UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (date of earliest event reported): **July 2, 2012**

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**001-34460**	**13-3818604**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

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)

N/A
(Former name, or former address, if changed since last report)

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))

EXPLANATORY NOTE

This Amendment No. 2 (this "Amendment") on Form 8-K/A amends the Current Report on Form 8-K/A filed with the Securities and Exchange Commission (the "SEC") on July 27, 2012 ("Amendment No.1") by Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "Company"), to provide additional financial statements and exhibits in connection with the Company's acquisition of Composite Engineering, Inc., a California corporation ("CEI"), on July 2, 2012.

Amendment No. 1 provided historical information of CEI and the Company's unaudited pro forma financial information relating to the effects of the acquisition to include the unaudited pro forma condensed combined balance sheet as of March 25, 2012 and the unaudited pro forma combined and condensed combined statement of operations for the year ended December 25, 2011 and the three months ended March 25, 2012. This Amendment amends Item 9.01(a) and Item 9.01(b) of Amendment No. 1 to provide certain historical financial information of CEI and the Company's unaudited pro forma financial information relating to the effects of the acquisition, including the unaudited pro forma condensed combined balance sheet as of June 24, 2012 and the unaudited pro forma condensed combined statement of operations for the six months ended June 24, 2012. In addition, the Company has revised its consolidated financial statements in accordance with *FASB ASC Topic 205, Presentation of Financial Statements ("Topic 205")* to reflect the discontinuation of certain non-core businesses in June 2012 which were not reflected in Amendment No. 1. Accordingly this Amendment updates the unaudited pro forma combined statement of operations for the year ended December 25, 2011 to reflect this change.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The (i) audited historical financial information of CEI (including the notes thereto) as of January 1, 2011 and December 31, 2011 and for the fiscal years ended December 26, 2009, January 1, 2011 and December 31, 2011, and (ii) unaudited historical financial information of CEI as of and for the three months ended March 31, 2011 and 2012 were filed as Exhibits 99.3 and 99.4, respectively, to the Current Report on Form 8-K filed by the Company with the SEC on May 8, 2012 and are incorporated herein by reference. The unaudited historical financial information of CEI (including the notes thereto) as of and for the six months ended June 30, 2012 and July 2, 2011 is attached hereto as Exhibit 99.1.

(b) Pro Forma Financial Statements.

The unaudited pro forma condensed combined balance sheet as of June 24, 2012, the unaudited pro forma condensed combined statement of operations for the six months ended June 24, 2012, and the unaudited pro forma combined statement of operations for the year ended December 25, 2011 are attached hereto as Exhibit 99.2.

(d) Exhibits.

99.1	Unaudited condensed financial statements of Composite Engineering, Inc. as of June 30, 2012 and for the three and six months ended June 30, 2012 and July 2, 2011 and the related notes to the condensed financial statements.
99.2	Unaudited pro forma condensed combined balance sheet as of June 24, 2012, unaudited pro forma condensed combined statement of operations for the six months ended June 24, 2012, and unaudited pro forma combined statement of operations for the year ended December 25, 2011.

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.

By: /s/ Deborah Butera
Deborah Butera
Senior Vice President, General Counsel, Chief Compliance Officer and
Secretary/Registered In-House Counsel

Date: July 25, 2013

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COMPOSITE ENGINEERING, INC.
CONDENSED BALANCE SHEETS

	UNAUDITED JUNE 30, 2012	DECEMBER 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 8,764,689	$ 146,637
Billed contracts receivable	3,986,540	9,791,261
Unbilled contracts receivable	7,562,909	11,057,100
Inventory, net	10,874,218	11,180,387
Prepaid expenses and advances	2,482,035	1,819,158
Restricted cash	3,800,000	5,700,000
Total current assets	37,470,391	39,694,543
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET	6,804,809	5,516,612
OTHER ASSETS		
Restricted cash	1,133,889	1,133,889
Other asset	441,631	—
Deposits	1,236,868	1,068,468
	$ 47,087,588	$ 47,413,512
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit	$ —	$ 4,800,000
Accounts payable	7,429,328	7,479,952
Accrued expenses	9,193,644	9,954,384
Unearned income	11,483,535	6,285,282
Note payable - stockholder	—	22,427
Current maturities of long-term debt	734,176	500,000
Current maturities of capital lease obligations	301,826	298,132
Total current liabilities	29,142,509	29,340,177
LONG-TERM LIABILITIES		
Long-term debt, net of current maturities	1,120,235	1,166,667
Accrued expenses	153,706	—
Capital lease obligations, net of current maturities	376,410	490,599
Total long-term liabilities	1,650,351	1,657,266
Total liabilities	30,792,860	30,997,443
STOCKHOLDERS' EQUITY		
Common stock, no par value 1,000,000 shares authorized, 300,000 issued and outstanding	300,000	300,000
Additional paid-in capital	1,000,000	1,000,000
Retained earnings	14,994,728	15,116,069

Total stockholders' equity	16,294,728	16,416,069
	$ 47,087,588	$ 47,413,512

The accompanying notes are an integral part of these condensed financial statements

COMPOSITE ENGINEERING, INC.
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
CONTRACT REVENUES EARNED	$ 27,196,211	$ 24,729,558	$ 52,076,847	$ 45,753,654
COST OF CONTRACT REVENUES	23,750,170	16,820,947	41,329,697	31,342,234
Gross profit	3,446,041	7,908,611	10,747,150	14,411,420
GENERAL AND ADMINISTRATIVE EXPENSES	5,459,800	2,611,276	10,780,965	5,776,274
Income (loss) from operations	(2,013,759)	5,297,335	(33,815)	8,635,146
OTHER INCOME (EXPENSE)				
Other, net	(121,984)	7,396	(107,575)	16,811
Interest expense	(106,139)	(107,962)	(189,889)	(230,919)
Total other expense, net	(228,123)	(100,566)	(297,464)	(214,108)
NET INCOME (LOSS)	$ (2,241,882)	$ 5,196,769	$ (331,279)	$ 8,421,038

