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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 30, 2025
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________
Commission file number 001-34460

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

Delaware	**13-3818604**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Chisholm Trail, Suite 300 **Round Rock, TX** (Address of principal executive offices)	**78681** **(Zip Code)**

(512) 238-9840
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	KTOS	The NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 2, 2025, 153,443,342 shares of the registrant's common stock were outstanding.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 30, 2025

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except par value and number of shares)

	March 30, 2025 (Unaudited)	December 29, 2024
Assets		
Current assets:		
Cash and cash equivalents	$ 263.7	$ 329.3
Accounts receivable, net	118.2	117.5
Unbilled receivables, net	244.3	206.3
Inventoried costs, net	176.0	162.1
Prepaid expenses	16.5	18.0
Other current assets	45.7	38.9
Total current assets	864.4	872.1
Property, plant and equipment, net	301.3	288.2
Operating lease right-of-use assets, net	41.5	37.6
Goodwill	597.4	568.9
Intangible assets, net	61.6	53.8
Other assets	138.7	130.3
Total assets	$ 2,004.9	$ 1,950.9
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 82.7	$ 82.0
Accrued expenses	42.4	38.8
Accrued compensation	70.0	71.9
Billings in excess of costs and earnings on uncompleted contracts	82.0	76.3
Current portion of operating lease liabilities	12.0	11.3
Current portion of finance lease liabilities	2.0	1.9
Other current liabilities	13.8	14.5
Total current liabilities	304.9	296.7
Long-term debt, net of current portion	172.2	174.6
Operating lease liabilities, net of current portion	33.1	29.8
Finance lease liabilities, net of current portion	63.9	64.4
Other long-term liabilities	43.2	32.2
Total liabilities	617.3	597.7
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at March 30, 2025 and December 29, 2024	—	—
Common stock, $0.001 par value, 195,000,000 shares authorized; 153,349,134 and 151,092,292 shares issued and outstanding at March 30, 2025 and December 29, 2024, respectively	0.2	0.2
Additional paid-in capital	2,046.7	2,017.4
Accumulated other comprehensive income (loss)	0.1	(0.5)
Accumulated deficit	(659.4)	(663.9)
Total stockholders' equity	1,387.6	1,353.2
Total liabilities and stockholders' equity	$ 2,004.9	$ 1,950.9

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share amounts)
(Unaudited)

	Three Months Ended	
	March 30, 2025	**March 31, 2024**
Service revenues	$ 102.4	$ 106.5
Product sales	200.2	170.7
Total revenues	302.6	277.2
Cost of service revenues	75.7	79.2
Cost of product sales	153.3	127.0
Total costs	229.0	206.2
Gross profit	73.6	71.0
Selling, general and administrative expenses	57.0	54.4
Research and development expenses	10.0	9.6
Operating income	6.6	7.0
Other expense:		
Interest expense, net	(0.9)	(2.8)
Other expense, net	(0.3)	(0.2)
Total other expense, net	(1.2)	(3.0)
Income before income taxes	5.4	4.0
Provision for income taxes	0.9	2.7
Net income from consolidated operations	4.5	1.3
Less: Net income attributable to noncontrolling interest	—	—
Net income attributable to Kratos	$ 4.5	$ 1.3
Basic income per common share attributable to Kratos	$ 0.03	$ 0.01
Diluted income per common share attributable to Kratos	$ 0.03	$ 0.01
Weighted average common shares outstanding:		
Basic	154.2	139.6
Diluted	156.2	141.5

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)
(Unaudited)

	Three Months Ended	
	March 30, 2025	March 31, 2024
Net income from consolidated operations	$ 4.5	$ 1.3
Change in unrealized cash flow hedge (net of taxes of $0.1 million for the three month period ended March 30, 2025 and $0.4 million for the three month period ended March 31, 2024)	(0.5)	1.3
Change in cumulative translation adjustment	1.1	(0.9)
Comprehensive income attributable to Kratos	$ 5.1	$ 1.7

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the three months ended March 30, 2025 and March 31, 2024
(in millions)
(Unaudited)

	Redeemable Noncontrolling Interest	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amounts				
Balance, December 31, 2023	$ 22.5	129.3	$ —	$ 1,654.5	$ 1.7	$ (680.2)	$ 976.0
Stock-based compensation	—	—	—	9.2	—	—	9.2
Issuance of common stock for employee stock purchase plan, options and stock awards	—	0.3	—	3.6	—	—	3.6
Restricted stock issued and related taxes	—	1.2	—	(15.1)	—	—	(15.1)
Issuance of common stock for equity raise	—	19.2	0.2	330.5	—	—	330.7
Gain on interest rate swap contract	—	—	—	—	1.3	—	1.3
Net income from consolidated operations	—	—	—	—	—	1.3	1.3
Other comprehensive loss, net of tax	—	—	—	—	(0.9)	—	(0.9)
Balance, March 31, 2024	$ 22.5	150.0	$ 0.2	$ 1,982.7	$ 2.1	$ (678.9)	$ 1,306.1

	Redeemable Noncontrolling Interest	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amounts				
Balance, December 29, 2024	$ —	151.1	$ 0.2	$ 2,017.4	$ (0.5)	$ (663.9)	$ 1,353.2
Stock-based compensation	—	—	—	8.7	—	—	8.7
Issuance of common stock for employee stock purchase plan, options and stock awards	—	0.2	—	4.6	—	—	4.6
Restricted stock issued and related taxes	—	0.9	—	(16.2)	—	—	(16.2)
Issuance of common stock for acquisitions	—	1.1	—	32.2	—	—	32.2
Loss on interest rate swap contract	—	—	—	—	(0.5)	—	(0.5)
Net income from consolidated operations	—	—	—	—	—	4.5	4.5
Other comprehensive income, net of tax	—	—	—	—	1.1	—	1.1
Balance, March 30, 2025	$ —	153.3	$ 0.2	$ 2,046.7	$ 0.1	$ (659.4)	$ 1,387.6

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Three Months Ended	
	March 30, 2025	**March 31, 2024**
Operating activities:		
Net income from consolidated operations	$ 4.5	$ 1.3
Adjustments to reconcile net income from consolidated operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	10.4	9.3
Amortization of lease right-of-use assets	3.0	3.0
Stock-based compensation	8.7	9.2
Amortization of deferred financing costs	0.2	0.2
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	0.8	12.0
Unbilled receivables	(38.0)	(8.5)
Inventoried costs	(5.4)	(3.5)
Prepaid expenses and other assets	(12.8)	(13.2)
Operating lease liabilities	(3.0)	(3.1)
Accounts payable	0.7	(0.3)
Accrued expenses	5.4	0.6
Accrued compensation	(1.8)	(3.7)
Billings in excess of costs and earnings on uncompleted contracts	(0.7)	(4.3)
Income tax receivable and payable	(1.1)	1.5
Other liabilities	(0.1)	0.2
Net cash provided by (used in) operating activities	(29.2)	0.7
Investing activities:		
Capital expenditures	(22.6)	(16.6)
Net cash used in investing activities	(22.6)	(16.6)
Financing activities:		
Proceeds from the issuance of common stock, net of issuance costs	—	330.7
Borrowing under credit facility	—	10.0
Repayment under credit facility and term loan	(2.5)	(46.3)
Payments under finance leases	(0.4)	(0.3)
Payments of employee taxes withheld from share-based awards	(16.2)	(15.1)
Proceeds from shares issued under equity plans	4.6	3.6
Net cash provided by (used in) financing activities	(14.5)	282.6
Net cash provided (used)	(66.3)	266.7
Effect of exchange rate changes on cash and cash equivalents	0.7	(0.6)
Net increase (decrease) in cash and cash equivalents	(65.6)	266.1
Cash and cash equivalents at beginning of period	329.3	72.8
Cash and cash equivalents at end of period	$ 263.7	$ 338.9
Non-cash investing and financing activities:		
Financing lease obligation incurred	$ —	$ 0.4
Capital expenditures included in accounts payable and accrued expenses	6.0	2.4
Common stock issuance for acquisition	32.2	—

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

All references to the "Company" and "Kratos" refer to Kratos Defense & Security Solutions, Inc., a Delaware corporation, and its subsidiaries.

(a) Basis of Presentation

The information as of March 30, 2025 and for the three months ended March 30, 2025 and March 31, 2024 is unaudited. The condensed consolidated balance sheet as of December 29, 2024 was derived from the Company's audited consolidated financial statements at that date. In the opinion of management, these unaudited condensed consolidated 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 periods presented. The results have been prepared in accordance with the instructions to Form 10-Q 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 consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's audited annual consolidated financial statements for the fiscal year ended December 29, 2024, included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") on February 26, 2025 (the "Form 10-K"). Interim operating results are not necessarily indicative of operating results expected in subsequent periods or for the year as a whole.

Certain prior year items have been reclassified to be consistent with current year presentation.

(b) Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries. All inter-company transactions have been eliminated in consolidation. On June 21, 2024, the Company purchased the remaining 9.95% interest in KTT CORE, Inc., a Delaware corporation formerly known as KTT CORE, LLC ("KTT Core") which previously had been reported as a majority owned subsidiary. KTT Core is now a 100% owned subsidiary. See Note 11 for further information related to the redeemable noncontrolling interest.

(c) Fiscal Year

The Company has a 52/53 week fiscal year ending on the last Sunday of the calendar year. The three month periods ended March 30, 2025 and March 31, 2024 consisted of 13-week periods. There are 52 calendar weeks in the fiscal years ending on December 28, 2025 and December 29, 2024.

(d) Use of Estimates

There have been no significant changes in the Company's accounting estimates for the three months ended March 30, 2025 as compared to the accounting estimates described in the Form 10-K.

(e) Fair Value of Financial Instruments

The Company uses forward exchange contracts to manage foreign currency risks associated with certain transactions, specifically forecasted materials and salaries paid in foreign currencies. The Company also has entered into an interest rate swap contract in order to mitigate the exposure to interest rate movements associated with the Company's Term Loan A. These derivative instruments are measured at fair value using observable market inputs such as interest rates. Based on these inputs, the derivative instruments are classified within Level 2 of the valuation hierarchy. At March 30, 2025, the derivative instruments were included in other current assets and other long-term liabilities on the Company's condensed consolidated balance sheets.

The carrying amounts and the related fair values of the Company's derivative instruments measured at fair value on a recurring basis at March 30, 2025 are presented in Note 15.

The carrying value of all financial instruments, including cash equivalents, accounts receivable, unbilled receivables, accounts payable, accrued expenses, billings in excess of cost and earnings on uncompleted contracts, income taxes payable and long and short-term debt, approximated their estimated fair values at March 30, 2025 and December 29, 2024 due to the short-term nature of these instruments.

