

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

Form S-4/A

May 22, 2008

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As filed with the Securities and Exchange Commission on May 22, 2008

Registration No. 333-150165

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2

to

Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

**KRATOS DEFENSE & SECURITY
SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

4899

(Primary Standard Industrial
Classification Code Number)

13-3818604

(I.R.S. Employer
Identification Number)

**4810 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)

**Eric DeMarco
President and Chief Executive Officer
4810 Eastgate Mall
San Diego, CA 92121
(858) 812-7300**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

**Copies to:
WITH A COPY TO**

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San Diego, California 92101
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Approximate date of commencement of proposed sale of the securities to the public:

As soon as practicable after this registration statement becomes effective and all other conditions to the proposed merger described

herein have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further Amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

Each of the boards of directors of Kratos Defense & Security Solutions, Inc., a Delaware corporation ("*Kratos*") and SYS, a California corporation ("*SYS*"), has approved a strategic merger, combining Kratos and SYS. We believe that the proposed merger will allow Kratos and SYS to be better positioned to compete in the rapidly evolving defense and security solutions industry.

Kratos and SYS have entered into an Agreement and Plan of Merger and Reorganization pursuant to which SYS will merge with a newly formed, wholly-owned subsidiary of Kratos, with SYS surviving the merger as a wholly-owned subsidiary of Kratos.

In the proposed merger, SYS shareholders will receive 1.2582 shares of Kratos common stock for each share of SYS common stock. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing. The stockholders of Kratos will continue to own their existing shares, which will not be affected by the merger. Upon completion of the merger, SYS's former shareholders will own approximately 24% of the then outstanding shares of Kratos common stock, based on the number of shares of Kratos and SYS common stock expected to be outstanding on the closing of the merger. The value of the merger consideration to be received in exchange for each share of SYS common stock will fluctuate with the market price of Kratos common stock.

Based on the closing sale price for Kratos common stock on February 20, 2008, the last trading day before public announcement of the merger, the 1.2582 exchange ratio represented approximately \$2.65 in value for each share of SYS common stock. Based on the closing sale price for Kratos common stock on May 19, 2008, the latest practicable date before the printing of this joint proxy statement/prospectus, which we refer to as this Proxy Statement, the 1.2582 exchange ratio represented approximately \$2.24 in value for each share of SYS common stock.

Kratos common stock is listed on The Nasdaq Global Select Market under the symbol "KTOS." SYS common stock is listed on the American Stock Exchange under the symbol "SYS." We urge you to obtain current market quotations for the shares of Kratos and SYS.

Your vote is very important. The merger cannot be completed unless Kratos stockholders approve the issuance of Kratos common stock and SYS shareholders adopt and approve the merger agreement. Each of Kratos and SYS is holding a meeting of its stockholders to vote on the proposals necessary to complete the merger, and in the case of Kratos, to approve certain other matters described in this Proxy Statement. Information about these meetings, the merger and the other business to be considered by stockholders is contained in this Proxy Statement. We urge you to read this Proxy Statement carefully. **You should also carefully consider the risk factors beginning on page 24.**

Whether or not you plan to attend your respective company's meeting of stockholders, please submit your proxy as soon as possible to make sure that your shares are represented at that meeting.

The Kratos board of directors unanimously recommends that Kratos stockholders vote FOR the proposal to approve the issuance of Kratos common stock, which is necessary to effect the merger.

The SYS board of directors unanimously recommends that SYS shareholders vote FOR the proposal to adopt and approve the merger agreement.

Eric M. DeMarco
Chief Executive Officer and President
Kratos Defense & Security Solutions, Inc.

Clifton L. Cooke, Jr.
President and Chief Executive Officer
SYS

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or determined if this Proxy Statement is accurate or complete. Any representation to the contrary is a criminal offense.

This Proxy Statement is dated May 22, 2008, and is first being mailed to stockholders of Kratos and SYS on or about May 27, 2008.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 25, 2008

To the Stockholders of Kratos Defense & Security Solutions, Inc.:

An annual meeting of stockholders of Kratos Defense & Security Solutions, Inc. will be held at _____, on June 25, 2008 at 3:00 p.m., local time, for the following purposes:

1. To elect five directors for one-year terms or until their successors are elected and duly qualified.
2. To ratify the selection of Grant Thornton LLP as Kratos' independent auditors for the fiscal year ending December 28, 2008.
3. To approve an amendment to the Kratos 1999 Employee Stock Purchase Plan to increase the aggregate number of shares that may be issued under the plan by 1,500,000 shares.
4. To approve an amendment to the Kratos 2005 Equity Incentive Plan to increase the aggregate number of shares that may be issued under the plan by 3,000,000 shares.
5. To approve the issuance of Kratos common stock, par value \$0.001 per share, pursuant to the Agreement and Plan of Merger and Reorganization, dated as of February 20, 2008, by and among Kratos Defense & Security Solutions, Inc., White Shadow, Inc., and SYS, as the same may be amended from time to time (the "*Share Issuance*").
6. To approve any motion to adjourn or postpone the annual meeting to a later date or dates, if necessary, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to approve the first five proposals listed above.
7. To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

The accompanying Proxy Statement further describes the matters to be considered at the meeting. A copy of the Agreement and Plan of Merger referenced above has been included as *Annex A* to the Proxy Statement.