The accompanying notes are an integral part of these condensed financial statements

COMPOSITE ENGINEERING, INC.
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	SIX MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (331,279)	$ 8,421,038
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization expense	597,916	895,230
Changes in operating assets and liabilities:		
Billed contracts receivable	5,804,721	1,328,079
Unbilled contracts receivable	3,494,191	(5,066,336)
Inventory	306,169	2,614,127
Prepaid expenses	(662,877)	(2,918,114)
Accounts payable	(50,624)	109,748
Accrued expense	3,318,904	(672,660)
Unearned income	5,198,253	7,833,439
Net cash from operating activities	17,675,374	12,544,551
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment and leasehold improvements	(1,883,889)	(837,319)
Proceeds from sale of equipment	70,941	—
Reductions (additions) to restricted cash	1,900,000	(6,743,899)
Increase in other asset	(441,631)	—
Increase in deposits	(168,400)	157,252
Net cash from investing activities	(522,979)	(7,423,966)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on line of credit	(7,550,000)	(11,750,000)
Borrowings on line of credit	2,750,000	9,950,000

Repayments on stockholder note	(22,427)	(20,708)
Borrowings on long-term debt	388,695	—
Principal payments on long-term debt	(200,951)	(519,017)
Principal payments on capital lease obligations	(183,660)	(118,966)
Stockholders' distributions	(3,716,000)	(1,621,000)
Net cash from financing activities	(8,534,343)	(4,079,691)
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,618,052	1,040,894
CASH AND CASH EQUIVALENTS, beginning of period	146,637	1,063,735
CASH AND CASH EQUIVALENTS, end of period	$ 8,764,689	$ 2,104,629
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 189,889	$ 126,844
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired through capital leases	$ 73,165	$ 191,903

The accompanying notes are an integral part of these condensed financial statements

COMPOSITE ENGINEERING, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 —SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES

Basis of presentation — The information as of June 30, 2012 and July 2, 2011 is unaudited. In the opinion of management, these unaudited condensed financial statements include all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the interim period presented. The results have been prepared in accordance with the requirement of Regulation S-X and do not necessarily include all information and footnotes necessary for presentation in accordance with accounting principles generally accepted in the U.S. ("GAAP"). These unaudited condensed financial statements should be read in conjunction with the financial statements and the related notes included in the Company's audited annual financial statements for the fiscal year ended December 31, 2011. Interim operating results are not necessarily indicative of operating results expected in subsequent periods or for the year as a whole.

Reporting period — The Company operates on a 12 period fiscal year that includes 52 or 53 weeks depending on the year.

Cash and cash equivalents — The Company considers all highly liquid instruments with original maturity of three months or less to be cash equivalents.

Concentration of credit risk — The Company maintains cash balances that at times exceed federally insured amounts.

Five customers represent approximately 88% of the billed contracts receivable balance as of June 30, 2012. Four customers represent approximately 68% of the billed contracts receivable balance as of December 31, 2011. One customer represents approximately 62% of the unbilled contracts receivable balance as of June 30, 2012. Three customers represent approximately 95% of the unbilled contracts receivable balance as of December 31, 2011. Revenue from three of the Company's customers accounted for approximately 76% and 81% of contract revenues earned for the six months ended June 30, 2012 and July 2, 2011, respectively.. These customers are either U.S. government entities or contractors to the U.S. government.

Billed contracts receivable — Billed contracts receivable are carried at the original invoice amount and are written off to expense in the period in which they are determined to be uncollectible. Management determines the uncollectability of accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Recoveries of receivables previously written off are recorded as income when received. Management's evaluation resulted in no allowance for doubtful accounts as of June 30, 2012 and December 31, 2011.

Inventory — Inventories, other than inventoried costs relating to long-term contracts and programs, are stated at the lower of cost (determined on the first-in, first-out method) or market.

Inventoried costs relating to long-term contracts and programs are stated at the actual production cost, including factory overhead, initial tooling, and other related non-recurring costs. Inventoried costs relating to long-term contracts and programs are reduced by charging amounts relieved from inventory to cost of contract revenues when the Company starts the target assembly process and the inventory item is released to the production floor.

NOTE 1 —SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition — Contract revenues earned under long-term contracts are recorded under the percentage-of-completion method. Costs and estimated gross margins are recorded as contract revenues earned as work is performed based on the percentage that incurred costs bear to estimated total costs utilizing the most recent estimates of costs and funding. Cost estimates include costs such as labor, material, and overhead. Some contracts contain incentive provisions based upon performance in relation to established targets, which are recognized in the contract estimates when deemed realizable. Contract change orders and claims are included in contract revenues earned when they can be reliably estimated and realization is probable. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting earnings applicable to performance in prior periods in the current period. When the current contract estimate indicates a loss, a provision is made for the total anticipated loss in the current period.

The asset "Unbilled contracts receivable" represents revenues recognized in excess of amounts billed on long-term contracts in progress. The liability "Unearned income" represents billings in excess of revenues recognized on long-term contracts in progress.