(f) Recent Accounting Pronouncements

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which expands reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker ("CODM") and included within each reported measure of a segment's profit or loss. ASU 2023-07 also requires all segment profit or loss and assets disclosures to be provided on an annual and interim basis. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning one year later. The amendments must be applied retrospectively to all prior periods presented. The Company has adopted ASU 2023-07 effective December 29, 2024. As a result, the Company has enhanced its segment disclosures to include the presentation of cost of sales by segment and the disclosure of the Company's CODM. The adoption of this ASU affects only the Company's disclosures, with no impacts to its financial condition and results of operations.

In December 2023, the FASB issued ASU 2023-09*, Income Taxes (Topic 740): Improvements to Income Tax Disclosures,* which requires companies to disclose, on an annual basis, specific categories in the effective tax rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. In addition, ASU 2023-09 requires companies to disclose additional information about income taxes paid. ASU 2023-09 will be effective for annual periods beginning January 1, 2025 and will be applied on a prospective basis with the option to apply the standard retrospectively. The Company will adopt ASU 2023-09 for the period ending December 28, 2025. The adoption of this standard is not expected to have an impact on the Company's consolidated financial position, results of operations or cash flows.

In November 2024, the FASB issued ASU 2024-03, *Income Statement (Topic 220): Reporting Comprehensive Income – Expense Disaggregation Disclosures,* which requires the amounts of purchases of inventory, employee compensation, depreciation, and intangible asset amortization included in each relevant expense caption. It also requires companies to include certain amounts that are already required to be disclosed under GAAP in the same disclosure. Additionally, it requires companies to disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively, and to disclose the total amount of selling expenses and, in annual reporting periods, an entity's definition of selling expenses. ASU 2024-03 (as further clarified through ASU No. 2025-01, *Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40))* will be effective for annual periods beginning after December 15, 2026 and interim periods beginning after December 15, 2027, with early adoption permitted and will be applied on a prospective basis with the option to apply the standard retrospectively. The Company is currently evaluating the impact of the adoption of ASU 2024-03; however, the standard is not expected to have an impact on the Company's consolidated financial position, results of operations or cash flows.

Note 2. Acquisitions

Norden Millimeter, Inc.

On January 27, 2025, the Company and Kratos Microwave, Inc., a subsidiary of the Company ("Kratos Microwave"), entered into an Asset Purchase Agreement (the "Purchase Agreement") to acquire certain of the assets (the "Purchased Assets") of Norden Millimeter, Inc. ("Norden") and assume certain liabilities (the "Assumed Liabilities") of Norden. Norden focuses on microwave and millimeter wave products. Pursuant to the Purchase Agreement, on February 4, 2025, the asset acquisition was completed following the satisfaction of all closing conditions and (a) the Company issued 1,095,674 shares of its common stock, with a deemed value of $32.2 million, to Norden in a private placement, (b) the Company agreed to issue up to $6 million worth of additional shares of its common stock to Norden in the future upon release of certain holdback amounts, and (c) Kratos Microwave agreed to assume the Assumed Liabilities, in each case, in exchange for the Purchased Assets. Kratos granted Norden certain registration rights under the Asset Purchase Agreement and registered the 1,095,674 shares with the SEC on February 7, 2025. The Purchased Assets and Assumed Liabilities are included in the KGS segment.

The allocation of the total consideration for this acquisition to the tangible and identifiable intangible assets acquired and liabilities assumed is preliminary until the Company obtains final information regarding their fair values. However, the Company does not expect any adjustment to such allocations to be material to the Company's consolidated financial statements.The operating results of the acquisition have been included in the Company's results of operations from the effective acquisition date. The Company has determined that pro forma revenue and earnings information is incomplete for the periods prior to the acquisition and that it is impracticable to present such prior periods until the Company obtains final information regarding such prior period revenues and earnings.

The excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed in the acquisition was allocated to goodwill. The goodwill represents the value the Company expects to be created by integrating the acquired Norden business with Kratos' related products and customers.

The transaction has been accounted for using the acquisition method of accounting, which requires, among other things, that the identifiable assets acquired and the liabilities assumed be recognized at their fair values as of the acquisition date. These preliminary fair value measurements are based primarily on significant inputs not observable in the marketplace and thus represent Level 3 measurements.

The following table summarizes the preliminary allocation of the purchase price over the estimated fair values of the Norden assets acquired and liabilities assumed (in millions):

Accounts receivable	$	1.5
Inventory		8.3
Other current assets		0.1
Property and equipment		1.7
Intangible assets		10.0
Total identifiable net assets acquired		21.6
Total identifiable net liabilities assumed		(13.1)
Goodwill		28.5
Net assets acquired, excluding cash	$	37.0

Based on the Company's preliminary estimate of fair value, as of February 4, 2025, net liabilities included $7.6 million of current liabilities. The identifiable intangible assets include customer relationships of $2.5 million with a remaining useful life of 7 years, trade names of $2.0 million with a remaining useful life of 7 years, contracts and backlog of $3.0 million with an estimated useful life of 5 years, developed technology of $2.0 million with a remaining useful life of 7 years, and a non-compete agreement valued at $0.5 million with a remaining useful life of 5 years. The goodwill recorded in this transaction is expected to be tax-deductible.

The amounts of revenue and operating income of the acquired Norden business included in the Company's consolidated statement of operations for the three months ended March 30, 2025 were $4.8 million and $2.2 million, respectively.

A summary of the consideration paid for the acquired assets is as follows (in millions):

Common stock issued	$	32.2
Holdback that may be issued at later date		6.0
Less: estimated purchase price adjustment		(1.2)
Total consideration	$	37.0

Note 3. Revenue Recognition

The Company has adopted the FASB ASU 2014-09, *Revenue from Contracts with Customers*, and the related amendments, which are codified into Accounting Standards Codification ("ASC") 606 ("ASC 606"). To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in each contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Once the contract is identified and determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract, determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. The majority of the Company's contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation based on the relative standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected-cost-plus-margin approach, under which the Company forecasts the expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service.

For the majority of contracts, the Company satisfies the underlying performance obligations over time as the customer obtains control or receives benefits as work is performed on the contract. The Company generally recognizes revenue over time as work is performed on long-term contracts because of the continuous transfer of control to the customer. For U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay for costs incurred plus a reasonable profit and take control of any work in process. Similarly, for non-U.S. government contracts, the customer typically controls the work in process as evidenced either by contractual termination clauses or by our rights to payment of the transaction price associated with work performed to date on products or services that do not have an alternative use to the Company. As a result, under ASC 606, revenue is recognized over time using the cost-to-cost method (cost incurred relative to total estimated cost at completion).

Remaining Performance Obligations

The Company calculates revenues from remaining performance obligations as the dollar value of the remaining performance obligations on executed contracts. On March 30, 2025, the Company had approximately $1,508.1 million of remaining performance obligations. The Company expects to recognize approximately 48% of the remaining performance obligations as revenue in fiscal year 2025, an additional 25% in fiscal year 2026, and the balance thereafter.

Contract Estimates

Due to the nature of the work required to be performed on many performance obligations, the estimation of total revenue and cost at completion is complex, subject to many variables, and requires significant judgment. On a quarterly basis, the Company conducts its contract cost Estimate at Completion ("EAC") process by reviewing the progress and execution of outstanding performance obligations within its contracts. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product) and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g., to estimate increases in wages and prices for materials and related support cost allocations), execution by subcontractors, the availability and timing of funding from customers and overhead cost rates, among other variables.

In addition, certain of the Company's long-term contracts contain award fees, incentive fees, or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones, or cost targets and can be based upon customer discretion. Variable consideration is estimated at the most likely amount to which the Company is expected to be entitled. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information (historical, current, and forecasted) that is reasonably available.

Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications are considered to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of the Company's contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price, and the measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

As a result of the EAC process, any quarterly adjustments to revenues, cost of sales, and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual performance obligations, if it is determined the Company will be successful in mitigating the risks surrounding the technical, schedule and cost aspects of those performance obligations or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating income if it is determined the Company will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, cost of sales, and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods. A significant change in one or more of these estimates could affect the profitability of one or more of the Company's contracts. When estimates of total costs to be incurred on a performance obligation exceed total estimates of revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined. No cumulative catch-up adjustment on any one contract was material to the Company's unaudited condensed consolidated financial statements for the three-month periods ended March 30, 2025, and March 31, 2024. Likewise, total cumulative catch-up adjustments were not material for the three-month periods ended March 30, 2025, and March 31, 2024.

Contract Assets and Liabilities

For each of the Company's contracts, the timing of revenue recognition, customer billings, and cash collections results in a net contract asset or liability at the end of each reporting period. Fixed-price contracts are typically billed to the customer either using progress payments, whereby amounts are billed monthly as costs are incurred or work is completed, or performance based payments, which are based upon the achievement of specific, measurable events or accomplishments defined and valued at contract inception. Cost-type contracts are typically billed to the customer on a monthly or semi-monthly basis.

Contract assets consist of unbilled receivables, primarily related to long-term contracts where revenue recognized under the cost-to-cost method exceeds amounts billed to customers. Unbilled receivables are classified as current assets and, in accordance with industry practice, include amounts that may be billed and collected beyond one year due to the long-term nature of many of the Company's contracts. Accumulated contract costs in unbilled receivables include direct production costs, factory and engineering overhead, production tooling costs, and, for government contracts, recovery of allowable general and administrative expenses. Unbilled receivables also include certain estimates of variable consideration described above. The Company's contracts that give rise to contract assets are not considered to include a significant financing component as the payment terms are intended to protect the customer in the event the Company does not perform on its obligations under the contract.

Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of the Company's performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. The Company's contracts that give rise to contract liabilities do not include a significant financing component as the underlying advance payments received are generally utilized to pay for contract costs within a one-year period or are used to ensure the customer meets contractual requirements.

Net contract assets and liabilities are as follows (in millions):

	March 30, 2025	December 29, 2024	Net Change
Contract assets	$ 244.3	$ 206.3	$ 38.0
Contract liabilities	$ 82.0	$ 76.3	$ 5.7
Net contract assets	$ 162.3	$ 130.0	$ 32.3

Contract assets increased $38.0 million during the three months ended March 30, 2025, primarily due to higher unbilled receivables, net during the three months ended March 30, 2025. There were no significant impairment losses related to any receivables or contract assets arising from the Company's contracts with customers during the three months ended March 30, 2025. Contract liabilities increased $5.7 million during the three months ended March 30, 2025, primarily due to payments received in excess of revenue recognized on these performance obligations. For the three months ended March 30, 2025, the Company recognized revenue of $36.4 million that was previously included in the contract liabilities that existed at December 29, 2024. For the three months ended March 31, 2024 the Company recognized revenue of $43.4 million that was previously included in the contract liabilities that existed at December 31, 2023.

