KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Form 10-Q
August 04, 2016
Table of Contents

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 26, 2016

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

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.)

4820 Eastgate Mall, Suite 200
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 ý 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:

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

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

As of July 29, 2016, 60,435,980 shares of the registrant's common stock were outstanding.

Table of Contents

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 26, 2016

INDEX

		Page
	PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements	3
	Condensed Consolidated Balance Sheets at June 26, 2016 and December 27, 2015 (unaudited)	3
	Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Six Months Ended June 26, 2016 and June 28, 2015 (unaudited)	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 26, 2016 and June 28, 2015 (unaudited)	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	38
Item 4.	Controls and Procedures	38
	PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 3.	Defaults Upon Senior Securities	39
Item 4.	Mine Safety Disclosures	39
Item 5.	Other Information	39
Item 6.	Exhibits	40

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)

	June 26, 2016	December 27, 2015
Assets		
Current assets:		
Cash and cash equivalents	$17.6	$ 28.5
Restricted cash	0.7	0.7
Accounts receivable, net	211.0	206.8
Inventoried costs	49.9	55.6
Prepaid expenses	11.5	10.6
Other current assets	11.4	18.2
Total current assets	302.1	320.4
Property, plant and equipment, net	51.2	56.2
Goodwill	483.4	483.4
Intangible assets, net	29.5	36.5
Other assets	8.0	6.8
Total assets	$874.2	$ 903.3
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$47.9	$ 48.3
Accrued expenses	31.0	33.1
Accrued compensation	34.2	36.8
Accrued interest	3.8	3.9
Billings in excess of costs and earnings on uncompleted contracts	43.2	42.3
Other current liabilities	5.6	6.1
Current liabilities of discontinued operations	1.9	1.9
Total current liabilities	167.6	172.4
Long-term debt, net of current portion	444.7	444.1
Other long-term liabilities	32.5	28.5
Non-current liabilities of discontinued operations	3.8	4.1
Total liabilities	648.6	649.1
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, 0 shares outstanding at June 26, 2016 and December 27, 2015	—	—
Common stock, $0.001 par value, 195,000,000 shares authorized; 59,675,841 and 59,139,651 shares issued and outstanding at June 26, 2016 and December 27, 2015, respectively	—	—
Additional paid-in capital	877.3	873.2
Accumulated other comprehensive loss	(1.5)	(1.4)
Accumulated deficit	(650.2)	(617.6)
Total stockholders' equity	225.6	254.2
Total liabilities and stockholders' equity	$874.2	$ 903.3

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 AND COMPREHENSIVE LOSS
(in millions, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Service revenues	$ 88.2	$ 88.8	$ 170.8	$ 176.1
Product sales	80.0	71.7	150.4	141.3
Total revenues	168.2	160.5	321.2	317.4
Cost of service revenues	64.4	67.1	124.7	133.1
Cost of product sales	58.6	52.5	115.4	105.1
Total costs	123.0	119.6	240.1	238.2
Gross profit	45.2	40.9	81.1	79.2
Selling, general and administrative expenses	36.4	40.3	74.1	77.7
Research and development expenses	4.0	4.3	6.9	8.2
Unused office space, restructuring expenses, and other	4.8	—	10.3	0.9
Operating loss from continuing operations	—	(3.7)	(10.2)	(7.6)
Other income (expense):				
Interest expense, net	(8.7)	(8.9)	(17.4)	(17.7)
Other income (expense), net	0.2	(1.0)	0.5	(0.9)
Total other expense, net	(8.5)	(9.9)	(16.9)	(18.6)
Loss from continuing operations before income taxes	(8.5)	(13.6)	(27.1)	(26.2)
Provision for income taxes from continuing operations	1.8	2.3	5.4	4.2
Loss from continuing operations	(10.3)	(15.9)	(32.5)	(30.4)
Discontinued operations (Note 2)				
Loss from operations of discontinued component	(0.1)	(0.7)	(0.1)	(2.1)
Income tax benefit	—	1.6	—	1.2
Income (loss) from discontinued operations	(0.1)	0.9	(0.1)	(0.9)
Net loss	$ (10.4)	$ (15.0)	$ (32.6)	$ (31.3)
Basic and diluted loss per common share:				
Loss from continuing operations	$ (0.17)	$ (0.27)	$ (0.54)	$ (0.52)
Income (loss) from discontinued operations	—	0.02	(0.01)	(0.02)
Net loss per common share	$ (0.17)	$ (0.25)	$ (0.55)	$ (0.54)
Basic and diluted weighted average common shares outstanding	59.8	58.4	59.7	58.3
Comprehensive Loss				
Net loss (from above)	$ (10.4)	$ (15.0)	$ (32.6)	$ (31.3)
Change in cumulative translation adjustment	(0.1)	0.3	(0.1)	0.1
Comprehensive loss	$ (10.5)	$ (14.7)	$ (32.7)	$ (31.2)