The estimated contract value of performance under government fixed-price contracts in process is recognized under the percentage of completion method of accounting where the estimated contract revenue earned is determined on the basis of completion to date (the total contract amount multiplied by percent of performance to date less contract revenues earned recognized in previous periods) and costs (including general and administrative, except as described below) are expensed as incurred.

Contract revenues earned under cost-reimbursement contracts are recorded as costs are incurred and include estimated earned fees in the proportion that costs incurred to date bear to total estimated costs. The fees under certain government contracts may be increased or decreased in accordance with cost or performance incentive provisions, which measure actual performance against established targets or other criteria. Such fee adjustments are included in contract revenues earned at the time the amounts can be determined reasonably.

Warranty reserve — Included in accrued expenses is $1,075,705 and $935,440 of accrued warranty costs at June 30, 2012 and December 31, 2011, respectively. This represents estimated costs associated with product warranties in conjunction with certain contracts. These costs are expensed as incurred. Contracts are generally covered by a 12-month warranty but may extend to a 36-month warranty period and cover systems, accessories, equipment, parts, and software manufactured by the Company to certain contractual specifications. Warranties cover factors such as non-conformance to specification and defects in material and workmanship.

Income taxes — The Company elected S — Corporation status for both federal and state purposes. Under S-Corporation tax provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income.

NOTE 1 —SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES (CONTINUED)

Subsequent events — Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the condensed balance sheet, including the estimates inherent in the process of preparing the condensed financial statements. The Company's condensed financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the condensed balance sheet but arose after the condensed balance sheet date and before the condensed financial statements are available to be issued. The Company has evaluated subsequent events through July 22, 2013, which is the date the condensed financial statements were available to be issued as approved by management.

NOTE 2 — INVENTORY

Inventory consists of the following at:

	UNAUDITED JUNE 30, 2012	DECEMBER 31, 2011
Raw materials	$ 2,147,483	$ 2,091,076
Project inventory in process	9,120,207	9,741,077
Inventory valuation allowance	(393,472)	(651,766)
Total inventory	$ 10,874,218	$ 11,180,387

NOTE 3 — EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following at:

	UNAUDITED JUNE 30, 2012	DECEMBER 31, 2011
Machinery	$ 6,709,924	$ 6,091,921
Automotive equipment	134,775	162,568

Office equipment	4,596,661	2,574,182
Leasehold improvements	2,140,879	2,141,179
Equipment held under capital leases	—	1,695,801
Construction in process	2,235,381	1,265,856
Total equipment and leasehold improvements	15,817,620	13,931,507
Less accumulated depreciation and amortization	(9,012,811)	(8,414,895)
Equipment and leasehold improvements, net of accumulated depreciation and amortization	$ 6,804,809	$ 5,516,612

NOTE 4 — ACCRUED EXPENSES

Accrued expenses consist of the following at:

	UNAUDITED JUNE 30, 2012	DECEMBER 31, 2011
Accrued payroll	$ 2,825,286	$ 1,902,196
Accrued warranty	1,075,705	935,440
Accrued stockholder distributions	—	4,166,779
Other accrued expenses	5,446,359	2,949,969
	$ 9,347,350	$ 9,954,384

NOTE 5 — LINE OF CREDIT AND LONG-TERM DEBT

Line of credit — The Company has a $10,000,000 line of credit with its bank that expired on November 13, 2012 (see Note 6). It is secured by equipment, inventory, and contracts receivable and is personally guaranteed by the major stockholders. The line of credit balance bears interest at the lender's internal prime rate per annum (4% at June 30, 2012), payable monthly. The line of credit contains certain restrictive financial covenants.

The balance on the line of credit at June 30, 2012 and December 31, 2011 was $0 and $4,800,000, respectively.

Long-term debt — The Company has a long-term note with its bank maturing in April 2015 with $1,465,716 and $1,666,667 principal balances at June 30, 2012 and December 31, 2011, respectively. The note bears interest at the greater of 5.5% or prime plus 1.0%, with interest and fixed principal payable in monthly installments through maturity, at which time all outstanding amounts are due. This note is collateralized by substantially all the assets of the Company.

The Company has a long-term note with its bank maturing in December 2017 with $388,695 and $0 principal balances at June 30, 2012 and December 31, 2011, respectively. Monthly interest-only payments at a variable rate of prime plus 0.5% are due on December 31, 2012. At December 31, 2012, the 60-month term portion of the note begins with monthly interest and fixed principal payments due until maturity. This note is collateralized by substantially all the assets of the Company.

NOTE 6 — SUBSEQUENT EVENTS

In July 2012, the Company was acquired by Kratos Defense and Security Solutions, Inc. Professional fees incurred for the six-month period ended on June 30, 2012 related to the acquisition were $153,530.

Subsequent to period end, the Company paid off its long-term debt and the line of credit expired and was not renewed.

UNAUDITED PRO FORMA CONDENSED COMBINED AND COMBINED FINANCIAL DATA

The following unaudited pro forma condensed combined and combined financial data is intended to show how the acquisitions of Composite Engineering, Inc. ("CEI"), Herley Industries, Inc. ("Herley") and Integral Systems, Inc. ("Integral") might have affected historical financial statements of Kratos Defense & Security Solutions, Inc. ("Kratos" or the "Company") if such acquisitions (collectively, the "Transactions") had been completed at an earlier time and was prepared based on the historical financial results reported by Kratos, CEI, Herley and Integral. The following should be read in connection with the (i) historical financial statements of Kratos included in Kratos' Annual Report on Form 10-K for the year ended December 30, 2012 and its quarterly report on Form 10-Q for the six months ended June 24, 2012; and (ii) audited and unaudited historical financial information of (a) Herley included as Annex B of the Company's Prospectus Supplement to the Company's Registration Statement on Form S-3 (File No. 333-161340), filed with the Securities and Exchange Commission ("SEC") on February 8, 2011, and as Exhibit 99.1 to the Company's Registration Statement on Form S-3 (File No. 333-173099), filed with the SEC on March 25, 2011, respectively; (b) Integral included in Kratos' Current Report on Form 8-K/A, filed with the SEC on October 11, 2011; and (c) CEI included in Kratos' Current Report on Form 8-K/A filed with the SEC on July 27, 2012 as Exhibit 99.1, respectively, to Kratos' Current Report on Form 8-K, filed with the SEC on May 8, 2012.