The Kratos board of directors has set May 19, 2008 as the record date for the annual meeting. Only holders of record of Kratos common stock at the close of business on May 19, 2008 will be entitled to notice of and to vote at the annual meeting and any adjournments or postponements thereof. Any stockholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on such stockholder's behalf. Such proxy need not be a holder of Kratos common stock. **To ensure your representation at the annual meeting, please complete and return the enclosed proxy card or submit your proxy by telephone or through the Internet.** Please vote promptly whether or not you expect to attend the annual meeting. Submitting a proxy now will not prevent you from being able to vote at the annual meeting by attending in person and casting a vote.

The Kratos board of directors unanimously recommends that you vote FOR the proposal to elect five directors for one-year terms or until their successors are elected and duly qualified; FOR the proposal to ratify the selection of Grant Thornton LLP as Kratos' independent auditors for the fiscal year ending December 28, 2008; FOR the proposal to approve an amendment to the Kratos 1999 Employee Stock Purchase Plan to increase the aggregate number of shares that may be issued under the plan by 1,500,000 shares; FOR the proposal to approve an amendment to the Kratos 2005 Equity Incentive Plan to increase aggregate number of shares that may be issued under the plan by 3,000,000 shares; FOR the proposal to approve the Share Issuance; and FOR the proposal to approve any motion to adjourn or postpone the annual meeting to a later date or dates if necessary to solicit additional proxies.

By Order of the Kratos Board of Directors,

Eric M. DeMarco

President and Chief Executive Officer

San Diego, CA

May 22, 2008

PLEASE VOTE YOUR SHARES PROMPTLY. YOU CAN FIND INSTRUCTIONS FOR VOTING ON THE ENCLOSED PROXY CARD. IF YOU HAVE QUESTIONS ABOUT THE PROPOSALS OR ABOUT VOTING YOUR SHARES, PLEASE CALL KRATOS' PROXY SOLICITOR GEORGESON, INC. AT (800) 561-4162 (TOLL FREE).

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 24, 2008

To the Shareholders of SYS:

A special meeting of shareholders of SYS will be held at 5050 Murphy Canyon Road, Suite 200, San Diego, CA 92123, on June 24, 2008 at 11:00 a.m., local time, for the following purposes:

1. To adopt and approve the Agreement and Plan of Merger and Reorganization, dated as of February 20, 2008, by and among Kratos Defense & Security Solutions, Inc., White Shadow, Inc., and SYS, as the same may be amended from time to time.
2. To approve any motion to adjourn or postpone the special meeting to a later date or dates, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.
3. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

The accompanying Proxy Statement further describes the matters to be considered at the special meeting. A copy of the Agreement and Plan of Merger referenced above has been included as *Annex A* to this Proxy Statement.

The SYS board of directors has set May 15, 2008 as the record date for the special meeting. Only holders of record of shares of SYS common stock at the close of business on May 15, 2008 will be entitled to notice of and to vote at the special meeting and any adjournments or postponements thereof. **To ensure your representation at the special meeting, please complete and return the enclosed proxy card or submit your proxy by telephone or through the Internet.** Please vote promptly whether or not you expect to attend the special meeting. Submitting a proxy now will not prevent you from being able to vote at the special meeting by attending in person and casting a vote.

The board of directors of SYS recommends that you vote FOR the proposal to adopt and approve the merger agreement and FOR the proposal to approve any motion to adjourn or postpone the special meeting to a later date or dates if necessary to solicit additional proxies.

By Order of the SYS Board of Directors,

Clifton L. Cooke, Jr.
President and Chief Executive Officer
May 20, 2008

PLEASE VOTE YOUR SHARES PROMPTLY. YOU CAN FIND INSTRUCTIONS FOR VOTING ON THE ENCLOSED PROXY CARD. IF YOU HAVE QUESTIONS ABOUT THE PROPOSALS OR ABOUT VOTING YOUR SHARES, PLEASE CALL MICHAEL W. FINK AT 858-244-7393 (TOLL FREE) OR VIA EMAIL AT MFINK@SYSTECHNOLOGIES.COM.

