agent and information agent for the tender offer. Questions about the tender offer may be directed to SunTrust Robinson Humphrey, Inc. at (404) 926-5047 or D.F. King & Co. at (800) 870-0653 (toll free). Copies of the Offer to Purchase, Letter of Transmittal and other related documents for the tender offer may be obtained by calling or e-mailing D.F. King & Co. at (212) 269-5550 or kratos@dfking.com.

The complete terms and conditions of the tender offer are set forth in the Offer to Purchase and Letter of Transmittal, which are being sent to holders of the Notes. Holders of the Notes are urged to read these documents carefully before making any decision with respect to the tender offer.

This announcement is neither an offer to purchase nor a solicitation of an offer to purchase with respect to the Notes. The offer will be made only by the Offer to Purchase and the related Letter of Transmittal.

About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (Nasdaq:KTOS) is a specialized Technology Company 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 and Intelligence, Surveillance and Reconnaissance (C5ISR) systems, satellite communications, electronic warfare, unmanned systems, hypersonic systems, directed and high power energy systems, electromagnetic railgun, missile defense, cyber warfare, cybersecurity, information assurance, and critical infrastructure security. Kratos has primarily an engineering and technically oriented work force of approximately 3,100. 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

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 include the proposed timing and expiration date of the Company's tender offer to repurchase the Notes. 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. 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 28, 2014, 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 August 21 2015, Kratos Defense & Security Solutions, Inc. ("Kratos" or the "Company") completed the sale of the U.S. and U.K. operations of the Company's Electronics Products Division (the "Transaction"). The Company sold all of the issued and outstanding capital stock of its wholly-owned subsidiary Herley Industries, Inc. ("Herley") and certain of Herley's subsidiaries, including Herley-CTI, Inc., EW Simulation Technology, Ltd. and Stapor Research, Inc. (collectively, the "Herley Entities"), for \$260.0 million in cash plus up to \$5.0 million for taxes incurred as part of the Transaction, less a \$2.0 million escrow to satisfy any purchase price adjustments and subject to certain working capital adjustments currently estimated as a net reduction of approximately \$7.6 million. The Company expects to pay \$13.0 million in transaction-related costs and expects to pay approximately \$10.0 million in federal and state income taxes on the sale, resulting in estimated net cash proceeds to the Company of \$232.4 million.

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 2014 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on March 13, 2015.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year ended December 28, 2014
(in millions, except per share amounts)
(Unaudited)

	Historical	Pro Forma Adjustments		Pro Forma
		(a)		
Service revenues	\$ 390.8	\$ —	\$ —	\$ 390.8
Product sales	477.2	(108.9)	4.0 (d)	372.3
Total revenues	868.0	(108.9)	4.0	763.1
Cost of service revenues	304.6	—	—	304.6
Cost of product sales	345.2	(70.1)	4.0 (d)	279.1
Total costs	649.8	(70.1)	4.0	583.7
Gross profit	218.2	(38.8)	—	179.4
Selling, general and administrative expenses	173.4	(19.6)	(0.2) (e)	153.6
Merger and acquisition related items	0.2	—	—	0.2
Research and development expenses	23.0	(4.4)	—	18.6
Unused office space and other restructuring	1.7	—	—	1.7
Operating income (loss) from continuing operations	19.9	(14.8)	0.2	5.3
Other income (expense):				
Interest expense, net	(54.3)	—	15.0 (b)	(39.3)
Loss on extinguishment of debt	(39.1)	—	—	(39.1)
Other income, net	0.6	0.6	—	1.2
Total other expense, net	(92.8)	0.6	15.0	(77.2)
Income (loss) from continuing operations before income taxes	(72.9)	(14.2)	15.2	(71.9)
Provision for income taxes from continuing operations	5.1	—	1.2 (c)	3.9
Loss from continuing operations	\$ (78.0)	\$ (14.2)	\$ 16.4	\$ (75.8)
Basic and diluted loss per common share	\$ (1.35)			\$ (1.32)
Basic and diluted weighted average common shares outstanding	57.6			57.6

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year ended December 29, 2013
(in millions, except per share amounts)
(Unaudited)