The unaudited pro forma condensed combined and combined financial statements were prepared in accordance with the regulations of the SEC. The pro forma adjustments reflecting the completion of the acquisition of CEI are based upon the acquisition method of accounting in accordance with U.S. generally accepted accounting principles ("GAAP") and upon the assumptions set forth in the notes to the unaudited pro forma condensed combined and combined financial statements.

During 2011, Kratos acquired Herley, Integral and SecureInfo Corporation ("SecureInfo"). The acquisitions of Herley, Integral and SecureInfo were completed on March 25, 2011, July 27, 2011, and November 15, 2011, respectively.

The unaudited pro forma condensed combined balance sheet as of June 24, 2012 combines the historical condensed consolidated balance sheets of Kratos as of June 24, 2012 and CEI as of June 30, 2012.

The unaudited pro forma condensed combined statements of operations for the six months ended June 24, 2012 combine the historical condensed consolidated statements of operations of Kratos and CEI for their respective six months ended June 24, 2012 and June 30, 2012. The unaudited pro forma combined statements of operations for the year ended December 25, 2011 combine the historical consolidated statements of operations of Kratos and CEI for their respective twelve months ended December 25, 2011 and December 31, 2011, respectively, of Herley for the three-month period ended January 30, 2011, and of Integral for the six-month period ended July 1, 2011 and gives effect to the Transactions as if they had occurred on December 27, 2010. The pro forma results do not include the acquisition made of the critical infrastructure business in January 2012, SecureInfo operating results from December 27, 2010 to November 15, 2011, Herley operating results from January 31, 2011 to March 25, 2011, and Integral operating results from July 2, 2011 to July 27, 2011.

The historical consolidated financial data has been adjusted to give effect to pro forma events that are (i) directly attributable to the acquisition of each of Herley, Integral and CEI, (ii) factually supportable, and (iii) with respect to the statement of operations, expected to have a continuing impact on the combined results. The pro forma adjustments are based on management's estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the acquisitions and certain other adjustments. The unaudited pro forma condensed combined and combined financial statements do not reflect revenue opportunities, synergies or cost savings that the Company expects to realize after the acquisitions. No assurance can be given with respect to the estimated revenue opportunities and operating cost savings that are expected to be realized as a result of the acquisitions. The unaudited pro forma condensed combined and combined financial statements also do not reflect non-recurring charges related to integration activities or exit costs that may be incurred by Kratos, Herley or Integral in connection with the acquisitions thereof. There were no material transactions between Kratos, Herley or Integral during the periods presented in the unaudited pro forma condensed combined and combined financial statements that would need to be eliminated.

The unaudited pro forma condensed combined and combined financial data is presented for illustrative purposes only and is not necessarily indicative of the financial condition or results of operations of future periods or the financial condition or results of operations that actually would have been realized had the entities been combined during the periods presented. The unaudited pro forma condensed combined and combined financial statements do not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition of CEI. These financial statements also do not include any integration costs, synergies or estimated future transaction costs, except for fixed contractual transaction costs, that the companies may incur as a result of the acquisition of CEI. CEI is a historical customer of Kratos and Herley. The pro forma adjustments record the elimination of a receivable from CEI and a corresponding payable by CEI to the Company at June 24, 2012 and the elimination of revenue and related cost of goods sold by Kratos to CEI for the six months ended June 24, 2012 and the twelve months ended December 25, 2011.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Unaudited Pro Forma Condensed Combined Balance Sheet
(in millions, except par value and number of shares)

	Kratos Historical June 24, 2012	CEI Historical June 30, 2012	Pro Forma Adjustments*	Pro Forma Combined
Assets				
Current assets:				
Cash and cash equivalents	$ 145.7	$ 8.8	$ (3.2)(a)	$ 151.3
Restricted cash	0.8	3.8	—	4.6
Accounts receivable, net	256.8	11.5	(3.0)(b)	265.3

Inventoried costs	86.4	10.9	—	97.3
Prepaid expenses	12.6	2.5	—	15.1
Other current assets	18.8	—	0.2(c)	19.0
Total current assets	521.1	37.5	(6.0)	552.6
Property and equipment, net	72.4	6.8	—	79.2
Goodwill	575.4	—	104.8(d)	680.2
Intangibles, net	107.2	—	38.0(e)	145.2
Other assets	23.0	2.8	0.7(c)	26.5
Total assets	$ 1,299.1	$ 47.1	$ 137.5	$ 1,483.7
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	$ 61.9	$ 7.4	$ (2.4)(b)	$ 66.9
Accrued expenses	52.9	6.6	—	59.5
Accrued compensation	33.8	2.6	—	36.4
Billings in excess of costs and earnings on uncompleted contracts	37.1	11.5	—	48.6
Other current liabilities	37.2	1.0	(1.0)(a)(f)	37.2
Total current liabilities	222.9	29.1	(3.4)	248.6
Long-term debt, net of current portion	630.2	1.1	38.5(a)(f)	669.8
Long-term debt premium	20.8	—	—	20.8
Other long-term liabilities	33.7	0.6	—	34.3
Total liabilities	907.6	30.8	35.1	973.5
Commitments and contingencies				
Stockholders' equity:				
Preferred stock, $0.001 par value, 5,000,000 shares authorized, 0 shares outstanding at June 24, 2012	—	—	—	—
Common stock, $0.001 par value, 195,000,000 shares authorized; 52,518,189 shares issued and outstanding at June 24, 2012	—	0.3	(0.3)(g)	—
Additional paid-in capital	819.9	1.0	119.8(h)	940.7
Accumulated other comprehensive loss	(0.4)	—	—	(0.4)
Accumulated deficit	(428.0)	15.0	(17.1)(i)	(430.1)
Total stockholders' equity	391.5	16.3	102.4	510.2
Total liabilities and stockholders' equity	$ 1,299.1	$ 47.1	$ 137.5	$ 1,483.7