Disaggregation of Revenue

The following series of tables presents the Company's revenue disaggregated by several categories. For the majority of contracts, revenue is recognized over time as work is performed on the contract.

Revenue by contract type was as follows (in millions):

	Three Months Ended	
	March 30, 2025	March 31, 2024
Kratos Government Solutions		
Fixed price	$ 166.5	$ 145.7
Cost plus fee	58.0	58.6
Time and materials	15.0	13.5
Total Kratos Government Solutions	239.5	217.8
Unmanned Systems		
Fixed price	52.6	43.9
Cost plus fee	9.8	13.5
Time and materials	0.7	2.0
Total Unmanned Systems	63.1	59.4
Total Revenues	$ 302.6	$ 277.2

Revenue by customer was as follows (in millions):

	Three Months Ended	
	March 30, 2025	March 31, 2024
Kratos Government Solutions		
U.S. Government [(1)]	$ 149.4	$ 135.1
International [(2)]	55.3	50.7
U.S. Commercial and other customers	34.8	32.0
Total Kratos Government Solutions	239.5	217.8
Unmanned Systems		
U.S. Government [(1)]	56.1	55.8
International [(2)]	5.8	2.4
U.S. Commercial and other customers	1.2	1.2
Total Unmanned Systems	63.1	59.4
Total Revenues	$ 302.6	$ 277.2

[(1)] Sales to the U.S. Government include sales from contracts for which the Company is the prime contractor, as well as those for which the Company is a subcontractor and the ultimate customer is the U.S. Government. Each of the Company's segments derives substantial revenue from the U.S. Government. These sales include foreign military sales contracted through the U.S. Government.

[(2)] International sales include sales from contracts for which the Company is the prime contractor, as well as those for which the Company is a subcontractor and the ultimate customer is an international customer. These sales include direct sales with governments outside the U.S. and commercial sales with customers outside the U.S.

Revenue by Geographic Area was as follows (in millions):

	Three Months Ended	
	March 30, 2025	March 31, 2024
United States	$ 239.0	$ 221.0
Other North America	5.9	4.3
Asia Pacific	15.8	16.9
Middle East	15.7	14.1
Europe	14.8	12.8
Other	11.4	8.1
Total Revenues	$ 302.6	$ 277.2

Note 4. Goodwill and Intangible Assets

(a) Goodwill

The carrying amounts of goodwill as of March 30, 2025 and December 29, 2024 by reportable segment are as follows (in millions):

	As of March 30, 2025		
	KGS	US	Total
Gross value	$ 712.1	$ 138.6	$ 850.7
Less accumulated impairment	239.5	13.8	253.3
Net	$ 472.6	$ 124.8	$ 597.4

	As of December 29, 2024		
	KGS	US	Total
Gross value	$ 683.6	$ 138.6	822.2
Less accumulated impairment	239.5	13.8	253.3
Net	$ 444.1	$ 124.8	$ 568.9

(b) Purchased Intangible Assets

The following table sets forth information for finite-lived and indefinite-lived intangible assets (in millions):

	As of March 30, 2025			As of December 29, 2024		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
Acquired finite-lived intangible assets:						
Customer relationships	$ 83.4	$ (66.0)	$ 17.4	$ 80.9	$ (65.3)	$ 15.6
Contracts and backlog	56.1	(44.3)	11.8	53.1	(43.2)	9.9
Non-compete Agreements	0.5	—	0.5	—	—	—
Developed technology and technical know-how	35.7	(29.7)	6.0	33.7	(29.4)	4.3
Trade names	5.8	(3.1)	2.7	3.8	(3.1)	0.7
In-process research and development	16.8	(0.5)	16.3	16.8	(0.4)	16.4
Total finite-lived intangible assets	198.3	(143.6)	54.7	188.3	(141.4)	46.9
Indefinite-lived trade names	6.9	—	6.9	6.9	—	6.9
Total intangible assets	$ 205.2	$ (143.6)	$ 61.6	$ 195.2	$ (141.4)	$ 53.8

Consolidated amortization expense related to intangible assets subject to amortization was $2.2 million and $2.1 million for the three months ended March 30, 2025 and March 31, 2024, respectively.

The estimated future amortization expense of acquired intangible assets with finite lives for the remainder of 2025 and the next five fiscal years, and thereafter as of March 30, 2025 is as follows (in millions):

		Amount
2025	$	7.9
2026		10.7
2027		9.0
2028		6.1
2029		6.2
Thereafter	$	14.8

Note 5. Inventoried Costs

Inventoried costs, consisted of the following components (in millions):

		March 30, 2025		December 29, 2024
Raw materials	$	99.5	$	90.1
Work in process		72.1		67.7
Finished goods		4.4		4.3
Total inventoried costs	$	176.0	$	162.1

Note 6. Net Income (Loss) per Common Share

The Company calculates net income (loss) per share in accordance with FASB ASC Topic 260, *Earnings per Share* ("Topic 260"). Under Topic 260, basic net income (loss) per common share attributable to the Kratos shareholders is calculated by dividing net income (loss) attributable to Kratos by the weighted-average number of common shares outstanding during the reporting period. Diluted net income (loss) per common share reflects the effects of potentially dilutive securities.

Diluted net income per share for the three months ended March 30, 2025 includes the dilutive effect of an aggregate of 2.1 million shares of the Company's common stock granted to employees under stock-based compensation plans. Diluted net income per share for the three months ended March 31, 2024 excludes the dilutive effects of awards granted to employees under stock-based compensation plans of 1.9 million shares because their inclusion would have been anti-dilutive.

Note 7. Leases

The Company leases certain facilities, office space, vehicles and equipment. Lease assets and lease liabilities are recognized at the commencement of an arrangement where it is determined at inception that a lease exists. Lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using an incremental borrowing rate generally applicable to the location of the lease asset, unless the implicit rate is readily determinable. Lease assets also include any upfront lease payments made and exclude lease incentives. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. The Company has operating lease arrangements with lease and non-lease components. The non-lease components in these arrangements are not significant when compared to the lease components. For all operating leases, the Company accounts for the lease and non-lease components as a single component.

Variable lease payments are generally expensed as incurred. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and the expense for these short-term leases is recognized on a straight-line basis over the lease term.

The depreciable life of lease assets and leasehold improvements is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The components of lease expense were as follows (in millions):

	Three Months Ended	
	March 30, 2025	March 31, 2024
Amortization of right of use assets - finance leases	$ 0.8	$ 0.8
Interest on lease liabilities - finance leases	0.8	0.8
Operating lease cost	3.6	3.5
Short-term lease cost	0.4	0.4
Sublease income	(0.1)	—
Total lease cost	$ 5.5	$ 5.5

The components of leases on the balance sheet were as follows (in millions):

	March 30, 2025	December 29, 2024
Operating leases:		
Operating lease right-of-use assets	$ 41.5	$ 37.6
Current portion of operating lease liabilities	$ 12.0	$ 11.3
Operating lease liabilities, net of current portion	$ 33.1	$ 29.8
Finance leases:		
Property, plant and equipment, net	$ 56.8	$ 57.6
Other current liabilities	$ 2.0	$ 1.9
Other long-term liabilities	$ 63.9	$ 64.4

Cash paid for amounts included in the measurement of lease liabilities was as follows (in millions):

	Three Months Ended	
	March 30, 2025	March 31, 2024
Finance lease - cash paid for interest	$ 0.8	$ 0.8
Finance lease - financing cash flows	$ 0.4	$ 0.3
Operating lease - operating cash flows (fixed payments)	$ 3.4	$ 3.6

Other supplemental noncash information (in millions):

	Three Months Ended	
	March 30, 2025	March 31, 2024
Operating lease liabilities arising from obtaining right-of-use assets	$ 6.8	$ 0.2
Finance lease liabilities arising from obtaining right-of-use assets	$ —	$ 0.4
	March 30, 2025	March 31, 2024
Weighted-average remaining lease term (in years):		
Operating leases	4.16	4.43
Finance leases	13.56	14.58
Weighted-average discount rate:		
Operating leases	5.14 %	4.92 %
Finance leases	6.35 %	6.35 %

The maturity of lease liabilities is (in millions):

	Operating Leases	Finance Leases
2025 [1]	$ 10.7	$ 4.1
2026	12.8	6.2
2027	11.4	6.3
2028	7.8	6.5
2029	3.8	6.5
Thereafter	3.6	74.6
Total lease payments	50.1	104.2
Less: imputed interest	(5.0)	(38.3)
Total present value of lease liabilities	$ 45.1	$ 65.9

[1] Excludes the three months ended March 30, 2025.

Note 8. Income Taxes

The provision for income taxes and the effective income tax rate are as follows:

	For the Three Months Ended	
$ in millions	March 30, 2025	March 31, 2024
Federal, state and foreign income tax expense	$ 0.9	$ 2.7
Effective income tax rate	17.26 %	66.95 %

The Company’s first quarter 2025 effective tax rate (ETR) decreased to 17.26% from 66.95% in the prior year period principally due to increased tax benefits related to stock based compensation. The effective rate for the three months ended March 30, 2025 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee share based compensation partially offset by nondeductible expenses. The effective rate for the three months ended March 31, 2024 was higher than the federal statutory rate of 21% primarily due to nondeductible expenses partially offset by excess tax benefits from employee share based compensation.

The Company calculates its interim income tax provision in accordance with ASC Topic 270, “Interim Reporting,” and ASC Topic 740, “Accounting for Income Taxes.” In 2025, the Company calculated the provision for income taxes during the interim reporting period by applying an estimate of the annual effective tax rate for the full fiscal year to “ordinary” income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. Prior to 2025, a discrete effective tax rate method was used since small changes in estimated “ordinary” income would result in significant changes in the estimated annual effective tax rate.

As of March 30, 2025, the Company had $25.4 million of unrecognized tax benefits. Included in the balance of unrecognized tax benefits at March 30, 2025 are $22.8 million that, if recognized, would impact the Company’s effective income tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. For the three months ended March 30, 2025 and March 31, 2024, the Company recorded an expense of $0.1 million in each period. For the three months ended March 30, 2025 and March 31, 2024, there was no material benefit recorded related to the removal of interest and penalties.

The Organization for Economic Co-operation and Development (OECD) has a framework to implement a global minimum corporate tax of 15% for companies with global revenues and profits above certain thresholds (referred to as Pillar 2), with certain aspects of Pillar 2 effective January 1, 2024 and other aspects effective January 1, 2025. While it is uncertain whether the U.S. will enact legislation to adopt Pillar 2, certain countries in which we operate have adopted legislation, and other countries are in the process of introducing legislation to implement Pillar 2. Pillar 2 did not have a significant impact on our 2025 effective tax rate and we do not currently expect Pillar 2 to have a material impact on our effective tax rate or our consolidated results of operation, financial position, and cash flows going forward.