	Historical	Pro Forma Adjustments		Pro Forma
		(a)		
Service revenues	\$ 443.6	\$ —	\$ —	\$ 443.6
Product sales	507.0	(110.9)	4.3 (d)	400.4
Total revenues	950.6	(110.9)	4.3	844.0
Cost of service revenues	335.2	—	—	335.2
Cost of product sales	375.4	(75.4)	4.3 (d)	304.3
Total costs	710.6	(75.4)	4.3	639.5
Gross profit	240.0	(35.5)	—	204.5
Selling, general and administrative expenses	193.0	(20.1)	(0.2) (e)	172.7
Merger and acquisition related items	(3.8)	—	—	(3.8)
Research and development expenses	21.4	(1.7)	—	19.7
Unused office space and other restructuring	(2.4)	—	—	(2.4)
Operating income (loss) from continuing operations	31.8	(13.7)	0.2	18.3
Other income (expense):				
Interest expense, net	(63.7)		17.5 (b)	(46.2)
Other income (expense), net	—	(0.4)	—	(0.4)
Total other expense, net	(63.7)	(0.4)	17.5	(46.6)
Income (loss) from continuing operations before income taxes	(31.9)	(14.1)	17.7	(28.3)
Provision for income taxes from continuing operations	—	—	(1.1) (c)	1.1
Loss from continuing operations	\$ (31.9)	\$ (14.1)	\$ 16.6	\$ (29.4)
Basic and diluted loss per common share	\$ (0.56)			\$ (0.52)
Basic and diluted weighted average common shares outstanding:	56.8			56.8

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year ended December 30, 2012
(in millions, except per share amounts)
(Unaudited)

	Historical	Pro Forma Adjustments		Pro Forma
		(a)		
Service revenues	\$ 450.0	\$ —	\$ —	\$ 450.0
Product sales	519.2	(122.2)	2.6 (d)	399.6
Total revenues	969.2	(122.2)	2.6	849.6
Cost of service revenues	350.8	—	—	350.8
Cost of product sales	361.2	(77.6)	2.6 (d)	286.2
Total costs	712.0	(77.6)	2.6	637.0
Gross profit	257.2	(44.6)	—	212.6
Selling, general and administrative expenses	193.1	(22.8)	(0.1) (e)	170.2
Merger and acquisition related items	(2.7)	—	—	(2.7)
Research and development expenses	17.8	(1.5)	—	16.3
Impairment of goodwill and intangible assets	96.6	—	—	96.6
Unused office space and other restructuring	2.1	—	—	2.1
Operating income (loss) from continuing operations	(49.7)	(20.3)	0.1	(69.9)
Other income (expense):				
Interest expense, net	(66.1)	—	17.5 (b)	(48.6)
Other income, net	1.3	(0.4)	—	0.9
Total other expense, net	(64.8)	(0.4)	17.5	(47.7)
Income (loss) from continuing operations before income taxes	(114.5)	(20.7)	17.6	(117.6)
Benefit for income taxes from continuing operations	(1.6)	—	0.7 (c)	(2.3)
Loss from continuing operations	\$ (112.9)	\$ (20.7)	\$ 18.3	\$ (115.3)
Basic and diluted loss per common share	\$ (2.41)			\$ (2.46)
Basic and diluted weighted average common shares outstanding:	46.9			46.9

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 Kratos Defense & Security Solutions, Inc. (“Kratos” or the “Company”), which were included in its Annual Report on Form 10-K for the fiscal year ended December 28, 2014, filed with the U.S. Securities and Exchange Commission on March 13, 2015. 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 its wholly-owned subsidiary Herley Industries, Inc. as if it had occurred on the first day of the respective fiscal year.

Pro Forma Adjustments

(a) Deconsolidation of the Herley Entities for the fiscal years ended December 28, 2014, December 29, 2013 and December 30, 2012, respectively, to reflect as discontinued operations.

(b) Interest expense has been allocated to discontinued operations as a result of the expected minimum mandatory redemption of \$175.0 million of the Company's 7% Senior Secured Notes with similar interest allocation related to pro forma redemption of the Company's previously outstanding 10% Senior Secured Notes and the estimated pay down of \$41.0 million of outstanding borrowings on the Company's Credit Agreement that will be repaid with the net proceeds upon the completion of the sale of the Herley Entities in accordance with the terms and conditions under the respective Indenture Agreements and Credit Agreement, and as required under the accounting literature.

(c) Income tax expense or benefit for continuing and discontinued operations for the fiscal years ended December 28, 2014, December 29, 2013 and December 30, 2012 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 the fiscal year ended December 30, 2012, 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.

(d) Adjustment to product sales and cost of product sales reflects sales activity between the Company and the Herley Entities 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.

(e) Stock compensation expense for employees of the Herley Entities has been allocated to discontinued operations.