* See Note 6 for an explanation of the preliminary pro forma adjustments.

See accompanying notes to unaudited pro forma condensed combined financial information.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Unaudited Pro Forma Condensed Combined Statement of Operations
(in millions, except per share data)

	Kratos Historical Six Months Ended June 24, 2012	CEI Historical Six Months Ended June 30, 2012	Pro Forma Adjustments*	Pro Forma Combined
Service revenues	$ 214.2	$ —	$ —	$ 214.2
Product sales	215.1	52.1	(2.3)(a)	264.9
Total revenues	429.3	52.1	(2.3)	479.1
Cost of service revenue	166.5	—		166.5
Cost of product sales	147.7	41.3	(2.3)	186.7
Total costs	314.2	41.3	(2.3)	353.2
Gross profit	115.1	10.8	—	125.9
Selling, general and administrative expenses	86.4	10.8	9.7(b)(c)	106.9
Merger and acquisition expenses	2.4	—	—	2.4
Research and development expenses	8.4	—	—	8.4
Adjustment to the liability for unused office space	1.4	—	—	1.4
Operating income (loss) from continuing operations	16.5	—	(9.7)	6.8
Other expense:				
Interest expense, net	(32.3)	(0.2)	(0.6)(d)	(33.1)
Other income, net	0.9	(0.1)	0	0.8
Total other expense, net	(31.4)	(0.3)	(0.6)	(32.3)
Loss from continuing operations before income taxes	(14.9)	(0.3)	(10.3)	(25.5)
Provision for income taxes from continuing operations	2.5	—	—	2.5
Income (loss) from continuing operations	$ (17.4)	$ (0.3)	$ (10.3)	$ (28.0)
Basic and diluted loss per common share:				
Loss from continuing operations	$ (0.47)			$ (0.46)
Weighted average common shares outstanding:				
Basic and diluted	37.1		24.0(h)	61.1

* See Note 7 for an explanation of the preliminary pro forma adjustments.
See accompanying notes to unaudited pro forma condensed combined financial information.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Unaudited Pro Forma Combined Statement of Operations
(in millions, except per share data)

	Kratos Historical Twelve Months Ended December 25, 2011	Herley Historical Three Months Ended January 30, 2011	Integral Systems Six Months Ended July 1, 2011	Pro Forma Adjustments*	Subtotal Pro Forma Combined	CEI Historical Twelve Months Ended December 31, 2011	Pro Forma Adjustments CEI*	Pro Forma Combined
Service revenues	$ 351.0	$ —	$ 49.1	$ —	$ 400.1	$ —	$ —	$ 400.1
Product sales	362.9	50.7	59.7	—	$ 473.3	94.1	(5.6)(a)	$ 561.8
Total revenues	713.9	50.7	108.8	—	873.4	94.1	(5.6)	961.9
Cost of service revenue	260.7		36.8		$ 297.5	—		$ 297.5
Cost of product sales	262.0	34.2	39.3	—	$ 335.5	66.5	(5.6)(a)	$ 396.4
Total costs	522.7	34.2	76.1	—	633.0	66.5	(5.6)	693.9
Gross profit	191.2	16.5	32.7	—	240.4	27.6	—	268.0
Selling, general and administrative expenses	140.6	8.8	25.2	(b), 10.2(c)	$ 184.8	13.4	(b), 19.2(c)	$ 217.4
Research and development expenses	8.6	—	8.5	.	$ 17.1	—	—	$ 17.1
Litigation costs and settlements, net of recovery	—	0.2	—	—	$ 0.2	—	—	$ 0.2
Merger and acquisition expenses	12.5	0.1	—	—	$ 12.6	—	—	$ 12.6
Operating income (loss) from continuing operations	29.5	7.4	(1.0)	(10.2)	25.7	14.2	(19.2)	20.7
Other expense:								
Interest expense, net	(51.1)	—	(1.8)	(11.1)(d)	$ (64.0)	(0.4)	(1.0)(d)	$ (65.4)
Other income, net	—	—	0.2		$ 0.2	(1.3)	—	$ (1.1)
Total other expense, net	(51.1)	—	(1.6)	(11.1)	(63.8)	(1.7)	(1.0)	(66.5)
Income (loss) from continuing operations before income taxes	(21.6)	7.4	(2.6)	(21.3)	(38.1)	12.5	(20.2)	(45.8)
Provision (benefit) for income taxes from continuing operations	1.9	2.2	(0.5)	(1.5)(e)	2.1	—	—(f)	$ 2.1
Income (loss) from continuing operations	$ (23.5)	$ 5.2	$ (2.1)	$ (19.8)	$ (40.2)	$ 12.5	$ (20.2)	$ (47.9)
Basic and diluted loss per common share:								
Loss from continuing operations	$ (0.86)				$ (1.18)			$ (0.82)
Weighted average common shares outstanding:								
Basic and diluted	27.4	0.6(g)	6.2(f)		34.2		24.0(g)	58.2

* See Note 7 for an explanation of the preliminary pro forma adjustments.
See accompanying notes to unaudited pro forma combined financial information.