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Annex A	Agreement and Plan of Merger and Reorganization, dated as of February 20, 2008, by and among Kratos Defense & Security Solutions, Inc., White Shadow, Inc., and SYS
Annex B	Kratos Voting Agreement
Annex C	SYS Voting Agreement
Annex D	Opinion of Wachovia Capital Markets, LLC
Annex E	Opinion of Imperial Capital, LLC
Annex F	Chapter 13 of the California Corporations Code: "Dissenters' Rights"

VOTING ELECTRONICALLY OR BY TELEPHONE

Kratos stockholders of record on the close of business on May 19, 2008, the record date for the Kratos annual meeting, may submit their proxies by telephone or Internet by following the instructions on their proxy card or voting form. If you have any questions regarding whether you are eligible to submit your proxy by telephone or by Internet, please contact Kratos' Proxy Solicitor, Georgeson, Inc. by telephone at (800) 561-4162 (toll free).

SYS shareholders of record on the close of business on May 15, 2008, the record date for the SYS special meeting, may submit their proxies by telephone or Internet by following the instructions on their proxy card or voting form. If you have any questions regarding whether you are eligible to submit your proxy by telephone or by Internet, please contact Michael W. Fink by telephone at 858-244-7393 or via email at *mfink@systechnologies.com*.

QUESTIONS AND ANSWERS ABOUT THE MEETINGS

The following questions and answers briefly address some commonly asked questions about the Kratos and SYS meetings. They may not include all the information that is important to holders of stock of Kratos and SYS. We urge stockholders to read carefully this entire Proxy Statement, including the annexes and the other documents referred to herein.

Q:
Why am I receiving these materials?

A:
We are sending you these materials to help you decide how to vote your shares of Kratos or SYS common stock with respect to their proposed merger. Additionally, if you are a Kratos stockholder, we are sending these materials to you to help you decide how to vote your shares of Kratos common stock with respect to the other proposals at the Kratos annual meeting.

The merger cannot be completed unless Kratos stockholders approve the issuance of Kratos common stock and SYS shareholders adopt and approve the merger agreement. Each of Kratos and SYS is holding its meeting of holders of stock to vote on the proposals necessary to complete the merger. Information about these meetings, the merger and the other business to be considered by holders of stock is contained in this Proxy Statement.

We are delivering this document to you as both a joint proxy statement of Kratos and SYS and a prospectus of Kratos. It is a joint proxy statement because each of our boards of directors is soliciting proxies from its stockholders. It is a prospectus because Kratos will exchange shares of its common stock for shares of SYS in the merger.

Q:
What will stockholders receive in the merger?

A:
In the proposed merger, holders of SYS common stock will receive 1.2582 shares of Kratos common stock for each share of SYS common stock. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing.

The stockholders of Kratos will continue to own their existing shares, which will not be affected by the merger.

Q:
When do Kratos and SYS expect to complete the merger?

A:
Kratos and SYS expect to complete the merger after all conditions to the merger in the merger agreement are satisfied or waived, including after stockholder approvals are received at the meetings of Kratos and SYS and all required regulatory approvals are received. Kratos and SYS currently expect to complete the merger during the first half of 2008. However, it is possible that factors outside of either company's control could require Kratos and SYS to complete the merger at a later time or not to complete it at all.

Q:
How do the boards of directors of Kratos and SYS recommend that I vote?

A:
The Kratos board of directors unanimously recommends that holders of Kratos common stock vote FOR the proposal to approve the issuance of Kratos common stock in the merger.

The SYS board of directors unanimously recommends that SYS shareholders vote FOR the proposal to adopt the merger agreement.

Q:
What do I need to do now?

A:
After carefully reading and considering the information contained in this Proxy Statement, please vote your shares as soon as possible so that your shares will be represented at your respective company's meeting. Please follow the instructions set forth on the proxy card or on the voting instruction form provided by the record holder if your shares are held in the name of your broker or other nominee.

Q:
How do I vote?

A:
You may vote before your company's meeting in one of the following ways:

use the toll-free number shown on your proxy card;

visit the website shown on your proxy card to vote via the Internet; or

complete, sign, date and return the enclosed proxy card in the enclosed postage-paid envelope.

You may also cast your vote in person at your company's meeting.

If your shares are held in "street name" through a broker, bank or other nominee, that institution will send you separate instructions describing the procedure for voting your shares. "Street name" stockholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

Q:
When and where are the Kratos and SYS meetings of stockholders?

A:
The annual meeting of Kratos stockholders will be held at 4810 Eastgate Mall, San Diego, CA, on June 25, 2008 at 3:00 p.m., local time. Subject to space availability, all stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Registration and seating will begin at 2:00 p.m., local time.

