



Kratos to Acquire Gichner Holdings, Inc.

Apr 12, 2010 (GlobeNewswire via COMTEX News Network) --

- Positions Kratos to Pursue New, Larger Contract Opportunities
- Purchase Price Approximately 7.5x LTM EBITDA at Close

Kratos Provides Preliminary First Quarter Revenue and EBITDA Results

SAN DIEGO, April 12, 2010 (GLOBE NEWSWIRE) -- Kratos Defense & Security Solutions, Inc. (Nasdaq:KTOS), a leading National Defense, Information Technology, Assurance and Security Solutions provider, announced today that it has entered into a definitive agreement to acquire Gichner Holdings, Inc. (Gichner), a leading design, engineering, manufacturer and integrator of tactical and other shelters, products, solutions, modular containers, subsystems and support equipment for the U.S. military, its allies, and leading defense prime contractors. Gichner's products are currently deployed in a wide range of military programs, including the MQ-1C and RQ-7 unmanned aerial vehicles, the Persistent Threat Detection System, Command Post Platform, Patriot Surface to Air Missile System, and the DDG-1000 Zumwalt-class destroyer. The purchase price will be approximately \$133 million in cash, subject to certain working capital and other adjustments as of the closing date, or approximately 7.5x expected LTM EBITDA at close. The transaction, which is expected to close during Kratos' fiscal second quarter ending June 27, 2010, is subject to customary closing conditions, including the receipt of regulatory approvals. The transaction is contingent on financing availability, on terms and conditions acceptable to Kratos, in its sole discretion, and there is no break-up fee or other financial cost or penalty to Kratos if such financing is not available.

Founded in 1967, Gichner has a large skilled work force of approximately 950 employees, and is headquartered in Dallastown, Pennsylvania, with other major facilities in York, Pennsylvania and Charleston, South Carolina. Gichner's expertise is in the design, engineering, manufacture and integration of military specification shelters in support of weapons systems solutions, unmanned aerial systems, C5 systems, ISR systems, related military vehicles and warfighter support and sustainment. Gichner products and solutions include unique technologies in the areas of electromagnetic interference, radio frequency interference, high-altitude electromagnetic pulse and chemical agent resistance. Gichner will become part of Kratos' Weapons System Solutions Division, where Kratos and Gichner have similar customer sets, weapons and other systems qualifications and warfighter product and system focus. "We are truly looking forward to welcoming Gichner, its management team and its employees to Kratos," said Eric Demarco, Kratos President and CEO. "This transaction is consistent with Kratos' growth strategy, which not only calls for obtaining new customers, capabilities, contract vehicles and service offerings, but also requires that we add to and expand our strengths in the areas of weapons system sustainment, C5ISR, military equipment preset and reset, and foreign military sales. We are confident that this acquisition will provide significant cross selling opportunities, enable Kratos to pursue new and larger contracts and programs, and will be a catalyst for future organic growth."

Tom Mills, Gichner's CEO said, "I am excited to have Gichner join the Kratos Defense and Security Group and specifically the Weapons System Solutions Division. Gichner's strategy has been to position itself on key U.S. DoD product and technology platforms where the DoD plans to continue to invest in the future. Joining forces with Kratos provides Gichner the opportunity to exploit this strategy by providing Gichner's business development activities with significant leverage from Kratos' numerous locations at key U.S. military bases that buy and use Gichner's products, in addition to increased FMS opportunities."

The transaction is expected to immediately increase Kratos' Free Cash Flow, Cash Flow from Operations and Free Cash Flow per share of Kratos common stock. The transaction is also expected to immediately increase Kratos' Operating Income margins and EBITDA margins. The transaction has been structured so that Kratos' current approximate \$210 million in Net Operating Loss carry forwards can be utilized to shelter substantially all of the combined company's income from federal income taxes. The transaction is expected to be accretive to earnings per share in 2011, as significant transaction and financing related costs will be expensed in 2010, including transaction costs in accordance with FASB ASC Topic 805 Business Combinations.

B. Riley & Co. is acting as exclusive financial advisor to Kratos, and Jefferies & Company, Inc. is acting as exclusive financial advisor to Gichner in connection with this acquisition.

Kratos also announced today preliminary first quarter revenues of approximately \$68 - \$70 million and forecasted EBITDA of

approximately \$5.7 - \$6 million, or 8.4 to 8.6 percent.