Kratos Defense & Security Solutions, Inc.

Notes to Unaudited Pro Forma Combined and Condensed Combined Financial Statements

1. Description of the Transactions and Other Recent Events

On July 2, 2012, the Company completed the acquisition of Composite Engineering, Inc. ("CEI") for approximately $164.0 million. The purchase price, including an adjustment for working capital and cash to be paid to the CEI shareholders for the 338(h)(10) election, included $135.0 million in cash and 4.0 million shares of the Company's common stock, valued at $5.94 per share on July 2, 2012, or $23.8 million. $10.7 million of the cash paid was placed into an escrow account as security for CEI's indemnification obligations as set forth in the CEI purchase agreement and was reduced by $1.0 million for the working capital adjustment paid to the Company in July 2013. In addition, $2.5 million was paid to retire certain pre-existing CEI debt and settle pre-existing accounts receivable from CEI at its carrying and fair value of $3.0 million. The Company made an election under Section 338(h)(10) of the Internal Revenue Code, which resulted in tax deductible goodwill related to this transaction, and will pay an estimated $1.6 million in additional tax liability incurred by the shareholders of CEI for this election.

In connection with the completion of the CEI transaction, certain CEI personnel entered into long-term employment agreements with the Company. On July 2, 2012, the Company granted restricted stock units ("RSUs") for an aggregate of 2.0 million shares of common stock as long-term retention inducement grants to certain employees of CEI who joined Kratos. The RSUs had an estimated value of $11.9 million on the grant date, vest on the fourth anniversary of the closing of the CEI acquisition, or earlier upon the occurrence of certain events, and are being accounted for as compensation expense over such four-year period.

To fund the cash portion of this acquisition, on May 14, 2012, the Company issued 20,000,000 shares of common stock at $5.00 per share. The gross proceeds from this offering were $100.0 million and after underwriting discounts, commissions and offering costs, the net proceeds were $97.0 million. In addition, the Company borrowed $40.0 million under its Credit Agreement (as defined below) and entered into two amendments to its Credit Agreement.

On May 4, 2012, the Company entered into a second amendment (the "Second Amendment") to its existing Credit and Security Agreement ("Credit Agreement"), dated as of May 19, 2010, as amended and restated as of July 27, 2011, with KeyBank National Association ("KeyBank") and certain other lenders. Among other things, the Second Amendment (i) increased the amount of the Credit Agreement from $90.0 million to $110.0 million, (ii) added to and modified the definitions of certain terms contained in the Credit Agreement, (iii) added Cathay Bank as a lender under the Credit Agreement and (iv) updated certain schedules to the Credit Agreement.

On May 8, 2012, the Company entered into a third amendment (the "Third Amendment" and together with the Second Amendment, the "Credit Amendments") to the Credit Agreement. Under the terms of the Third Amendment, the definitions of certain terms of the Credit Agreement were modified and the acquisition of CEI was approved.

Integral Systems, Inc.

On July 27, 2011, the Company acquired Integral Systems, Inc., a Maryland corporation ("Integral") in a cash and stock transaction valued at $241.1 million. The acquisition was completed with an aggregate cash payment of $131.4 million, the issuance of approximately 10.4 million shares of Kratos common stock valued at $108.7 million, and the issuance of replacement stock options with a fair value of $1.0 million.

To fund the cash portion of the acquisition, on July 27, 2011, the Company issued $115.0 million aggregate principal amount of 10% Senior Secured Notes due 2017. The notes were issued at a premium of 105%, for an effective interest rate of approximately 8.9%. The gross proceeds of approximately $120.8 million, which includes an approximate $5.8 million issuance premium and excludes accrued interest received of $1.8 million, were used to finance, in part, the cash portion of the purchase price for the acquisition of Integral, to refinance existing indebtedness of Integral and its subsidiaries, to pay certain severance payments in connection with the merger and to pay related fees and expenses.

As consideration for the acquisition of Integral, each Integral stockholder received (i) $5.00 in cash, without interest, and (ii) 0.588 shares of the Company's common stock for each share of Integral common stock. In addition, upon completion of the merger (i) each outstanding Integral stock option with an exercise price of less than $13.00 per share was, if the holder thereof had so elected in writing, canceled in exchange for an amount in cash equal to the product of the total number of shares of Integral common stock subject to such in-the-money option, multiplied by the aggregate value of the excess, if any, of $13.00 over the exercise price per share subject to such option, less the amount of any tax withholding, (ii) each outstanding Integral stock option with an exercise price equal to or greater than $13.00 per share and each Integral in-the-money option the holder of which had not made the election described in (i), above, was converted into an option to purchase Company common stock, with the number of shares subject to such option adjusted to equal the number of shares of Integral common stock subject to such out-of-the-money option multiplied by 0.9559, rounded up to the nearest whole share, and the per share exercise price under each such option adjusted by dividing the per share exercise price under such option by 0.9559, rounded up to the nearest whole cent, and (iii) each outstanding share of restricted stock granted under an Integral equity plan or otherwise, whether vested or unvested, was canceled and converted into the right to receive $13.00, less the amount of any tax withholding.

Herley Industries, Inc.