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 26, 2016	June 28, 2015
Operating activities:		
Net loss	$(32.6)	$(31.3)
Loss from discontinued operations	0.1	0.9
Loss from continuing operations	(32.5)	(30.4)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities from continuing operations:		
Depreciation and amortization	11.7	13.6
Stock-based compensation	3.1	3.9
Deferred income taxes	2.0	3.6
Amortization of deferred financing costs	0.8	1.0
Amortization of discount on Senior Secured Notes	0.4	0.6
Provision for doubtful accounts	0.2	0.6
Litigation related charges	1.7	—
Provision for non-cash restructuring charges	7.7	—
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(6.2)	12.4
Inventoried costs	(3.2)	(7.7)
Prepaid expenses and other assets	0.6	(3.7)
Accounts payable	(1.3)	1.2
Accrued compensation	(2.7)	(7.1)
Accrued expenses	(2.0)	(4.1)
Advance payments received on contracts	5.9	5.6
Accrued interest	—	—
Billings in excess of costs and earnings on uncompleted contracts	0.9	0.3
Income tax receivable and payable	0.1	(2.6)
Other liabilities	0.4	(2.3)
Net cash used in operating activities from continuing operations	(12.4)	(15.1)
Investing activities:		
Change in restricted cash	—	4.7
Capital expenditures	(3.5)	(5.2)
Proceeds from sale of assets	—	0.9
Net cash provided by (used in) investing activities from continuing operations	(3.5)	0.4
Financing activities:		
Repayment of debt	(0.5)	(0.5)
Proceeds from exercise of restricted stock units, employee stock options, and employee stock purchase plan	1.0	1.6
Deferred acquisition payments	—	(0.7)
Net cash provided by financing activities from continuing operations	0.5	0.4
Net cash flows of continuing operations	(15.4)	(14.3)
Net operating cash flows of discontinued operations	0.1	3.5

Net investing cash flows of discontinued operations	4.5	(0.5)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	—
Net decrease in cash and cash equivalents	(10.9)	(11.3)
Cash and cash equivalents at beginning of period	28.5	33.5
Cash and cash equivalents at end of period	$17.6	$22.2

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

Table of Contents

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 June 26, 2016 and for the three and six months ended June 26, 2016 and June 28, 2015 is unaudited. The condensed consolidated balance sheet as of December 27, 2015 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 27, 2015, included in the Company’s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 11, 2016 (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.

As discussed in Note 2 - Discontinued Operations, the amounts in these condensed consolidated financial statements reflect the August 21, 2015 disposition of the Company’s 100% owned subsidiary Herley Industries, Inc. (“Herley”) and certain of Herley’s subsidiaries, including Herley-CTI, Inc., EW Simulation Technology, Ltd. and Stapor Research, Inc. (collectively, the “Herley Entities”) as discontinued operations.

(b) Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries for which all inter-company transactions have been eliminated in consolidation.

(c) Fiscal Year

The Company has a 52/53 week fiscal year ending on the last Sunday of the calendar year, with interim fiscal periods ending on the last Sunday of each calendar quarter. The three and six month periods ended June 26, 2016 and June 28, 2015 consisted of 13-week periods. There are 52 calendar weeks in the fiscal years ending on December 25, 2016 and December 27, 2015.

(d) Accounting Estimates

There have been no significant changes in the Company’s accounting estimates for the three and six months ended June 26, 2016 as compared to the accounting estimates described in the Form 10-K. Subsequent to June 26, 2016, the Company was awarded a competitive, $40.8 million single award, cost-share contract by the Air Force Research

Laboratory (“AFRL”) for the Low-Cost Attritable Strike Unmanned Aerial System (“UAS”) Demonstration (“LCASD”). Under the terms of this contract, the Company will receive $7.3 million in government funding, and will be required to invest up to $33.5 million over the approximate 30 month period of performance. The Company is making this investment in order to retain the related intellectual property and system rights. The Company expects to record a loss accrual related to this contract in the third quarter of 2016. The Company is currently in the process of determining the amount of the loss accrual.