The special meeting of SYS shareholders will be held at 5050 Murphy Canyon Road, Suite 200, San Diego, CA 92123, on June 24, 2008 at 11:00 a.m., local time. Subject to space availability, all stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Registration and seating will begin at 10:00 a.m., local time.

Q:
If my shares are held in "street name" by a broker or other nominee, will my broker or nominee vote my shares for me?

A:
Your broker or other nominee does not have authority to vote on most of the proposals described in this Proxy Statement including the proposals related to the proposed merger. Your broker or other nominee will vote your shares held by it in "street name" with respect to these matters ONLY if you provide instructions to it on how to vote. You should follow the directions your broker or other nominee provides.

Q:
What constitutes a quorum?

Stockholders who hold a majority in voting power of the Kratos common stock issued and outstanding as of the close of business on the record date and who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the Kratos annual meeting.

Stockholders who hold a majority in voting power of the SYS common stock issued and outstanding as of the close of business on the record date and who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the SYS special meeting.

Q:
What vote is required to approve each proposal?

A:
For Kratos Stockholders:

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Other than the proposal for the election of directors, the affirmative vote of a majority of the total votes represented at the meeting in person or by proxy at a meeting at which a quorum is present is required to approve the Kratos proposals, including the proposal to approve the issuance of

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Kratos common stock in the merger, which is referred to in this Proxy Statement as the Share Issuance.

For SYS Shareholders:

The affirmative vote of a majority of the outstanding shares of SYS common stock entitled to vote is required to approve the merger agreement, which is referred to in this Proxy Statement as the Merger Proposal.

Q: What if I do not vote on the matters relating to the merger?

A: If you are a Kratos stockholder and you fail to vote or fail to instruct your broker or other nominee how to vote on the Share Issuance, it will have no effect on the vote for the Share Issuance. If you respond with an "abstain" vote, your proxy will have the same effect as a vote against this proposal. If you submit a proxy but do not indicate how you want to vote on the Share Issuance, your proxy will be counted as a vote in favor of the Share Issuance in accordance with the recommendation of the Kratos Board.

If you are an SYS shareholder and you fail to vote or fail to instruct your broker or other nominee how to vote on the Merger Proposal, it will have the same effect as a vote against the Merger Proposal. If you respond with an "abstain" vote on the Merger Proposal, your proxy will have the same effect as a vote against the Merger Proposal. If you respond but do not indicate how you want to vote on the Merger Proposal, your proxy will be counted as a vote in favor of the Merger Proposal.

Q: What if I hold shares in both Kratos and SYS?

A: If you are a stockholder of both Kratos and SYS, you will receive two separate packages of proxy materials. A vote as a Kratos stockholder approving the issuance of Kratos common stock will not constitute a vote as an SYS shareholder for the Merger Proposal, or vice versa. Therefore, please sign, date and return all proxy cards that you receive, whether from Kratos or SYS, or vote as both a Kratos and SYS shareholder by telephone or via the Internet.

Q: May I change my vote after I have delivered my proxy or voting instruction card?

A: Yes. You may change your vote at any time before your proxy is voted at the applicable meeting. You may do this in one of four ways:

by sending a notice of revocation to the corporate secretary of Kratos or SYS, as applicable;

by sending a completed proxy card bearing a later date than your original proxy card;

by logging onto the Internet website specified on your proxy card in the same manner you would to submit your proxy electronically or by calling the telephone number specified on your proxy card, in each case if you are eligible to do so and following the instructions on the proxy card; or

by attending the applicable meeting and voting in person. Your attendance alone will not revoke any proxy.

If you choose any of the first three methods, you must take the described action no later than the beginning of the applicable meeting.

If your shares are held in an account at a broker or other nominee, you should contact your broker or other nominee to change your vote.

Q: What are the material United States federal income tax consequences of the merger?

A: Kratos and SYS intend for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, for United States federal income tax purposes. Accordingly, a holder of SYS common stock generally will not recognize any gain or loss for U.S. federal income tax purposes upon the exchange of the holder's shares of SYS common stock for shares of Kratos common stock pursuant to the merger, except that an SYS shareholder will recognize a gain or loss with respect to any cash received in lieu of a fractional share of Kratos common stock.

Q: Do I have appraisal rights?

A: The holders of Kratos common stock will not be entitled to exercise any appraisal rights in connection with the merger. Pursuant to Section 1300 of the California Corporations Code, the holders of SYS common stock are entitled to appraisal rights if they do not vote in favor of the merger and otherwise comply with the requirements of Chapter 13 of the California General Corporation Law.

Q: Should I send in my stock certificates now?

A: No. Please do not send your stock certificates with your proxy card.