Note 9. Debt

(a) 2022 Credit Facility

On February 18, 2022, the Company completed the refinancing of its then-outstanding $90 million revolving credit facility and $300 million 6.5% Senior Secured Notes, with a new 5-year $200 million Revolving Credit Facility and 5-year $200 million Term Loan A (collectively, the "2022 Credit Facility"). The Company incurred debt issuance costs of $3.3 million associated with the 2022 Credit Facility. As of March 30, 2025, the Company has made an aggregate of $17.5 million in principal payments on Term Loan A and has no amounts outstanding under the Revolving Credit Facility, with $200.0 million remaining in borrowing capacity, less approximately $8.9 million of letters of credit outstanding.

The 2022 Credit Facility is governed by a Credit Agreement (the "Credit Agreement"), which establishes the 5-year senior secured credit facility which is comprised of the $200 million Revolving Credit Facility (which includes sub-facilities for the incurrence of up to $10.0 million of swingline loans and the issuance of up to $50.0 million of Letters of Credit) and the $200 million Term Loan A. The Credit Agreement contemplates uncommitted incremental credit facilities of up to $200 million (which amount would be reduced by the aggregate amount of any and all incremental credit facilities actually established under the Credit Agreement) plus additional uncommitted incremental capacity subject to a limitation based on the Company's pro forma total net leverage ratio (including any such additional uncommitted incremental capacity).

Borrowings under the revolving credit facility and the term loan credit facility may take the form of base rate loans or Secured Overnight Financing Rate ("SOFR") loans. Base rate loans under the Credit Agreement will bear interest at a rate per annum equal to the sum of the Applicable Margin (as defined in the Credit Agreement) from time to time in effect plus the highest of (i) the Agent's (as defined in the Credit Agreement) prime lending rate, as in effect at such time, (ii) the Federal Funds Rate (as defined in the Credit Agreement), as in effect at such time, plus 0.50%, (iii) the Adjusted Term SOFR (as defined in the Credit Agreement) for a one-month tenor in effect on such day, plus 1.00% and (iv) 1.00%. SOFR loans will bear interest at a rate per annum equal to the sum of the Applicable Margin from time to time in effect plus the Adjusted Term SOFR for an Interest Period (as defined in the Credit Agreement) selected by the Company of one, three or six months. The Applicable Margin varies between 1.25% and 2.25% per annum for SOFR loans and between 0.25% and 1.25% per annum for base rate loans, and is based on the Company's total net leverage ratio from time to time.

Mandatory amortization on the Term Loan A is 2.5% in each of the first and second years and 5.0% in each of the third, fourth and fifth years, with the remaining outstanding balance due at maturity. The Credit Agreement contains certain covenants, which include, but are not limited to, restrictions on indebtedness, liens, fundamental changes, restricted payments, asset sales, and investments, and places limits on various other payments. The Company was in compliance with the covenants contained in the Credit Agreement as of March 30, 2025.

On April 28, 2023, the Company entered into an interest rate swap contract to hedge U.S. dollar-one month Term SOFR in order to fix the interest rate movements associated with the Company's Term Loan A. The initial hedge amount was $195.0 million and amortizes in accordance with Term Loan A. The swap is at a fixed rate of one-month term SOFR of 3.721% and settles monthly on the last day of each calendar month. The swap has an effective date of May 1, 2023 and terminates on May 1, 2026. Refer to Note 15 for further discussion of the accounting treatment of the swap arrangement.

Term Loan and Revolving Credit Debt

Term loan and revolving credit debt and the current period interest rates are as follows (in millions):

	March 30, 2025	December 29, 2024
Term Loan A	$ 182.5	$ 185.0
Revolving credit facility	—	—
Total debt	182.5	185.0
Less current portion	10.0	10.0
Total long-term debt, less current portion	172.5	175.0
Less long-term unamortized debt issuance costs - term loans	0.3	0.4
Total long-term debt, net of unamortized debt issuance costs - term loans	$ 172.2	$ 174.6
Unamortized debt issuance costs - revolving credit facility	$ 0.3	$ 0.4
Current period interest rate	5.7 %	5.9 %

Future long-term debt principal payments at March 30, 2025 were as follows (in millions):

2025	$	10.0
2026		10.0
2027		162.5
	$	182.5

Note 10. Segment Information

The Company operates in two reportable segments. The KGS reportable segment is comprised of an aggregation of KGS operating segments, including DRSS, ME, ST&C, MS, and KTT. The US reportable segment consists of the Company's unmanned aerial, unmanned ground, unmanned seaborne and command, control and communications system products. The KGS and US segments provide products, solutions and services for mission critical National Security programs. KGS and US customers primarily include National Security related agencies, the DoD, intelligence agencies and classified agencies, and to a lesser degree, international government agencies and domestic and international commercial customers.

There were not any significant intersegment sales, cost of sales and profit for the three month periods ended March 30, 2025 and March 31, 2024.

The Company's chief operating decision maker is the President and Chief Executive Officer. The chief operating decision maker uses segment operating income (loss) predominantly in the annual budget and forecasting process. The chief operating decision maker considers budget-to-actual variances on a quarterly basis when making decisions about the allocation of operating and capital resources to each segment. The chief operating decision maker also uses segment operating income (loss) to assess the performance of each segment by comparing the results of each segment with one another and in determining the compensation of certain employees.

(a) Summary Operating Results

The tables below provide information about the Company's reportable segments. In these tables total segment operating income (loss) of the reportable business segments is reconciled to the corresponding consolidated amount. "Unallocated amounts" includes costs for merger and acquisition expenses, stock-based compensation expenses, interest expense (net), and other income (expense) items not considered part of management's evaluation of segment operating income (loss). See Note 3 (Revenue Recognition) to these condensed consolidated financial statements for segment revenues disaggregated by contract type, customer and geographic region. The summary operating results for the Company's reportable segments for the three month periods ended March 30, 2025 and March 31, 2024, are as follows (in millions):

Quarter Ended March 30, 2025	**Kratos Government Solutions**	**Unmanned Systems**	**Totals**
Service revenues	$ 100.7	$ 1.7	$ 102.4
Product sales	138.8	61.4	200.2
Total revenues	239.5	63.1	302.6
Cost of service revenue	74.5	1.2	75.7
Cost of product sales	101.4	51.9	153.3
Total cost of sales	175.9	53.1	229.0
Selling, general & administrative expenses	37.0	11.3	48.3
Research & development expenses	9.6	0.4	10.0
Total segment operating income	17.0	(1.7)	15.3
Reconciliation of segment operating income			
Unallocated amounts:			
Stock compensation expense			(8.7)
Interest expense, (net)			(0.9)
Other expense, net			(0.3)
Income before income taxes			$ 5.4

Revenues from foreign customers were approximately $61.1 million or 20% of total revenue for the three months ended March 30, 2025. Revenues from any one foreign country did not exceed 10% of total revenues.

Quarter Ended March 31, 2024	Kratos Government Solutions	Unmanned Systems	Totals
Service revenues	$ 104.6	$ 1.9	$ 106.5
Product sales	113.2	57.5	170.7
Total revenues	217.8	59.4	277.2
Cost of service revenue	77.8	1.4	79.2
Cost of product sales	80.6	46.4	127.0
Total cost of sales	158.4	47.8	206.2
Selling, general & administrative expenses	34.5	10.7	45.2
Research & development expenses	8.3	1.3	9.6
Restructuring expenses and other	—	—	—
Total segment operating income	16.6	(0.4)	16.2
Reconciliation of segment operating income			
Unallocated amounts:			
Stock compensation expense			(9.2)
Interest expense, (net)			(2.8)
Other expense, net			(0.2)
Income before income taxes			$ 4.0

Revenues from foreign customers were approximately $53.1 million or 19% of total revenue for the three months ended March 31, 2024. Revenues from any one foreign country did not exceed 10% of total revenues.

(b) Capital Expenditures (in millions):

	Quarter Ended	
	March 30, 2025	March 31, 2024
Kratos Government Solutions	$ 13.6	$ 9.5
Unmanned Systems	9.0	7.1
Total reportable segment capital expenditures	22.6	16.6
Corporate capital expenditures	—	—
Total capital expenditures	$ 22.6	$ 16.6

(c) Depreciation and Amortization (in millions):

	Quarter Ended	
	March 30, 2025	March 31, 2024
Kratos Government Solutions	$ 7.1	$ 6.1
Unmanned Systems	3.3	3.2
Total depreciation and amortization	$ 10.4	$ 9.3

d) Reportable Segment Assets are as follows (in millions):

	March 30, 2025	December 29, 2024
Kratos Government Solutions	$ 1,348.0	$ 1,250.4
Unmanned Systems	399.8	385.7
Total reportable segment assets	1,747.8	1,636.1
Corporate assets[(1)]	257.1	314.8
Total assets	$ 2,004.9	$ 1,950.9

[(1)]Corporate assets primarily include cash and cash equivalents, deferred income tax assets, and property, plant and equipment used in our corporate operations.

Assets of foreign subsidiaries in the KGS segment were $230.7 million and $193.6 million as of March 30, 2025 and March 31, 2024, respectively. Assets from any one foreign country did not exceed 10% of total assets.

Note 11. Redeemable Noncontrolling Interest

On February 27, 2019, the Company acquired 80.1% of the issued and outstanding shares of capital stock of Florida Turbine Technologies Inc., a Florida corporation (“FTT Inc.”), and 80.1% of the membership interests in KTT Core, a Delaware limited liability company, for an aggregate purchase price of approximately $60 million. On February 18, 2022, the capital stock of FTT Inc. was conveyed to KTT Core for organizational purposes such that FTT Inc. is now a wholly owned subsidiary of KTT Core. In connection with the Company’s acquisition of FTT Inc., and KTT Core, (i) beginning in January 2024, the holders (the “Holders”) of the minority interests in KTT Core (the “Minority Interests”) had an annual right (the “Put Right”) to sell all of the Minority Interests to the Company at a purchase price based on a specified multiple of the trailing 12 months EBITDA of KTT Core and its subsidiaries (the “Acquired Companies”), subject to adjustment as set forth in the Exchange Agreement entered into by and among the Company, the Acquired Companies and the Holders, as amended on February 18, 2022 (the “Exchange Agreement”).