On March 25, 2011, the Company acquired Herley Industries, Inc. ("Herley") in a cash tender offer to purchase all of the outstanding shares of Herley common stock. The shares of Herley common stock were purchased at a price of $19.00 per share. Accordingly, the Company paid total aggregate cash consideration of $270.7 million in respect of the shares of Herley common stock and certain in-the-money options, which were exercised upon the change in control of Herley. In addition, upon completion of the merger, all unexercised options to purchase Herley common stock were assumed by the Company and converted into options to purchase its common stock, entitling the holders thereof to receive 1.3495 shares of Kratos common stock for each share of Herley common stock underlying the options.

To fund the acquisition of Herley, on February 11, 2011, the Company sold approximately 4.9 million shares of common stock at a purchase price of $13.25 per share in an underwritten public offering. The Company received gross proceeds of approximately $64.8 million and net proceeds of approximately $61.1 million after deducting underwriting fees and other offering expenses. The Company used the net proceeds from this offering to fund a portion of the purchase price for the acquisition of Herley. To fund the remaining purchase price, on March 25, 2011, the Company issued $285.0 million in aggregate principal amount of 10% Senior Secured Notes due 2017 at a premium of 107%. The Company received approximately $314.0 million in cash proceeds from the offering, which included an approximate $20.0 million of issuance premiums and $9.0 million of accrued interest, which proceeds were used, together with cash contributions of $45.0 million from the Company, to finance the acquisition of all of the outstanding shares of common stock of Herley, to pay related fees and expenses and for general corporate purposes. The effective interest rate on this issuance was 8.5%.

2. Basis of Presentation

The unaudited pro forma condensed combined balance sheet as of June 24, 2012 combines the historical condensed consolidated balance sheets of Kratos as of June 24, 2012 and CEI as of June 30, 2012.

The summary unaudited pro forma condensed combined statement of operations for the six months ended June 24, 2012 combine the historical condensed consolidated statement of operations of Kratos and CEI for their respective six months ended June 24, 2012 and June 30, 2012. The unaudited pro forma combined statements of operations for the year ended December 25, 2011 combine the historical consolidated statements of operations of Kratos and CEI for their respective twelve months ended December 25, 2011 and December 31, 2011, respectively, of Herley for the three-month period ended January 30, 2011, and of Integral for the six-month period ended July 1, 2011 and gives effect to the acquisitions of CEI, Herley and Integral as if they had occurred on December 27, 2010. The pro forma results do not include the acquisition of the critical infrastructure business in January 2012, SecureInfo operating results from December 27, 2010 to November 15, 2011, Herley operating results from January 31, 2011 to March 25, 2011, and Integral operating results from July 2, 2011 to July 27, 2011.

The unaudited pro forma condensed combined and combined financial statements were prepared in accordance with the regulations of the Securities and Exchange Commission. The pro forma adjustments include the application of the acquisition method of accounting under Financial Accounting Standards Board Accounting Standards Codification (“ASC”) Topic 805 Business Combinations (“ASC Topic 805”). ASC Topic 805 requires, among other things, that identifiable assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date, which is presumed to be the closing date of the acquisition.

Under ASC Topic 820 Fair Value Measurements and Disclosures (“ASC Topic 820”), “fair value” is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be unrelated buyers and sellers in the principal or the most advantageous market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. Many of these fair value measurements can be highly subjective and it is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

The historical consolidated financial data has been adjusted to give effect to pro forma events that are (i) directly attributable to the acquisition of each of Herley, Integral and CEI, (ii) factually supportable, and (iii) with respect to the statement of operations, expected to have a continuing impact on the combined results. The pro forma adjustments for Herley, Integral and CEI are based on management’s estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the acquisition and certain other adjustments. The unaudited pro forma condensed combined and combined financial statements do not reflect revenue opportunities, synergies or cost savings that the Company expects to realize after the acquisitions. No assurance can be given with respect to the estimated revenue opportunities and operating cost savings that are expected to be realized as a result of the acquisitions. The unaudited pro forma condensed combined and combined financial statements also do not reflect non-recurring charges related to integration activities or exit costs that may be incurred by Kratos, Herley, Integral or CEI in connection with the acquisitions thereof. Kratos and Herley have historically provided products to CEI.

The pro forma adjustments record the elimination of a receivable from CEI and a corresponding payable by CEI to the Company at June 24, 2012 and the elimination of revenue and related cost of goods sold by the Company to CEI for the twelve months ended December 25, 2011 and the six months ended June 24, 2012.

3. Accounting Policies

Based upon the Company’s review of CEI’s summary of significant accounting policies disclosed in its audited financial statements, the nature and amount of any adjustments to the historical financial statements of CEI to conform CEI’s accounting policies to those of the Company’s are not expected to be significant.

4. Consideration Transferred and Purchase Price Allocation

The consideration transferred and the aggregate purchase price allocated related to the CEI acquisition is presented in the table below (in millions):

Cash payable as acquisition consideration	$	135.0
Value of common stock payable as acquisition consideration		23.8
Payment of closing date indebtedness		2.5
Elimination of accounts payable owed to Kratos		2.4
Elimination of Kratos unbilled receivable due from CEI		0.6
Cash paid to CEI shareholders as a result of the Section 338(h)(10) election		1.6
Working capital adjustment		(1.0)

Transaction expenses previously paid		(0.9)
Estimate of acquisition consideration	$	164.0

5. Estimate of Assets Acquired and Liabilities Assumed

The following is a discussion of the adjustments made in connection with the preparation of the unaudited pro forma condensed combined balance sheet as of June 24, 2012.