If you are a holder of SYS common stock, you will receive written instructions from the exchange agent after the merger is completed on how to exchange your stock certificates for Kratos common stock. Kratos stockholders will not be exchanging their stock certificates in connection with the merger. Accordingly, Kratos stockholders holding stock certificates should keep their stock certificates both now and after the merger is completed.

Q: What if I hold SYS and Kratos stock options or other stock-based awards?

A: Kratos stock options and other equity-based awards, including restricted stock units, will remain outstanding and will not be affected by the merger.

All outstanding SYS stock options will become fully vested prior to the closing. The stock options may be exercised for SYS shares ("cashless exercise" being permissible) at or prior to closing in accordance with the terms of the stock option plans which shares would then be exchanged for Kratos shares in accordance with the exchange ratio. Any such stock option exercises may be subject to withholding taxes as a result. No outstanding SYS stock options will be assumed by or converted into options of Kratos.

Q: Who should I contact if I have any questions about the merger, the proxy materials or voting power?

A: If you have any questions about the merger or if you need assistance in submitting your proxy or voting your shares or need additional copies of the Proxy Statement or the enclosed proxy card, you should contact the company in which you hold shares.

If you are a Kratos stockholder, you should contact Georgenson, Inc., the proxy solicitation agent for Kratos at (800) 561-4162 (toll-free). If you are an SYS shareholder, you should contact Michael W. Fink at 858-244-7393 or via email at mfink@systechnologies.com for SYS. If your shares are held in a stock brokerage account or by a bank or other nominee, you should call your broker or other nominee for additional information.

SUMMARY

This summary highlights selected information contained in this joint proxy statement/prospectus, referred to as this Proxy Statement, and does not contain all the information that may be important to you. Kratos and SYS urge you to read carefully this Proxy Statement in its entirety, including the annexes. Unless stated otherwise, all references in this Proxy Statement to Kratos refer to Kratos Defense & Security Solutions, Inc., a Delaware corporation, all references to SYS refer to SYS, a California corporation, all references to Merger Sub refer to White Shadow, Inc., a California corporation, and all references to the merger agreement refer to the Agreement and Plan of Merger and Reorganization, dated as of February 20, 2008, by and among Kratos, White Shadow, Inc., and SYS, a copy of which is attached as Annex A to this Proxy Statement.

The Merger

Each of the boards of directors of Kratos and SYS has approved a strategic merger of Kratos and SYS. Kratos and SYS have entered into an Agreement and Plan of Merger and Reorganization pursuant to which SYS will merge with a newly formed, wholly-owned subsidiary of Kratos, with SYS surviving the merger as a wholly-owned subsidiary of Kratos. In the proposed merger, SYS shareholders will receive 1.2582 shares of Kratos common stock for each share of SYS common stock. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing. The stockholders of Kratos will continue to own their existing shares, which will not be affected by the merger.

The Parties

Kratos

Kratos Defense & Security Solutions, Inc.
4810 Eastgate Mall
San Diego, CA 92121
(858) 812-7300

Kratos is an innovative provider of mission critical engineering, IT services and warfighter solutions. Kratos performs work primarily for the U.S. government and government agencies, but also performs work for state and local agencies and commercial customers. As a result of its market focus, Kratos is organized into two primary operating segments: the Kratos Government Solutions, or KGS, segment; and the Public Safety and Security, or PSS, segment. The principle services of Kratos include, but are not limited to, Command, Control, Communications, Computing, Combat Systems, Intelligence, Surveillance and Reconnaissance, or C5ISR; weapon systems life cycle support and extension; military range operations and technical services; missile, rocket and weapons systems test and evaluation; mission launch services; public safety; security and surveillance systems; advanced network engineering and IT services; and critical infrastructure design and integration services. Kratos offers its customers a range of solutions and technical expertise to support their mission-critical needs by leveraging skills across Kratos' core service areas.

Kratos derives a substantial portion of its revenue from contracts performed for federal government agencies. Kratos believes its diversified and stable client base, strong client relationships, broad array of contracts, considerable employee base possessing government security clearances, extensive list of past performance qualifications, and significant management and operational capabilities provides a sizable advantage and positions the company for continued growth. Founded in 1994, Kratos is headquartered in San Diego and has offices in California, Washington D.C. and several other locations in the U.S.

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For more information regarding Kratos, visit www.kratosdefense.com. The information on the Kratos' website is not a part of this prospectus.

SYS

SYS

**5050 Murphy Canyon Road, Suite 200
San Diego, CA 92123
(858) 244-7393**

SYS and its subsidiaries provide information connectivity solutions that capture, analyze and present real-time information to customers in the Department of Defense, Department of Homeland Security, other government agencies and commercial companies. Using interoperable communications software, sensors, digital video broadcast and surveillance technologies, wireless networks, network management, decision-support tools and Net-Centric technologies, SYS's technical experts enhance complex decision-making. Founded in 1966, SYS is headquartered in San Diego and has principal offices in California and Virginia.