On June 13, 2022, the Company entered into an Equity Purchase Agreement (the “Equity Purchase Agreement”) to acquire an additional 9.95% (the “Purchased Shares”) of the issued and outstanding shares of capital stock of KTT Core (together with its wholly-owned subsidiaries including FTT Inc.), a majority owned subsidiary of the Company, for an aggregate estimated purchase price of approximately $6.4 million, to be paid in shares of Kratos common stock. Pursuant to the Equity Purchase Agreement, the Company paid consideration of $2.7 million, paid in 190,258 shares of its common stock, based upon Kratos’ trading price on the date of distribution. Following the closing of the transactions contemplated by the Equity Purchase Agreement, the Company owned 90.05% of KTT Core. On April 7, 2023, the final aggregate purchase price, as updated to reflect the actual 2022 operating results and to reflect the market price of Kratos common stock on the day of issuance, was determined and 828,128 shares of Kratos common stock were issued to the Holders of the Minority Interests with a value of $10.7 million.

On March 22, 2024, the Holders notified Kratos of their intent to sell their remaining Minority Interests through the Holders’ exercise of the Put Right. On June 21, 2024, the Company acquired the remaining 9.95% of the issued and outstanding shares of capital stock of KTT Core for an aggregate purchase price of approximately $22.5 million, which was comprised of approximately $11.25 million in cash and 583,700 shares of Kratos common stock valued at $11.25 million based on Kratos’ 90 day average trading price ending on day immediately prior to the date of acquisition. Following the closing of the transaction the Company owned 100% of KTT Core.

Prior to the purchase of the remaining shares of KTT Core, the Company adjusted the carrying value of the redeemable noncontrolling interest based on an allocation of subsidiary earnings based on ownership interest. Redeemable noncontrolling interest is recorded outside of permanent equity at the higher of its carrying value or management’s estimate of the amount (the “Redemption Amount”) that the Company could be required to pay in connection with the Put Right. Adjustments to the Redemption Amount had a corresponding effect on net income per share attributable to Kratos shareholders. For the three month period ended March 31, 2024, the Company recorded an adjustment of $0.5 million to decrease the carrying value of the redeemable noncontrolling interest to the estimated Redemption Amount. As a result of the Company’s acquisition of the remaining 9.95% of the issued and outstanding shares of capital stock of KTT Core on June 21, 2024, the carrying value of the redeemable noncontrolling interest was reduced to zero.

Note 12. Stockholders Equity - Common Stock

On February 27, 2024, the Company sold 19,166,667 shares of its common stock at a public offering price of $18.00 per share in an underwritten offering. The Company received gross proceeds of approximately $345.0 million. After deducting underwriting fees and other offering expenses, the Company received approximately $331.2 million in net proceeds. The Company expects to use the net proceeds of this public equity offering to facilitate its long-term strategy, including potential investment in facilities, expanding manufacturing capacity, anticipated capital expenditures for expansion of current sole-source/single award programs and high probability pipeline opportunities, initiate or accelerate production or integration of unmanned drone, hypersonic or other systems in anticipation of customer contract awards, further strengthen its balance sheet in anticipation of upcoming customer and partner decisions and source selection on additional large, new program and contract opportunities, for general corporate purposes, including paydown of debt, and to pay fees and expenses in connection with this public equity offering. During the three months ended March 31, 2024, the Company used $45 million of the proceeds from this public equity offering to pay down amounts outstanding under its Revolving Credit Facility.

Note 13. Significant Customers

Revenue from the U.S. Government, which includes foreign military sales contracted through the U.S. Government, includes revenue from contracts for which the Company is the prime contractor as well as those for which the Company is a subcontractor and the ultimate customer is the U.S. Government. The KGS and US segments have substantial revenue from the U.S. Government. Sales to the U.S. Government amounted to approximately $205.5 million and $190.9 million, or 68% and 69% of total Kratos revenue, for the three months ended March 30, 2025 and March 31, 2024, respectively.

Note 14. Commitments and Contingencies

In addition to commitments and obligations in the ordinary course of business, the Company is subject to various claims, pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of the Company's business. The Company assesses contingencies to determine the degree of probability and range of possible loss for potential accrual in its unaudited condensed consolidated financial statements. An estimated loss contingency is accrued in the unaudited condensed consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated, and such amount is deemed material. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing litigation contingencies is highly subjective and requires judgments about future events. When evaluating contingencies, the Company may be unable to provide a meaningful estimate due to a number of factors, including but not limited to the procedural status of the matter in question, the presence of complex or novel legal theories, and the ongoing discovery and development of information important to the matters. In addition, damage amounts claimed in litigation against it may be unsupported, exaggerated or unrelated to possible outcomes and, as such, are not meaningful indicators of its potential liability. The Company regularly reviews contingencies to determine the adequacy of its accruals and related disclosures. The amount of ultimate loss may differ from these estimates. It is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies. Whether any losses finally determined in any claim, action, investigation or proceeding could reasonably have a material effect on the Company's business, financial condition, results of operations or cash flows will depend on a number of variables, including the timing and amount of such losses; the structure and type of any remedies; the monetary significance any such losses, damages or remedies may have on the condensed consolidated financial statements; and the unique facts and circumstances of the particular matter that may give rise to additional factors.

Legal and Regulatory Matters

U.S. Government Cost Claims

The Company's contracts with the DoD are subject to audit by the Defense Contract Audit Agency ("DCAA"). As a result of these audits, from time to time the Company is advised of claims concerning potential disallowed, overstated or disputed costs. For example, during the course of audits of the Company's contracts, the DCAA is closely examining and questioning certain of the established and disclosed practices that it had previously audited and accepted. The Company's personnel regularly scrutinize costs incurred and allocated to contracts with the U.S. Government for compliance with regulatory standards. For those Company subsidiaries and fiscal years which have not yet been audited by the DCAA or for those audits which are in process which have not yet been completed by the DCAA, the Company cannot reasonably estimate the range of loss, if any, that may result given the inherent difficulty in predicting regulatory action, fines and penalties, if any, and the various remedies and levels of judicial review available to the Company in the event of an adverse finding. As a result, the Company has not recorded any liability related to these matters.

Other Litigation Matters

The Company is subject to normal and routine litigation arising from the ordinary course and conduct of business and, at times, as a result of mergers, acquisitions and dispositions. Such disputes include, for example, commercial, employment, intellectual property, environmental, and securities matters. The aggregate amounts accrued related to these matters are not material to the total liabilities of the Company. The Company intends to defend itself in any such matters and does not currently believe that the outcome of any such matters will have a material adverse impact on the Company's financial condition, results of operations or cash flows.

Note 15. Derivative Financial Instruments

The Company's derivative portfolio consists of forward exchange contracts used to manage foreign currency risks and an interest rate swap contract to hedge U.S. dollar-one month Term SOFR in order to mitigate the exposure to interest rate movements associated with the Company's Term Loan A. Derivative financial instruments are recognized on the condensed consolidated balance sheets as either assets or liabilities and are measured at fair value.

Forward Exchange Contracts

Changes in the fair values of the foreign currency exchange contracts are recorded each period in earnings. As of March 30, 2025, the Company did not use hedge accounting for its foreign currency exchange contracts. The notional value of the Company's foreign currency exchange contracts at March 30, 2025 was $31.2 million. At March 30, 2025, the fair value amounts of the foreign currency exchange contracts were a $0.2 million asset and a $0.3 million liability. The net gain from these forward exchange contracts was $0.2 million for the three months ended March 30, 2025, and is included in other expense. The notional value of the Company's foreign currency exchange contracts at December 29, 2024, was $24.5 million. At December 29, 2024, the fair value amounts of the foreign currency exchange contracts were a $0.2 million asset and a $0.1 million liability.

Cash Flow Hedge

On April 28, 2023, the Company entered into an interest rate swap contract with an initial notional amount of $195.0 million to manage the variability of cash flows associated with the Term Loan A. The interest rate swap contract matures on May 1, 2026 and requires periodic interest rate settlements. The swap is at a fixed SOFR of 3.721% and settles monthly on the last day of each calendar month. The Company has designated the interest rate swap contract as a cash flow hedge and assesses the hedge effectiveness both at the onset of the hedge and at regular intervals throughout the life of the derivative. Changes in fair value (gains and losses) related to derivative financial instruments that qualify as cash flow hedges are deferred in Accumulated Other Comprehensive Income (Loss) ("AOCI") until the underlying transaction is reflected in earnings. The net gain reclassed from AOCI from the interest rate swap reflected in earnings was $0.3 million for the three months ended March 30, 2025, respectively, and is recorded as an offset to interest expense. The net gain reclassed from AOCI from the interest rate swap reflected in earnings was $0.8 million for the three months ended March 31, 2024, respectively, and is recorded as an offset to interest expense.

The fair value of this derivative represents the discounted value of the expected future discounted cash flows for the interest rate swap, based on the amortization schedule and the current forward curve for the remaining term of the contract, as of the date of each reporting period (in millions):

	March 30, 2025		December 29, 2024	
	Notional Value	Fair Value	Notional Value	Fair Value
Interest rate swap contract designated as a cash flow hedge, net of taxes	$ 182.5	$ 0.3	$ 185.0	$ 0.8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q (this "Quarterly Report") contains "forward-looking statements" relating to our future financial performance, the market for our services and our opportunities. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or other comparable terminology. These forward-looking statements reflect our current beliefs, expectations and projections, are based on assumptions, and are subject to known and unknown risks and uncertainties that could cause our actual results or achievements to differ materially from any future results or achievements expressed in or implied by our forward-looking statements. Many of these factors are beyond our ability to control or predict. As a result, you should not place undue reliance on forward-looking statements. Important risks and uncertainties that could cause our actual results or achievements to differ materially from the results or achievements reflected in our forward-looking statements include, but are not limited to: changes, cutbacks or delays in spending by the U.S. Department of Defense may occur which could cause delays or cancellations of key government contracts; delays to or the cancellation of our projects as a result of protest actions submitted by our competitors; changes in federal government (or other applicable) procurement laws, regulations, policies and budgets; the availability of government funding for the Company's products and services due to performance, cost growth, or other factors; changes in government and customer priorities and requirements; the potential of the current economic environment to adversely impact our business; currently unforeseen risks associated with any public health crisis; risks related to natural disasters or severe weather; changes in the scope or timing of our projects; the timing, rescheduling or cancellation of significant customer contracts and agreements, or consolidation by or the loss of key customers; risks of adverse regulatory action or litigation; risks related to our international operations; risks associated with debt leverage; failure to successfully achieve our integration, cost reduction or divestiture strategies; risks related to security breaches, cybersecurity attacks or other significant disruptions of our information systems; and competition in the marketplace, which could reduce revenues and profit margins, as well as the additional risks and uncertainties described in this Quarterly Report on Form 10-Q, in "Item 1A-Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 29, 2024 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 26, 2025 (the "Form 10-K"), and in other reports that we have filed with the SEC. These forward-looking statements reflect our views and assumptions only as of the date such forward-looking statements are made. Except as required by law, we assume no responsibility for updating any forward-looking statements, whether as a result of new information, future events or otherwise.

