

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

Form 10-Q

July 27, 2017

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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 25, 2017

“ 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, 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 o Accelerated filer ý

Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company) Emerging growth company o

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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. Yes  No

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 21, 2017, 87,023,911 shares of the registrant's common stock were outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## KRATOS DEFENSE &amp; SECURITY SOLUTIONS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except par value and number of shares)

(Unaudited)

	June 25, 2017	December 25, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$63.3	\$ 69.1
Restricted cash	0.2	0.5
Accounts receivable, net	226.6	229.4
Inventoried costs	61.5	55.4
Prepaid expenses	10.8	8.9
Other current assets	11.4	9.8
Total current assets	373.8	373.1
Property, plant and equipment, net	55.0	49.8
Goodwill	485.4	485.4
Intangible assets, net	27.3	32.6
Other assets	8.5	7.7
Total assets	\$950.0	\$ 948.6
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$55.8	\$ 52.7
Accrued expenses	45.1	50.0
Accrued compensation	35.6	39.1
Accrued interest	3.0	3.6
Billings in excess of costs and earnings on uncompleted contracts	40.3	41.8
Other current liabilities	6.1	7.7
Current liabilities of discontinued operations	1.2	1.6
Total current liabilities	187.1	196.5
Long-term debt, net of current portion	369.5	431.0
Other long-term liabilities	42.6	41.0
Non-current liabilities of discontinued operations	3.8	3.7
Total liabilities	603.0	672.2
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, 0 shares outstanding at June 25, 2017 and December 25, 2016	—	—
Common stock, \$0.001 par value, 195,000,000 shares authorized; 86,634,053 and 73,945,533 shares issued and outstanding at June 25, 2017 and December 25, 2016, respectively	—	—
Additional paid-in capital	1,042.7	956.2
Accumulated other comprehensive loss	(1.5 )	(1.7 )
Accumulated deficit	(694.2 )	(678.1 )
Total stockholders' equity	347.0	276.4
Total liabilities and stockholders' equity	\$950.0	\$ 948.6

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

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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 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Service revenues	\$ 91.6	\$ 88.2	\$176.6	\$170.8
Product sales	94.1	80.0	176.9	150.4
Total revenues	185.7	168.2	353.5	321.2
Cost of service revenues	67.0	64.4	128.8	124.7
Cost of product sales	71.3	58.6	132.2	115.4
Total costs	138.3	123.0	261.0	240.1
Gross profit	47.4	45.2	92.5	81.1
Selling, general and administrative expenses	40.6	36.4	79.3	74.1
Research and development expenses	4.1			