SYS delivers its solutions through two reportable segments, the Defense Solutions Group and the Public Safety, Security and Industrial Systems Group. The Defense Solutions Group focuses on engineering, technical and management services to Federal Government agencies. The Public Safety, Security and Industrial Systems Group focuses on providing "right-time" situation status and mission execution support solutions to government and commercial customers. Historically, SYS has generated revenues by providing information technology, systems integration and program and financial management services under long term contracts for the Department of Defense and in particular the U.S. Navy. More recently, SYS has expanded and leveraged its technical engineering services with complementary products and has broadened its customer base to include commercial enterprises and other governmental agencies beyond the Department of Defense.

These expanded products and services capabilities, together with SYS's longstanding expertise in situational awareness and systems engineering, have enabled SYS to develop a set of information technology solutions to complement SYS's services offerings for the Information Technology services and Public Safety and Security markets. SYS's customers in these markets such as federal, state and local governments, public safety first-responders, large corporations, schools and universities, all share a common need for decision support products and services that enhance or enable connecting real-time data to decision makers.

SYS also provides solution lifecycle support with program, financial, test and logistical services, including classroom and online training.

For additional information regarding SYS, visit www.systechnologies.com. The information on SYS's website is not a part of this prospectus.

Merger Sub

White Shadow, Inc., or Merger Sub, a wholly-owned subsidiary of Kratos, is a California corporation formed on February 19, 2008 for the sole purpose of effecting the merger. Upon completion of the merger, Merger Sub will merge with and into SYS, and SYS will become a wholly-owned subsidiary of Kratos.

Merger Sub has not conducted any activities other than those incidental to its formation and the matters contemplated by the merger agreement, including the preparation of applicable regulatory filings in connection with the merger.

The Merger Agreement

A copy of the merger agreement is attached as *Annex A* to this Proxy Statement. Kratos and SYS encourage you to read the entire merger agreement carefully because it is the principal document governing the merger. For more information on the merger agreement, see "The Merger Agreement" beginning on page 79.

What SYS shareholders Will Receive in the Merger

At the effective time of the merger, each outstanding share of SYS common stock will be converted into the right to receive 1.2582 shares of Kratos common stock in the merger, which number we refer to as the exchange ratio. Holders of SYS common stock will not receive any fractional Kratos shares in the merger. Instead, the total number of shares that each holder of SYS common stock will receive in the merger will be rounded down to the nearest whole number, and Kratos will pay cash for any resulting fractional share that an SYS shareholder otherwise would be entitled to receive. The amount of cash payable for a fractional share of Kratos common stock will be determined by multiplying the fraction by the average closing price for Kratos common stock on The Nasdaq Global Select Stock Market during the three days prior to the date the merger becomes effective.

Example: If you currently own 25 shares of SYS common stock, absent the treatment of fractional shares described above, you would be entitled to receive 31.455 (25 × 1.2582) shares of Kratos common stock. Since fractional shares will not be issued, you will be entitled to 31 shares of Kratos common stock and a check for the market value of 0.455 shares of Kratos common stock based on the average closing price during the three days prior to date the merger becomes effective.

The merger agreement provides for adjustments to the exchange ratio to reflect the effect of any stock split, stock dividend, reverse stock split, reclassification, recapitalization or other similar transaction with respect to Kratos common stock or SYS common stock that occurs prior to the effective date of the merger.

For a more complete description of the merger consideration, see "The Merger Agreement Consideration to be Received in the Merger" beginning on page 80.

Treatment of SYS Subordinated Convertible Notes and Warrants

SYS has \$3,125,000 of convertible notes payable outstanding, which we refer to as the Notes, which are unsecured, subordinate to its bank debt, bear interest at 10% per annum payable quarterly, are due February 14, 2009 and are convertible at any time into shares of common stock at a conversion rate of \$3.60 per share. These notes are being assumed by Kratos subject to those same terms and conditions.

If the Notes are not converted prior to the merger, following the merger the Notes will not be convertible into SYS common stock. Instead, they will be convertible into the merger consideration as if they had been converted into SYS common stock immediately prior to the merger.

SYS has 508,401 warrants outstanding, which will be, following the merger, exercisable for merger consideration.

Following the merger, the holders of these warrants shall have the right to receive, upon exercise of the warrants, the same amount and kind of securities, cash or property, as they would have been entitled to receive upon the occurrence of the merger if they had been, immediately prior to the merger, the holders of the number of warrant shares then issuable upon exercise in full of these warrants.

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For a more complete discussion of the treatment of SYS Subordinated Convertible Notes and Warrants, see "The Merger Subordinated Convertible Notes" and "The Merger Warrants," each beginning on page 68.