All references to "us," "we," "our," the "Company" and "Kratos" refer to Kratos Defense & Security Solutions, Inc., a Delaware corporation, and its subsidiaries.

Overview

Kratos is a technology, products, system and software company addressing the defense, national security, and commercial markets. Kratos makes true internally funded research, development, capital and other investments, to rapidly develop, produce and field solutions that address our customers' mission critical needs and requirements. At Kratos, affordability is a technology, and we seek to utilize proven, leading edge approaches and technology, not unproven bleeding edge approaches or technology, with Kratos' approach designed to reduce cost, schedule and risk, enabling us to be first to market with cost effective solutions. We believe that Kratos is known as the innovative disruptive change agent in the industry, a company that is an expert in designing products and systems up front for successful rapid, large quantity, low cost future manufacturing, which is a value add competitive differentiator for our large traditional prime system integrator partners and also to our government and commercial customers. Kratos intends to pursue program and contract opportunities as the prime or lead contractor when we believe our probability of win is high and any investment required by Kratos is within our capital resource comfort level. We intend to partner and team with a large, traditional system integrator when our assessment of probability of win is greater or required investment is beyond Kratos comfort level. Kratos' primary business areas include, virtualized ground systems for satellites and space vehicles including software for command & control (C2) and telemetry, tracking and control (TT&C), jet powered unmanned aerial drone systems, hypersonic vehicles and rocket systems, propulsion systems for drones, missiles, loitering munitions, supersonic systems, space craft and launch systems, command, control, communication, computing, combat, intelligence surveillance and reconnaissance (C5ISR) and microwave electronic products for missile, radar, air defense, missile defense, space, satellite, counter unmanned aircraft systems (CUAS), directed energy, communication and other systems, and virtual & augmented reality training systems for the warfighter. We believe that there is a generational recapitalization of weapon systems occurring globally, including with the United States and its allies, to address individual and potential collective peer and near peer threats, including Russia, China, North Korea and Iran. The Company currently has record levels of backlog and opportunity pipeline. The Company is currently making significant capital, property, plant, equipment and other internally funded investments to address its backlog, current opportunity pipeline, and expected and potential future program and contract awards, including from or with the Department of Defense, traditional legacy prime systems integrators and partners. These investments include; unmanned jet powered aircraft such as Kratos Valkyrie ahead of potential contract award; a hypersonic system fabrication and integration facility including for Kratos Zeus standard rocket missiles (SRMs) and Erinyes hypersonic flight systems; the purchase of long lead items for up to 60 Oriole SRM's for ballistic missile defense related, hypersonic or other expected customer missions; expansion of our small turbojet engine production capacity in Michigan; establishment of a planned small turbofan jet engine production facility in the United States; expansion of our existing microwave electronics manufacturing facility in Israel, establishment of an additional microwave electronics facility in Israel, including a space qualified facility; expansion of our machining, milling, casting, 3D printing and additive manufacturing capable facility in the United States to support our jet engine and other product and system manufacturing requirements; establishment of a new facility related to the Sentinel intercontinental ballistic missile (ICBM) program; expansion of our unmanned jet drone manufacturing capability; expansion of existing and construction of additional classified facilities for certain programs and contracts.

Industry Update

On November 5, 2024, the U.S. Presidential and Congressional elections occurred, with Donald Trump being elected President of the United States, and the Republican party controlling the Senate and the House of Representatives. President Trump took office on January 20, 2025, and the new Congress and Senate were seated on January 3, 2025. On March 14, 2025 the Senate voted to pass the "Full-Year Continuing Appropriations and Extensions Act of 2025" (H.R. 1968) to further extend appropriations and avert a government shutdown through the end of fiscal year 2025 on September 30. This CRA largely extends fiscal year 2024 spending levels, including certain limited flexibility to reallocate certain program funds, and, according to the Congressional Budget Office, would allow for $1.6 trillion in discretionary spending in FY 2025, with $893 billion for defense (an approximately $6 billion increase) and $708 billion for non-defense spending (an approximately $13 billion reduction).) Additionally, both the Senate and the House are working on a reconciliation bill, which would increase defense funding by up to an additional $150 billion, if passed by Congress and approved by the President. The President and Secretary of Defense also recently stated that the Trump Administration will be submitting a $1 trillion FY 2026 national security budget, as part of the Administration's rebuilding of the U.S. military and its focus on lethality.

The potential challenges presented by the recent elections, Presidential and Congressional changes, the CRA, proposed new tariffs, the current budgetary and deficit funding environment, the Trump Administration's stated fiscal policies, including the extension and potential expansion of reduced federal tax rates, Israel, Ukraine and Taiwan funding support, continuing heightened levels of inflation, ongoing supply chain disruption, and the challenging appropriations process, among other items, all continue to create significant short and long-term risks to the industry and the Company. Additionally, the Trump Administration has recently executed certain executive orders directly related to significantly changing the current DoD procurement policies and procedures, and the Federal Acquisition Regulations, the potential impact of which such changes, if effected either by executive orders or changes to the relevant law, to the industry, and to Kratos, is unknown at this time.

We believe continued budget and deficit funding pressures (which are expected), CRAs (which are also expected), future Federal Government debt ceiling issues, or Federal Government shutdowns could have serious negative consequences for the security of our country and the defense industrial base, including the Company and the related customers, employees, suppliers, investors, and communities that rely on companies in the defense industrial base. It is possible that budget and program decisions made in such an uncertain environment would have long-term implications for our Company and the entire defense industry. Additionally, funding for certain programs, including those in which we currently participate or are pursuing, may be reduced, delayed or cancelled, and budget uncertainty or funding cuts globally could adversely affect the viability of our customers, partners, teammates, subcontractors, suppliers, and our employee base.

Such a challenging federal and DoD budgetary environment may negatively impact our customers, business and programs and could have a material adverse effect on our forecasts, estimates, financial position, results of operations and/or cash flows.

We also continue to be affected by various unfavorable macroeconomic conditions including adverse supply chain disruptions that continue throughout the industry and for us, and related delays in the receipt and delivery of materials, parts, supplies, etc., which in certain instances and for certain items is significant. To mitigate the impact of these delays, we have implemented advanced and larger lot purchases of certain materials and parts which has resulted in an increased use of our working capital, which is expected to continue. In addition, inflation and the related increased costs of inputs needed to execute our business, including materials, parts, supplies, consultants, subcontractors, vendors, etc., have significantly increased our business costs and have adversely impacted our operations, profit margins and financial forecasts.

Also, an industry wide shortage of qualified labor, and the cost of that labor for the Company and its labor base is a significant operational challenge. The cost of labor has increased significantly and current challenges in hiring, obtaining and retaining employees, including those employees requiring National Security clearances, is adversely impacting Kratos' ability to execute its business. The challenge of retaining skilled experienced production personnel has continued to negatively impact our operating margins, especially on our longer-term firm fixed-priced production contracts. There is also a significant industry wide labor shortage, including in the Science, Technology, Engineering, and Math (STEM) discipline areas, and also including employees willing and/or able to obtain National Security clearances, and for high level manufacturing and production disciplines.

In addition, actions by the Federal Reserve to increase interest rates in the past few years have impacted our interest expense on our outstanding debt borrowings and the related cost of executing Kratos' business. Although the most recent actions by the Federal Reserve decreased rates slightly, the industry and Kratos are still impacted by rates that are higher than prevailing interest rates over the past several years. Each of these challenges are expected to continue for the foreseeable future and are expected to continue to adversely impact the Company's operations, financial results and financial forecasts.

We do believe that our business is well-positioned, including in areas that the Trump Administration, the DoD, national security related and other customers currently indicate are priorities for future defense spending. As noted above, we believe that there is a generational recapitalization of weapon systems occurring with the U.S. and its allies to address peer and near peer threats, including Russia, China, North Korea and Iran, and the Company's positioning as a proven provider of military grade hardware, systems and software to address these threats for and with our customers and partners is recognized in the industry. We believe that the Company's military grade hardware, software and solution offerings, including jet unmanned aerial drones, rocket and hypersonic systems, C5ISR and air defense systems, jet engine and propulsion systems for missiles, drones, hypersonic and supersonic vehicles, microwave electronics for missile, radar and air defense systems and training systems, address mission critical priority areas of the DoD.

Reportable Segments

The Company currently operates in two reportable segments. The KGS reportable segment is comprised of an aggregation of KGS operating segments, including our microwave electronics products, space, satellite and cyber, training solutions, C5ISR/modular systems, turbine technologies, and defense and rocket support services operating segments. The US reportable segment consists of our unmanned aerial, unmanned ground, unmanned seaborne and command, control and communications system businesses.

We organize our business segments based primarily on the nature of the products, solutions and services offered. Transactions between segments are negotiated and accounted for under terms and conditions similar to other government and commercial contracts, and these intercompany transactions are eliminated in consolidation. For additional information regarding our reportable segments, see Note 10 of the accompanying unaudited condensed consolidated financial statements. From a customer and solutions perspective, we view our business as an integrated whole, leveraging skills and assets wherever possible.

Comparison of Results for the Three Months Ended March 30, 2025 to the Three Months Ended March 31, 2024

Revenues. Revenues by reporting segment for the three months ended March 30, 2025 and March 31, 2024 are as follows (dollars in millions):

	March 30, 2025	March 31, 2024	$ change	% change
Kratos Government Solutions				
Service revenues	$ 100.7	$ 104.6	$ (3.9)	(3.7)%
Product sales	138.8	113.2	25.6	22.6 %
Total Kratos Government Solutions	$ 239.5	$ 217.8	$ 21.7	10.0 %
Unmanned Systems				
Service revenues	$ 1.7	$ 1.9	$ (0.2)	(10.5)%
Product sales	61.4	57.5	3.9	6.8 %
Total Unmanned Systems	63.1	59.4	3.7	6.2 %
Total revenues	$ 302.6	$ 277.2	$ 25.4	9.2 %
Total service revenues	$ 102.4	$ 106.5	$ (4.1)	(3.8)%
Total product sales	200.2	170.7	29.5	17.3 %
Total revenues	$ 302.6	$ 277.2	$ 25.4	9.2 %

Revenues increased $25.4 million to $302.6 million for the three months ended March 30, 2025 from $277.2 million for the three months ended March 31, 2024. Revenues in our KGS segment increased $21.7 million primarily due to increased revenues across all business units, with the most notable organic revenue increases in our C5ISR, Defense Rocket Support and microwave products businesses as well as growth in our turbine technologies and space, satellite and cyber business, and the contribution of $4.8 million in revenue from the recent acquisition of certain assets from Norden Millimeter, Inc.. Revenues in our US segment increased $3.7 million to $63.1 million for the three months ended March 30, 2025, reflecting the increased target drone production activity during the quarter ended March 30, 2025.