Eric Demarco, Kratos President and CEO said, "Our preliminary first quarter results and increased EBITDA rate reflect the continued demand for certain higher margin products, solutions and services which Kratos provides, including in the areas of ballistic missile defense, information assurance and cyber security, weapons systems sustainment and C5ISR. Due to a favorable contract and program mix, EBITDA for the first quarter is expected to exceed our expectations. Additionally, we expect cash flow from operations to exceed our previous expectations by approximately \$2 to \$3 million. However, certain other areas of our work continue to be impacted by delays in government procurement decisions, formal contract award delays by the government and contract protests, certain of which we had previously discussed and anticipated being resolved in Q1. For example, the \$51 million contract award we recently announced we had originally anticipated receiving late last year. Additionally, Kratos' first quarter contract awards were approximately \$94 million, or a book to bill ratio of 1.3 to 1.0. Accordingly, Kratos' first quarter revenue will be somewhat below where we anticipated. However, we continue to expect Kratos' revenues to ramp up during 2010 as our recent and anticipated contract wins contribute to our performance and the government related delays are resolved. Additionally, for 2010 we expect to achieve our previously stated EBITDA targets, and our overall profit rates to improve."

Kratos management will conduct a conference call today at 4:30 EDT (1:30 PDT) to discuss the Gichner transaction. The dial in number for the conference call is (877) 344-3935, conference I.D. 67740969. The conference call will be broadcast simultaneously on the Investor Relations page of Kratos' website at www.kratosdefense.com. Investors are advised to log on to the website at least 15 minutes prior to the call to register, download and install any necessary audio software, and view the presentation Kratos' management will be presenting.

About Kratos Defense & Security Solutions

Kratos Defense & Security Solutions, Inc. (Nasdaq:KTOS) provides mission critical engineering, IT services, strategic communications and war fighter solutions for the U.S. federal government and for state and local agencies. Principal services include C5ISR, weapon systems sustainment, military weapon range operations and technical services, network engineering services, information assurance and cybersecurity solutions, security and surveillance systems, and critical infrastructure design and integration. The Company is headquartered in San Diego, California, with resources located throughout the U.S. and at key strategic military locations. News and information are available at www.KratosDefense.com.

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

Notice Regarding Forward-Looking Statements

This news release contains certain forward-looking statements including, without limitation, expressed or implied statements concerning the Company's expectations regarding expectations of the estimated impact of the proposed acquisition and the preliminary operating results for the first quarter. Such statements are only predictions, and the Company's actual results may differ materially. Factors that may cause the Company's results to differ include, but are not limited to: risks that the Company will be unable to secure financing to fund the transactions on terms that are acceptable to the Company; risks that the proposed transaction will not be consummated; risks of adverse regulatory action or litigation; risks associated with debt leverage; risks that our actual financial results will differ from those predicted in this release; risks that 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; risks that changes may occur in Federal government (or other applicable) procurement laws, regulations, policies and budgets; risks of increases in the Federal Government initiatives related to in-sourcing; risks related to our compliance with applicable contracting and procurement laws, regulations and standards; risks relating to contract performance; changes in the competitive environment (including as a result of bid protests); failure to successfully consummate acquisitions or integrate acquired operations and competition in the marketplace which could reduce revenues and profit margins; risks that potential future goodwill impairments will adversely affect our operating results; risks that anticipated tax benefits will not be realized in accordance with our expectations; risks that a change in ownership if our stock could limit future utilization of our Net Operating Losses; and risks that the current economic environment will adversely impact our business. The Company undertakes no obligation to update any forward-looking statements. These and other risk factors are more fully discussed in the Company's Annual Report on Form 10-K for the period ended December 27, 2009, and in other filings made with the Securities and Exchange Commission.

Note Regarding Use of Non-GAAP Financial Measures

Certain of the information set forth herein, including, EBITDA, pro forma EBITDA and the associated margin rates, and Free Cash Flow and Free Cash Flow per Share are considered non-GAAP financial measures. Kratos believes this information is useful to investors because it provides a basis for measuring the Company's available capital resources, the operating performance of the Company's business and the Company's cash flow, excluding extraordinary items and non-cash items that would normally be included in the most directly comparable measures calculated and presented in accordance with generally accepted accounting principles. The Company's management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating the Company's operating performance and capital resources and

cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-financial measures as reported by the Company may not be comparable to similarly titled amounts reported by other companies.

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