

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Form 10-Q
August 06, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 27, 2010

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

Commission file number 0-27231

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3818604
(I.R.S. Employer Identification No.)

**4820 Eastgate Mall
San Diego, CA 92121
(858) 812-7300**

(Address, including zip code, and telephone number, including
area code, of Registrant's principal executive offices)

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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 July 30, 2010 15,908,042 shares of the registrant's common stock were outstanding.

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Table of Contents**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)****(Unaudited)**

	December 27, 2009	June 27, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 9.9	\$ 43.4
Restricted cash	0.4	8.6
Accounts receivable, net	78.6	92.7
Inventoried costs, net of progress payments	1.9	23.9
Income taxes receivable	1.0	2.1
Prepaid expenses	2.2	12.3
Other current assets	4.8	3.0
Total current assets	98.8	186.0
Property and equipment, net	4.3	23.4
Goodwill	110.2	185.6
Other intangibles, net	26.5	69.4
Other assets	1.8	8.7
Total assets	\$ 241.6	\$ 473.1

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable	\$ 18.8	\$ 27.8
Accrued expenses	9.0	22.2
Accrued compensation	15.7	18.3
Billings in excess of costs and earnings on uncompleted contracts	5.4	18.3
Current portion of long-term debt	4.5	1.0
Other current liabilities	8.3	13.9
Total current liabilities	61.7	101.5
Long-term debt, net of current portion	50.9	225.0
Other long-term liabilities	4.1	9.1
Total liabilities	116.7	335.6

Commitments and contingencies

Stockholders' equity:

Preferred stock, 5,000,000 shares authorized
Series B Convertible Preferred Stock, \$.001 par
value, 10,000 shares outstanding at December 27,
2009 and June 27, 2010 (liquidation preference)

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\$5.0 million at June 27, 2010)

Common stock, \$.001 par value, 195,000,000 shares authorized; 15,784,591 and 15,865,972 shares issued and outstanding at December 27, 2009 and June 27, 2010, respectively

Additional paid-in capital	523.0	524.7
Accumulated deficit	(398.1)	(387.2)

Total stockholders' equity	124.9	137.5
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Total liabilities and stockholders' equity	\$ 241.6	\$ 473.1
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Three months ended		Six months ended	
	June 28, 2009	June 27, 2010	June 28, 2009	June 27, 2010
Service revenues	\$ 85.4	\$ 71.1	\$ 164.6	\$ 135.7
Product sales	5.2	28.0	8.6	32.1
Total revenues	90.6	99.1	173.2	167.8
Cost of service revenue	68.5	54.7	131.6	103.4
Cost of product sales	4.7	23.0	7.0	26.5
Total costs	73.2	77.7	138.6	129.9
Gross profit	17.4	21.4	34.6	37.9
Selling, general and administrative expenses	13.1	15.3	27.3	27.6
Merger and acquisition expenses		1.1		1.1
Research and development expenses	0.5	0.5	0.9	1.1
Impairment of goodwill			41.3	
Operating income (loss) from continuing operations	3.8	4.5	(34.9)	8.1
Other income (expense):				
Interest expense, net	(3.0)	(5.5)	(5.5)	(9.4)
Other income (expense), net	(0.2)	0.4	(0.2)	0.6
Total other expense, net	(3.2)	(5.1)	(5.7)	(8.8)
Income (loss) from continuing operations before income taxes	0.6	(0.6)	(40.6)	(0.7)
Provision (benefit) for income taxes from continuing operations	0.3	(11.7)	0.6	(11.4)
Income (loss) from continuing operations	0.3	11.1	(41.2)	10.7
Income (loss) from discontinued operations	(2.8)	(0.4)	(3.4)	0.2
Net income (loss)	\$ (2.5)	\$ 10.7	\$ (44.6)	\$ 10.9
Basic income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.02	\$ 0.69	\$ (3.19)	\$ 0.67
Income (loss) from discontinued operations	(0.21)	(0.02)	(0.26)	0.01
Net income (loss) per common share:	\$ (0.19)	\$ 0.67	\$ (3.45)	\$ 0.68
Diluted income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.02	\$ 0.68	\$ (3.19)	\$ 0.65
Income (loss) from discontinued operations	(0.21)	(0.03)	(0.26)	0.01

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Net income (loss) per common share:	\$	(0.19)	\$	0.65	\$	(3.45)	\$	0.66
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Weighted average common shares outstanding:

Basic	13.1	16.0	12.9	16.0
Diluted	13.4	16.4	12.9	16.4

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

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

	Six months ended June 28, 2009	Six months ended June 27, 2010
Operating activities:		
Net income (loss)	\$ (44.6)	\$ 10.9
Less: Income (loss) from discontinued operations	(3.4)	0.2
Income (loss) from continuing operations	(41.2)	10.7
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities from continuing operations:		
Depreciation and amortization	4.3	4.8
Deferred income taxes		(13.7)
Goodwill impairment charges	41.3	
Stock-based compensation	0.7	1.0
Mark to market on swaps	0.2	(0.5)
Change in accrual for unused office space	0.6	
Amortization of deferred financing costs	0.4	4.3
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	6.9	0.9
Inventoried costs	(0.1)	2.2