Product sales increased $29.5 million to $200.2 million for the three months ended March 30, 2025 from $170.7 million for the three months ended March 31, 2024, primarily as a result of increased production in our US segment. As a percentage of total consolidated revenues, product sales were 66.2% for the three months ended March 30, 2025 as compared to 61.6% for the three months ended March 31, 2024. Service revenues decreased by $4.1 million to $102.4 million for the three months ended March 30, 2025 from $106.5 million for the three months ended March 31, 2024, primarily related to decreased activity in our space, training and cyber business in our KGS segment.

Cost of Revenues. Cost of revenues increased $22.8 million to $229.0 million for the three months ended March 30, 2025 from $206.2 million for the three months ended March 31, 2024. The increase in cost of revenues was primarily related to the increased revenues as well the impact of increased labor and material costs, with the most notable increased activity in our Unmanned Systems segment.

Gross Margin. Gross margin decreased to 24.3% for the three months ended March 30, 2025 from 25.6% for the three months ended March 31, 2024. Margins on services increased to 26.1% for the three months ended March 30, 2025 from 25.6% for the three months ended March 31, 2024. Margins on products decreased to 23.4% for the three months ended March 30, 2025 from 25.6% for the three months end March 31, 2024. Margins in the KGS segment decreased to 26.6% for the three months ended March 30, 2025 from 27.3% for the three months ended March 31, 2024. Margins in the US segment decreased to 15.8% for the three months ended March 30, 2025 from 19.5% for the three months ended March 31, 2024, primarily due to a less favorable mix of products produced and shipped, and from the impact of increased labor and material costs in the three months ended March 30, 2025, which are not recoverable under multi-year fixed priced contracts.

Selling, General and Administrative (“SG&A”) Expenses. SG&A expenses increased $2.6 million to $57.0 million for the three months ended March 30, 2025 from $54.4 million for the three months ended March 31, 2024 due primarily to the increased revenue volume and headcount. As a percentage of revenues, SG&A decreased to 18.8% at March 30, 2025 from 19.6% at March 31, 2024.

Research and Development (“R&D”) Expenses. R&D expenses increased $0.4 million to $10.0 million for the three months ended March 30, 2025 from $9.6 million for the three months ended March 31, 2024, primarily due to increased development efforts in our space and satellite communications business and our microwave products businesses partially offset with decreases in our unmanned systems. As a percentage of revenues, R&D decreased to 3.3% for the three months ended

March 30, 2025 from 3.5% for the three months ended March 31, 2024. R&D expenses are made by the Company, typically in conjunction with our customers, for the Company to achieve a "first to market" position with our products or technology. We also invest in R&D expenses to achieve market leading "designed in" positions on major programs, platforms or systems.

Total Other Expense, Net. The total other expense, net was $1.2 million for the three months ended March 30, 2025 and $3.0 million for the three months ended March 31, 2024. This decrease in total other expense, net of $1.8 million was primarily related to a decrease in interest expense of $1.0 million as a result of the reduction of debt and the interest rate hedge entered into during the third quarter of 2023 on the Company's Term Loan A, and an increase in interest income of $0.9 million in the three months ended March 30, 2025, resulting from the increased cash balances following the February 27, 2024 stock offering which raised approximately $331.2 million in net proceeds.

Provision for Income Taxes. Income tax expense decreased $1.8 million to $0.9 million for the three months ended March 30, 2025 from $2.7 million for the three months ended March 31, 2024, primarily as a result of increased tax benefits related to stock based compensation, as well as a change in the tax rate method used to estimate our interim tax provision. For the three months ended March 30, 2025, the Company utilized the annual effective tax rate method based on the forecasted information provided. For the three months ended March 31, 2024, the Company utilized the discrete effective tax rate method. The discrete method is applied when it is not possible to reliably estimate our full year effective tax rate due to significant permanent differences in relation to pre-tax book income, resulting in significant variability to our effective tax rate.

Backlog

On March 30, 2025, we had approximately $1,508.1 million of total backlog, of which $1,173.6 million was funded. We expect to recognize approximately 48% of the remaining total backlog as revenue in fiscal year 2025, an additional 25% in fiscal year 2026 and the balance thereafter. Our comparable total backlog balance as of March 31, 2024, was approximately $1,272.8 million, of which $1,043.9 million was funded. Backlog as of March 30, 2025 as compared to March 31, 2024 has increased primarily as a result of contract awards in our Microwave Products, C5ISR, Defense and Rocket Support and Unmanned Systems businesses.

Total backlog is our estimate of the amount of revenue expected to be realized over the remaining life of awarded contracts and task orders that we have in hand as of the measurement date. Total backlog can include award fees, incentive fees, or other variable consideration estimated based on the most likely amount we expect to be entitled to receive, to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur. Total backlog can include both funded and unfunded future revenue under government contracts. Total backlog does not include orders for which neither party has performed and which each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party. As such, total backlog generally does not include options for additional performance obligations which have not been executed unless they are considered a material right of the base agreement/contract. For indefinite delivery or indefinite quantity contracts, only awarded or funded task orders are included for backlog purposes.

We define funded backlog as estimated future revenue under government contracts and task orders for which funding has been appropriated by Congress and authorized for expenditure by the applicable agency, plus an estimate of the future revenue expected to be realized from commercial contracts that are under firm orders. Funded backlog does not include the full potential value of our contracts because Congress often appropriates funds to be used by an agency for a particular program of a contract on a yearly or quarterly basis even though the contract may call for performance over a number of years. As a result, contracts typically are only partially funded at any point during their term, and all or some of the work to be performed under the contracts may remain unfunded unless and until Congress makes a subsequent appropriation and the procuring agency allocates funding to the contract.

Contracts undertaken by us may extend beyond one year. Accordingly, portions are carried forward from one year to the next as part of backlog. Because many factors affect the scheduling of projects, no assurance can be given as to when or if revenue will be realized on projects included in our backlog. Although funded backlog represents only business that is considered to be firm, we cannot guarantee that cancellations or scope adjustments will not occur. The majority of funded backlog represents contracts with terms that would entitle us to all or a portion of our costs incurred and potential fees upon cancellation by the customer.

A significant number of the programs that Kratos' systems, products and solutions support are multi-year/multi-decade in nature. Accordingly, based on historical customer usage or operational tempo, we have reasonable expectations or visibility of what ultimate orders for Kratos' systems, products and solutions will be. We do not include these expected amounts in our backlog until a related contract award is received.

Management believes that year-to-year comparisons of backlog are not necessarily indicative of future revenues. The actual timing of receipt of revenues, if any, on projects included in backlog could change because many factors affect the scheduling of projects. In addition, cancellations or adjustments to contracts may occur. Backlog is typically subject to large variations from quarter-to-quarter as existing contracts are renewed or new contracts are awarded. Additionally, all U.S. Government contracts included in backlog, whether or not funded, may be terminated at the convenience of the U.S. Government.

Liquidity and Capital Resources

As of March 30, 2025, we had cash and cash equivalents of $263.7 million compared with cash and cash equivalents of $329.3 million as of December 29, 2024, which includes $27.9 million and $40.2 million, respectively, of cash and cash equivalents held by our foreign subsidiaries. We are not presently aware of any restrictions on the repatriation of these funds, however, earnings of these foreign subsidiaries are essentially considered permanently invested in these foreign subsidiaries. If these funds were needed to fund our operations or satisfy obligations in the United States they could be repatriated, and their repatriation into the United States may cause us to incur additional foreign withholding taxes. We do not currently intend to repatriate these earnings.

Our total long-term debt decreased from $185.0 million at December 29, 2024 to $182.5 million at March 30, 2025, reflecting the $2.5 million in aggregate principal payments we have made on the Term Loan A during the three months ended March 30, 2025. On February 18, 2022, we completed the refinancing of our outstanding $90 million revolving credit facility and $300 million of Senior Secured Notes, with a new 5-year $200 million Revolving Credit Facility and 5-year $200 million Term Loan A. As of March 30, 2025, the Company has made an aggregate of $17.5 million of principal payments on Term Loan A, and has no amounts outstanding under the new Revolving Credit Facility, with $200.0 million remaining in borrowing capacity, less approximately $8.9 million for outstanding letters of credit (as more fully described in Note 9 of the accompanying unaudited condensed consolidated financial statements).

We use our operating cash flow to finance trade accounts receivable, fund necessary increases in inventory including increasing inventory stock levels and advance buys in larger lot sizes to gain pricing benefits where possible, in order to mitigate the impact of supply chain disruptions and price increases, utilize working capital to fund revenue growth, fund prepayments required for long lead items necessary for production, fund internal investments of engineering and software development costs, fund capital expenditures, our internal research and development investments and our ongoing operations, service our debt, enhance our security infrastructure, including cyber security infrastructure, and make strategic acquisitions. Financing trade accounts receivable is necessary because, on average, our customers do not pay us as quickly as we pay our vendors and employees for their goods and services because a number of our receivables are contractually billable and due to us only when certain contractual milestones are achieved. Financing increases in inventory balances are necessary to fulfill shipment requirements to meet delivery schedules of our customers, to fund advanced inventory purchases to mitigate supply chain disruptions, and to fund production for work in progress and increased inventory levels and prepayments for long-lead materials related to production and revenue growth. These financing requirements have increased and have recently negatively impacted our operating cash flows due to actions we have taken to advance inventory purchases in an attempt to mitigate supply chain disruptions and to bolster our inventory levels. For the three months ended March 30, 2025, approximately $12.8 million of operating cash flow use was related to increases in prepaid expenses and other assets which also include certain vendor prepayments and deposits related to the procurement of long-lead materials and inventory. Cash from continuing operations is primarily derived from our customer contracts in progress and associated changes in working capital components. Our days sales outstanding (“DSO”) have increased from 104 days as of December 29, 2024 to 109 days at March 30, 2025, primarily reflecting the timing of outstanding contractual billing milestones. Our DSO's are impacted by the achievement of contractual billing milestones such as equipment shipments and deliveries on certain products, and for certain flight requirements that must be fulfilled on certain aerial target programs, or final milestone billings which are not due until completion on certain projects, and therefore we are unable to contractually bill for amounts outstanding related to those milestones at this time.