(e) Accounting Standards Updates

In May 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-12 (“ASU 2016-12”), Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients. ASU 2016-12 clarifies the assessment of the collectability criterion, the presentation of sales taxes, the measurement of noncash consideration, the treatment of contract modifications at transition, and the treatment of completed contracts at transition. In April 2016, the FASB issued ASU 2016-10 ("ASU 2016-10"), Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing. ASU 2016-10 provides additional guidance on identifying performance obligations and clarifies the implementation guidance on licensing. In March 2016, the FASB issued ASU 2016-08 ("ASU 2016-08"), Revenue from Contracts with Customers, Principal versus Agent Considerations. ASU 2016-08 clarifies the implementation guidance and illustrations in the new revenue standard. In August 2015, the FASB issued ASU 2015-14 ("ASU 2015-14"), Revenue from Contracts with Customers, Deferral of the Effective Date, that deferred the effective date of ASU 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers. Pursuant to ASU 2015-14, public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within those reporting periods. The FASB issued ASU 2014-09 in May 2014. ASU 2014-09 affects any entity using GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). ASU 2014-09 will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. ASU 2014-09 also supersedes some cost guidance included in FASB Accounting Standards Codification ("ASC") Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented or apply the requirements in the year of adoption, through a cumulative adjustment. The Company has not yet selected a transition method nor has it determined the impact of adoption on its condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 ("ASU 2016-09"), Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for employee share-based payments, including accounting for income taxes, forfeitures, statutory tax withholding requirements, and classification on the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2016. Early adoption is permitted, however, the Company does not intend to early adopt this ASU. The Company has not determined the impact of adoption on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 ("ASU 2016-02"), Leases. ASU 2016-02 requires that lessees recognize assets and liabilities for the rights and obligations for leases with a lease term of more than one year. The amendments in this ASU are effective for annual periods ending after December 15, 2018. Early adoption is permitted, however, the Company does not intend to early adopt this ASU. The standard must be applied using a modified retrospective approach. The Company has not determined the impact of adoption on its condensed consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01 ("ASU 2015-01"), Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 eliminates from GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company adopted this standard in the quarter ended March 27, 2016, which did not have a material impact on its condensed consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 ("ASU 2014-15"), Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. ASU 2014-15 provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for the first annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not believe that the adoption of this guidance will have a material impact on its condensed consolidated financial statements.

There have been no changes in the Company's significant accounting policies, other than the adoption of ASU

Table of Contents

2015-01, for the three and six months ended June 26, 2016 as compared to the significant accounting policies described in the Form 10-K.

(f) Fair Value of Financial Instruments

The carrying amounts and the related estimated fair values of the Company's long-term debt financial instruments not measured at fair value on a recurring basis at June 26, 2016 and December 27, 2015 are presented in Note 8. The carrying value of all other financial instruments, including cash equivalents, accounts receivable, accounts payable, accrued expenses, billings in excess of cost and earnings on uncompleted contracts, income taxes payable and short-term debt, approximated their estimated fair values at June 26, 2016 and December 27, 2015 due to the short-term nature of these instruments.

Note 2. Discontinued Operations

On August 21, 2015, the Company completed the sale of the U.S. and U.K. operations of its Electronic Products Division to Ultra Electronics Holdings plc ("Ultra"), a public limited company formed under the laws of England and Wales and traded on the London Stock Exchange, and Ultra Electronics Defense Inc. (the "Buyer"), a Delaware corporation ultimately owned by Ultra (the "Transaction"). Pursuant to the terms of that certain Stock Purchase Agreement, dated May 31, 2015, by and among the Company, Ultra and the Buyer (the "Purchase Agreement"), the Company sold to the Buyer all of the issued and outstanding capital stock of its wholly owned subsidiary Herley and the Herley Entities, for $260.0 million in cash and $5.0 million for taxes incurred as part of the Transaction, less a $2.0 million escrow to satisfy any purchase price adjustments, and an estimated working capital adjustment of $8.3 million. The Purchase Agreement also contained certain non-compete and indemnification provisions. Under the Purchase Agreement, the Company entered into an agreement to indemnify the Buyer for any pre-acquisition tax liabilities. As a result of this arrangement, the Company recorded amounts that have historically been classified as unrecognized tax benefits into other long-term liabilities. The Company also agreed to indemnify Ultra for pre-existing environmental conditions for a period of five years from the closing date, with a maximum indemnification payment of $34.0 million. The Company does not believe payments will be required under the environmental indemnification provision, and the assessment of the fair value is immaterial. Under the terms of the Purchase Agreement, a joint 338(h)(10) election has been made for income tax purposes, providing a "step up" in tax basis to Ultra. The Company incurred approximately $11.5 million in transaction-related costs. The gain on sale of $80.8 million is subject to changes in the indemnification obligations. In accordance with ASC 360-10-45-9, Property, Plant, and Equipment (Topic 360) and ASC 205-20-45-3 Presentation of Financial Statements (Topic 205), the Herley Entities were classified as discontinued operations in the accompanying condensed consolidated financial statements for all periods presented.