Treatment of Stock Options and Other Stock-Based Awards

All outstanding SYS stock options will become fully vested and exercisable into SYS shares at or prior to closing in accordance with the terms of their respective stock option plans and may be subject to withholding taxes as a result. No SYS stock options will be assumed by or converted into options of Kratos.

Effective February 20, 2008, the execution date of the merger agreement, SYS terminated the then current stock purchase period for its Employee Stock Purchase Plan, and Kratos is not assuming this plan.

For a more complete discussion of the treatment of SYS options and other stock-based awards, see "The Merger Agreement Treatment of SYS Options" beginning on page 80.

Directors and Executive Management Following the Merger

The directors and executive management of Kratos will remain unchanged at the effective time of the merger.

At the effective time of the merger, the directors and officers of Merger Sub will become the directors and officers of SYS until each is replaced by his or her successor.

For a more complete discussion of the directors and management of Kratos, see "The Merger Composition of Kratos Board of Directors" beginning on page 66.

Recommendations of the Kratos Board of Directors

After careful consideration, the Kratos board of directors unanimously recommends that holders of Kratos common stock vote **FOR** the issuance of Kratos common stock in connection with the merger.

For a more complete description of the Kratos reasons for the merger and the recommendations of the Kratos board of directors, see "The Merger The Kratos Board of Directors Recommendations and Reasons for the Merger" beginning on page 49.

Recommendation of the SYS Board of Directors

After careful consideration, the SYS board of directors unanimously recommends that holders of SYS common stock vote **FOR** the Merger Proposal.

For a more complete description of SYS's reasons for the merger and the recommendation of the SYS board of directors, see "The Merger The SYS Board of Directors' Recommendation and Reasons for the Merger" beginning on page 51.

Opinions of Financial Advisors

Kratos Financial Advisor

Wachovia Capital Markets, LLC, which we refer to as Wachovia, delivered an opinion to Kratos' board of directors that, subject to and based upon the assumptions made, procedures followed, matters considered and limitations on its review undertaken, as of February 20, 2008, the exchange ratio in the merger agreement was fair from a financial point of view to Kratos. The full text of Wachovia's written opinion, dated February 20, 2008, is attached as *Annex D* to this Proxy Statement. Holders of shares of Kratos common stock are urged to read the opinion carefully and in its entirety. Wachovia's opinion does not and shall not constitute a recommendation to any holders of shares of Kratos common stock as to how they should vote in connection with the Merger. This summary of Wachovia's opinion contained in this Proxy Statement is qualified in its entirety by reference to the full text of the opinion.

For a more complete description of Wachovia's opinion, see "The Merger Opinion of Financial Advisor to the Kratos Board of Directors" beginning on page 53. See also *Annex D* to this Proxy Statement.

SYS Financial Advisor

Imperial Capital, LLC, which is referred to as Imperial Capital, has rendered its opinion to the SYS board of directors to the effect that, as of February 19, 2008, and based upon and subject to the factors, assumptions, qualifications and limitations set forth therein, the exchange ratio of 1.2582 shares of Kratos common stock to be received for each share of SYS common stock pursuant to the merger agreement was fair from a financial point of view to the holders of such shares of SYS common stock.

The full text of the written opinion of Imperial Capital, dated February 19, 2008, is attached as *Annex E* to this Proxy Statement and sets forth assumptions made, general procedures followed, factors considered and limitations and qualifications on the review undertaken by Imperial in connection with its opinion. Imperial Capital provided its opinion for the information and assistance of the SYS board of directors in connection with its consideration of the merger. The Imperial Capital opinion is not a recommendation as to how any holder of shares of SYS common stock should vote with respect to the merger.

For a more complete description of the Imperial Capital opinion and engagement letter, see "The Merger Opinion of Financial Advisor to the SYS Board of Directors" beginning on page 59. See also *Annex E* to this Proxy Statement.

Interests of SYS Directors and Executive Officers in the Merger

When you consider the unanimous recommendation of SYS's board of directors that SYS shareholders approve the merger agreement, the plan of merger and the merger, you should be aware that some SYS officers and directors may have interests in the transaction that may be different from, or in addition, to their interests as shareholders of SYS.

For a further discussion of interests of directors and executive officers in the merger, see "The Merger Interests of SYS Directors and Executive Officers in the Merger" beginning on page 66.