A summary of our net cash provided by (used in) operating activities, investing activities, and financing activities from our condensed consolidated statements of cash flows is as follows (in millions):

	Three Months Ended	
	March 30, 2025	March 31, 2024
Net cash provided by (used in) operating activities	$ (29.2)	$ 0.7
Net cash used in investing activities	(22.6)	(16.6)
Net cash provided by (used in) financing activities	(14.5)	282.6

Net cash used in operating activities was $29.2 million for the three months ended March 30, 2025. Net cash used in operating activities for the three months ended March 30, 2025 was primarily a result of net income of $4.5 million and changes in net working capital accounts of $56.0 million partially offset by noncash charges of $22.3 million which includes stock compensation, depreciation and amortization. Net cash provided by operating activities was $0.7 million for the three months ended March 31, 2024. Net cash provided by operating activities from continuing operations for the three months ended March 31, 2024 was primarily a result of the net gain of $1.3 million and changes in net working capital accounts of $22.3 million partially offset by noncash charges of $21.7 million which includes stock compensation, depreciation and amortization.

Net cash used in investing activities was $22.6 million for the three months ended March 30, 2025 and is comprised of $22.6 million in capital expenditures. During the three months ended March 30, 2025, capital expenditures of approximately $8.3 million were incurred in our US business, primarily related to our unmanned tactical initiative. We expect our capital expenditures for fiscal year 2025 to continue to be significant for investments we are making, specifically in our US business totaling approximately $35 to $40 million, including approximately $18 to $22 million for capital aerial targets and related support equipment. The Company is currently producing or anticipates producing several versions of the Valkyrie within the 24 unit production, based on routine communications with the customers, which mix and ultimate duration of the 24 Lot Build may change as a result. Net cash used in investing activities for the three months ended March 31, 2024 is comprised of $16.6 million in capital expenditures. During the three months ended March 31, 2024, capital expenditures of approximately $6.8 million were incurred in our US business, primarily related to our unmanned tactical initiative.

Net cash used in financing activities was $14.5 million for the three months ended March 30, 2025, which included $2.5 million of principal payments on our Term Loan A, payroll withholding taxes paid from vested restricted stock traded for taxes of $16.2 million and payments made on financing lease obligations of $0.4 million. These uses were partially offset by employee stock purchase plan receipts of $4.6 million, Net cash provided by financing activities was $282.6 million for the three months ended March 31, 2024, which included employee stock purchase plan receipts of $3.6 million and net proceeds from the issuance of common stock of approximately $330.7 million. These proceeds were partially offset by $1.3 million of principal payments on our Term Loan A and a $45.0 million payment (partially offset by a $10.0 million draw) on our Revolving Credit Facility, payroll withholding taxes paid from vested restricted stock traded for taxes of $15.1 million and payments made on financing lease obligations of $0.3 million.

Contractual Obligations and Commitments

2022 Credit Facility

On February 18, 2022, the Company completed the refinancing of its then-outstanding $90 million revolving credit facility and $300 million Senior Secured Notes, with a new 5-year $200 million Revolving Credit Facility and 5-year $200 million Term Loan A. The Company incurred debt issuance costs of $3.3 million associated with the 2022 Credit Facility. As of March 30, 2025, the Company has made an aggregate of $17.5 million of principal payments on Term Loan A. As of March 30, 2025, the Company has no amounts outstanding under the Revolving Credit Facility, with $200.0 million remaining in borrowing capacity, less approximately $8.9 million for outstanding letters of credit.

The 2022 Credit Facility is governed by a Credit Agreement (the “Credit Agreement”), which establishes the 5-year senior secured credit facility which is comprised of the $200 million Revolving Credit Facility (which includes sub-facilities for the incurrence of up to $10.0 million of swingline loans and the issuance of up to $50.0 million of Letters of Credit) and the $200 million Term Loan A. The Credit Agreement contemplates uncommitted incremental credit facilities of up to $200 million (which amount would be reduced by the aggregate amount of any and all incremental credit facilities actually established under the Credit Agreement) plus additional uncommitted incremental capacity subject to a limitation based on the Company’s pro forma total net leverage ratio (including any such additional uncommitted incremental capacity).

Borrowings under the Revolving Credit Facility and the Term Loan A may take the form of base rate loans or SOFR loans. Base rate loans under the Credit Agreement will bear interest at a rate per annum equal to the sum of the Applicable

Margin (as defined in the Credit Agreement) from time to time in effect plus the highest of (i) the Agent’s (as defined in the Credit Agreement) prime lending rate, as in effect at such time, (ii) the Federal Funds Rate (as defined in the Credit Agreement), as in effect at such time, plus 0.50%, (iii) the Adjusted Term SOFR (as defined in the Credit Agreement) for a one-month tenor in effect on such day, plus 1.00% and (iv) 1.00%. SOFR loans will bear interest a rate per annum equal to the sum of the Applicable Margin from time to time in effect plus the Adjusted Term SOFR for an Interest Period (as defined in the Credit Agreement) selected by the Company of one, three or six months. The Applicable Margin varies between 1.25% and 2.25% per annum for SOFR loans and between 0.25% and 1.25% per annum for base rate loans, and is based on the Company’s total net leverage ratio from time to time.

Mandatory amortization on the Term Loan A is 2.5% in each of the first and second years and 5.0% in each of the third, fourth and fifth years, with the remaining outstanding balance due at maturity. The Credit Agreement contains certain covenants, which include, but are not limited to, restrictions on indebtedness, liens, fundamental changes, restricted payments, asset sales, and investments, and places limits on various other payments. The Company was in compliance with the covenants contained in the Credit Agreement as of March 30, 2025.

On April 28, 2023, the Company entered into an interest rate swap contract to hedge U.S. dollar-one month Term SOFR in order to fix the interest rate movements associated with the Company’s Term Loan A. The initial hedge amount was $195.0 million and amortizes in accordance with Term Loan A. The swap is at a fixed rate one-month term SOFR of 3.721% and settles monthly on the last day of each calendar month. The swap has an effective date of May 1, 2023 and terminates on May 1, 2026.

Other Liquidity Matters

We believe that our cash on hand, together with funds available under the Credit Agreement and cash expected to be generated from operating activities, will be sufficient to fund our anticipated working capital and other cash needs for at least the next 12 months. As discussed below and in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K, our quarterly and annual operating results have fluctuated in the past and may vary in the future due to a variety of factors, many of which are outside our control. If the conditions in our industry deteriorate or our customers cancel or postpone projects or if we are unable to sufficiently increase our revenues or further reduce our expenses, we may experience a significant long-term negative impact to our financial results and cash flows from operations. In such a situation, we could fall out of compliance with our financial and other covenants, which, if not waived, could limit our liquidity and capital resources.

Critical Accounting Principles and Estimates

The foregoing discussion of our financial condition and results of operations is based on the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and the related disclosures of contingencies. We base these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

There have been no significant changes to our “Critical Accounting Policies or Estimates” as compared to the significant accounting policies described in our Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Since December 29, 2024, there have been no material changes in the quantitative or qualitative aspects of our market risk profile. For additional information regarding our exposure to certain market risks, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2024 that we filed with the SEC on February 26, 2025.

Item 4. Controls and Procedures.

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) promulgated under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report.

Based on the foregoing, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 30, 2025.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended March 30, 2025 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 14 of the Notes to condensed consolidated financial statements contained within this Quarterly Report for a discussion of our legal proceedings.

Item 1A. Risk Factors.

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, as well as the risk factors disclosed in Item 1A. to Part I of our Annual Reports on Form 10-K, and other reports that we have filed with the SEC. Any of the risks discussed in such reports, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations, financial condition or prospects. During the period covered by this Quarterly Report on Form 10-Q, there have been no material changes in our risk factors as previously disclosed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

(c) Rule 10b5-1 Trading Plans

During the fiscal quarter ended March 30, 2025, none of our directors or officers (as defined in Rule 16a-1 under the Exchange Act) adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 105b-1 trading arrangement" (as those terms are defined in Item 408 of Regulation S-K), except as described in the table below:

Name	Title	Action	Applicable Date	Expiration Date	Rule 10b5-1 Trading Arrangement? (Y/N)[1]	Aggregate Number of Securities Subject to Trading Arrangement
Marie Mendoza	Senior Vice President, General Counsel	Adopted	3/17/2025	9/30/2026	Y	24,473 [2]

[1]Denotes whether the trading arrangement is intended to satisfy the affirmative defense of Rule 10b5-1(c).
[2]This number represents the maximum number of shares of our common stock that may be sold pursuant to the trading arrangement. The number of shares actually sold will depend on the satisfaction of certain conditions set forth in the trading arrangement.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference: Form	Incorporated by Reference: Filing Date/ Period End Date	Incorporated by Reference: Exhibit	Filed-Furnished Herewith
3.1	Amended and Restated Certificate of Incorporation of Kratos Defense & Security Solutions, Inc., as amended.	10-K	02/27/2017 (001-34460)	3.1	
3.2	Third Amended and Restated Bylaws of Kratos Defense & Security Solutions, Inc., as amended.	8-K	05/24/2024 (001-34460)	3.1	
4.1	Specimen Stock Certificate.	10-K	02/27/2017 (001-34460)	4.1	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.				*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002				*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Eric M. DeMarco.				*
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Deanna Lund.				*
101.INS	Inline XBRL Instance Document-the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document				*
101.SCH	Inline XBRL Taxonomy Extension Schema Document				*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				*

** Certain confidential information contained in this Exhibit (indicated by asterisks) has been omitted because it is both (i) not material and (ii) the type of information that the registrant treats as private or confidential.

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 thereunto duly authorized.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

By: /s/ ERIC M. DEMARCO
Eric M. DeMarco
Chief Executive Officer, President
(Principal Executive Officer)

By: /s/ DEANNA H. LUND
Deanna H. Lund
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

By: /s/ MARIA CERVANTES DE BURGREEN
Maria Cervantes de Burgreen
Vice President and Corporate Controller
(Principal Accounting Officer)

Date: May 7, 2025

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric M. DeMarco, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kratos Defense & Security Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2025

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

/s/ ERIC M. DEMARCO

Eric M. DeMarco
Chief Executive Officer, President
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Deanna H. Lund, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kratos Defense & Security Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2025

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

/s/ DEANNA H. LUND

Deanna H. Lund
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Acting Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Quarterly Report of Kratos Defense & Security Solutions, Inc. (the “Company”) on Form 10-Q for the quarter ended March 30, 2025 (the “Report”), I, Eric M. DeMarco, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2025

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

/s/ ERIC M. DEMARCO

Eric M. DeMarco
Chief Executive Officer, President
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Quarterly Report of Kratos Defense & Security Solutions, Inc. (the “Company”) on Form 10-Q for the quarter ended March 30, 2025 (the “Report”), I, Deanna H. Lund, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2025

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

/s/ DEANNA H. LUND

Deanna H. Lund
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Acting Principal Accounting Officer)