The following is the estimate of the assets acquired and the liabilities assumed by Kratos reconciled to the consideration transferred (in millions):

Book value of net assets acquired	$	16.3
Debt paid at closing		2.5
CEI accounts payable settlement		2.4
Identifiable intangible assets		38.0
Goodwill		104.8
Purchase price allocated	$	164.0

Goodwill: Goodwill is calculated as the excess of the acquisition date fair value of the consideration transferred over the values assigned to the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but rather is subject to an annual impairment test.

Intangible assets: Using the income approach, the Company has estimated the fair value of the acquired identifiable intangible assets, which are subject to amortization. The following table sets forth the components of these intangible assets and their estimated useful lives (dollars in millions):

		Fair value	Estimated useful life (years)
Trade name	$	0.5	6.0
Backlog—funded		19.0	1.5
Customer relationships		18.5	5.5
	$	38.0	

6. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet:

(a) The sources and uses of funds relating to the acquisition are as follows (in millions):

Sources: (See Note 1)		
Net proceeds from equity offering	$	97.0
Borrowings on credit facility		40.0
Uses:		
Cash consideration to stockholders of CEI		(133.1)
Transaction fees		(3.0)
CEI debt paid at closing		(2.5)
Cash paid to CEI shareholders as a result of the Section 338(h)(10) election		(1.6)
Net adjustment to cash and cash equivalents	$	(3.2)

(b) To record elimination of a $2.4 million billed accounts receivable from CEI and corresponding accounts payable by CEI to the Company and a $0.6 million unbilled accounts receivable.

(c) Reflects adjustment for current and long-term deferred financing costs of $0.2 million and $0.7 million, respectively, related to estimated financing costs for the amendment to the credit facility.

(d) To record transaction goodwill related to the acquisition of CEI.

(e) To record transaction intangible assets related to the acquisition of CEI.

(f) Reflects the borrowing on the credit facility of $40.0 million offset by the payment of CEI debt.

(g) Reflects the elimination of CEI Common Stock.

(h) Reflects the elimination of the CEI additional paid-in-capital offset by net proceeds from the issuance of common stock of $97.0 million and the issuance of $23.8 million in Kratos common stock for the acquisition of CEI. (See Note 1.)

(i) Reflects the elimination of CEI retained earnings and transaction costs of $2.1 million.

7. Adjustments to Unaudited Pro Forma Condensed Combined and Combined Statement of Operations:

(a) Record elimination of products sold by the Company to CEI and the related cost of product sales of CEI.

(b) Net increase in amortization expense to reflect the adjustment for intangibles not acquired in the transactions, net of the amortization expense of identifiable intangible assets arising from the purchase price allocations. Identifiable intangible assets are being amortized using the straight-line method and their weighted average useful lives is as follows (in millions):

	Twelve Months Ended December 25, 2011				Six Months Ended June 24, 2012
Amortization of:	**Herley**	**Integral**	**CEI**	**Combined**	**CEI**
Customer relationships	$ 1.2	$ 1.6	$ 3.4	$ 6.2	$ 1.7
Funded backlog	4.8	7.1	12.7	24.6	6.3
Trade name	—	0.1	0.1	0.2	—
Total amortization expense	6.0	8.8	16.2	31.0	8.0
Elimination of previously-recorded amortization of acquisition-related intangible assets	(0.3)	(2.3)	—	(2.6)	—
Pro forma adjustment to amortization of acquisition-related intangible assets	$ 5.7	$ 6.5	$ 16.2	$ 28.4	$ 8.0

(c) Reflects a reduction in stock-based compensation expense of $2.0 million as a result of the exercise of stock options and restricted stock immediately prior to closing of the Herley and Integral transactions offset by stock-based compensation expense for Herley and Integral stock options assumed and an increase in stock-based compensation expense of $3.0 million as a result of the issuance of 2.0 million restricted stock units as an inducement to certain key managers of CEI to accept employment with the Company, which units vest in 4 years or earlier upon the occurrence of certain events. The net adjustment was an increase in expense of $1.0 million for the year ended December 25, 2011.

(d) Interest expense adjustments (in millions):

	Twelve Months Ended December 25, 2011	Six Months Ended June 24, 2012
Interest related to Notes issued for Herley and Integral	$ 12.9	$ —
Eliminate interest cost related to Herley and Integral debt	(1.8)	—
Net change in interest expense for Herley and Integral	11.1	—
Estimated interest on new debt	1.4	0.8
Eliminate interest cost related to CEI debt	(0.4)	(0.2)
Net change in interest expense for CEI	1.0	0.6
Net change in interest expense	$ 12.1	$ 0.6

To finance the Herley and Integral acquisitions, Kratos issued $285.0 million and $115.0 million in principal amount of 10% Senior Secured Notes due 2017 with an effective interest rate of approximately 8.5% and 8.9%, respectively. (See Note 1.)

Kratos borrowed $40.0 million on the Company's credit facility to partially fund the purchase price for the acquisition of CEI and to pay related fees and expense.

A 1/8 percent change in the interest rate on the credit facility would result in a $0.1 million change in yearly interest expense.

(e) Reflects the income tax effects of pro forma adjustments and utilization of Kratos net operating losses and tax attributes to offset tax expense that Herley and Integral would otherwise incur on a stand-alone basis.

(f) Reflects the issuance of 4.9 million common shares related to the Herley transaction and the issuance of 10.5 million common shares related to the Integral transaction, of which 6.8 million shares were not included in Kratos' year-end diluted and basic weighted average common shares outstanding.

(g) Reflects the issuance of 24.0 million shares related to the issuance of shares on May 8, 2012 and shares for the acquisition of CEI.