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

In November 2015, the Company and Ultra settled the working capital adjustment at $8.1 million, and the net cash position at closing, resulting in a net payment to the Company of $2.7 million. This represented a payment from escrow to the Company of $2.0 million, as well as a payment from Ultra to the Company of $0.7 million, reflecting the difference in the estimated working capital and actual working capital and the net cash position at the close of the

Transaction. In January 2016, Ultra reimbursed the Company the $5.0 million maximum for taxes incurred as part of the Transaction.

Table of Contents

The following table presents the results of discontinued operations (in millions):

	Three Months Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Revenue	$—	$ 22.3	$—	$47.8
Cost of sales	—	14.6	—	31.5
Selling, general and administrative expenses	0.1	5.5	0.1	11.6
Interest expense, net	—	3.4	—	6.9
Other net expense (income) items that are not major	—	(0.5)	—	(0.1)
Loss from discontinued operations before income taxes	(0.1)	(0.7)	(0.1)	(2.1)
Income tax benefit	—	1.6	—	1.2
Income (loss) from discontinued operations	$(0.1)	$ 0.9	$(0.1)	$(0.9)

Depreciation and amortization expense included in selling, general and administrative expenses was $1.6 million and $3.2 million for the three and six months ended June 28, 2015, respectively.

Interest expense is included based on an allocation consistent with the redemption of $175.0 million of the Company's 7.00% Senior Secured Notes due 2019 (the "Notes") and the repayment of $41.0 million in outstanding borrowings on that certain Credit and Security Agreement, dated May 14, 2014 (the "Credit Agreement"), by and among the Company, the lenders from time to time party thereto, SunTrust Bank, as Agent (the "Agent"), PNC Bank, National Association, as Joint Lead Arranger and Documentation Agent, and SunTrust Robinson Humphrey, Inc., as Joint Leader Arranger and Sole Book Runner, that was repaid upon the completion of the sale of the Herley Entities in accordance with the terms and conditions of the Indenture (as defined below) and the Credit Agreement, respectively. Refer to Note 8 for further discussion.

The following is a summary of the liabilities of discontinued operations in the accompanying condensed consolidated balance sheets as of June 26, 2016 and December 27, 2015 (in millions):

	June 26, 2016	December 27, 2015
Accrued compensation	$ 0.9	$ 0.9
Other current liabilities	1.0	1.0
Current liabilities of discontinued operations	$ 1.9	$ 1.9
Non-current liabilities of discontinued operations	$ 3.8	$ 4.1

Note 3. Goodwill and Intangible Assets

(a) Goodwill

The carrying amounts of goodwill as of June 26, 2016 and December 27, 2015 by reportable segment are as follows (in millions):

	Public Safety & Security	Kratos Government Solutions	Unmanned Systems	Total

Gross value	$ 53.9	$ 565.8	$ 111.1	$730.8
Less accumulated impairment	18.3	215.3	13.8	247.4
Net	$ 35.6	$ 350.5	$ 97.3	$483.4

9

Table of Contents

(b) Purchased Intangible Assets

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

	As of June 26, 2016			As of December 27, 2015		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
Acquired finite-lived intangible assets:						
Customer relationships	$53.7	$ (41.6)	$12.1	$83.7	$ (67.1)	$16.6
Contracts and backlog	24.7	(23.2)	1.5	71.3	(69.4)	1.9
Developed technology and technical know-how	23.1	(14.5)	8.6	23.1	(13.3)	9.8
Trade names	1.4	(1.0)	0.4	5.3	(4.9)	0.4
Favorable operating lease	—	—	—	1.8	(0.9)	0.9
Total finite-lived intangible assets	102.9	(80.3)	22.6	185.2	(155.6)	29.6
Indefinite-lived trade names	6.9	—	6.9	6.9	—	