Material United States Federal Income Tax Consequences of the Merger

Kratos and SYS intend for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Code for U.S. federal income tax purposes. Accordingly, SYS shareholders generally will not recognize gain or loss for U.S. federal income tax purposes upon the receipt of Kratos common stock in the merger, except that an SYS shareholder will recognize gain or loss with respect to any cash received in lieu of a fractional share of Kratos common stock. It is a condition to

completion of the merger that Kratos and SYS each receive a legal opinion from their respective counsel that the merger will constitute a reorganization within the meaning of Section 368 of the Code. In the event that such counsel does not render this opinion, this condition shall be deemed to be satisfied if the other party's counsel delivers the opinion to both Kratos and SYS.

Tax matters are very complicated and the tax consequences of the merger to you, if you are an SYS shareholder, will depend upon the facts of your situation. In addition, you may be subject to state, local or foreign tax laws that are not addressed in this Proxy Statement. You are urged to consult with your own tax advisors for a full understanding of the tax consequences of the merger to you.

For a more complete description of the material U.S. federal income tax consequences of the merger, see "Material United States Federal Income Tax Consequences" beginning on page 76.

Accounting Treatment of the Merger

The merger will be accounted for as an acquisition by Kratos of SYS under the purchase method of accounting according to U.S. generally accepted accounting principles.

Dissenters' Rights and Appraisal Rights

Under applicable law:

Kratos stockholders have no dissenters' or appraisal rights with respect to the merger under Section 262 of Delaware General Corporate Law; and

SYS shareholders are entitled to dissenters' rights under the California General Corporation Law in connection with the merger if the specific conditions set forth in the section entitled "The Merger Dissenters' Rights and Appraisal Rights," which begins on page 71, are met.

Conditions to Completion of the Merger

Kratos and SYS expect to complete the merger after all the conditions to the merger in the merger agreement are satisfied or waived, including after the receipt of stockholder approvals at the annual meeting of Kratos and at the special meetings of SYS. Kratos and SYS currently expect to complete the merger during the first half of 2008. However, it is possible that factors outside of either company's control could cause the merger to be completed at a later time or not at all.

Each party's obligation to complete the merger is subject to the satisfaction or waiver of various conditions, including the following:

the receipt of the required stockholder approvals;

the effectiveness of the registration statement of which this Proxy Statement is a part, and the registration statement not being subject to any stop order or threatened stop order;

the absence of any injunctions or legal prohibitions preventing the consummation of the merger;

the receipt of opinions of counsel relating to the U.S. federal income tax treatment of the merger;

the accuracy of the other party's representations and warranties in the merger agreement, including the other party's representation that no material adverse effect has occurred;

the other party's compliance in all material respects with its obligations under the merger agreement; and

the receipt of authorization from The Nasdaq Global Select Stock Market for listing of Kratos common stock to be issued in connection with the merger.

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Neither Kratos nor SYS is aware of the need to obtain any other material regulatory approvals in order to complete the merger.

The merger agreement provides that certain of these conditions may be waived, in whole or in part, by Kratos or SYS, to the extent legally allowed. Neither Kratos nor SYS currently expects to waive any material condition to the completion of the merger. If either Kratos or SYS determines to waive any condition to the merger that would result in a material and adverse change in the terms of the merger to Kratos or SYS shareholders (including any change in the tax consequences of the transaction to SYS shareholders), proxies would be resolicited from the Kratos or SYS shareholders, as applicable.

For a more complete discussion of the conditions to the merger, see "The Merger Agreement Conditions to Completion of the Merger" beginning on page 84.

Timing of the Merger

The merger is expected to be completed during the first half of 2008, subject to the receipt of necessary regulatory approvals and the satisfaction or waiver of other closing conditions. For a discussion of the timing of the merger, see "The Merger Agreement Closing and Effective Time of the Merger" beginning on page 79.

No Solicitation of Other Offers

In the merger agreement, SYS has agreed that it will not directly or indirectly:

solicit, initiate, or knowingly or intentionally encourage or facilitate, any inquiries, offers or proposals that constitute, or could reasonably be expected to lead to, any alternative acquisition proposal; or

enter into, continue or otherwise participate in any discussions or negotiations regarding, furnish to any person any non-public information with respect to, assist or participate in any effort or attempt by any person with respect to, or otherwise knowingly or intentionally cooperate in any way with, any alternative acquisition.

The merger agreement does not, however, prohibit SYS from considering a bona fide acquisition proposal from a third party if certain specified conditions are met.

For a discussion of the prohibition on solicitation of acquisition proposals from third parties, see "The Merger Agreement No Solicitation; Changes in Recommendations" beginning on page 85.

Termination

Generally, the merger agreement may be terminated and the merger may be abandoned at any time prior to the completion of the merger (including after stockholder approval):

by mutual written consent of Kratos and SYS;

by either Kratos or SYS, if

the merger is not consummated on or before August 20, 2008; except that such right is not available to any party whose failure to comply with the merger agreement has been a principal cause of, or resulted in, the merger not being consummated by such date and provided that this date (referred to herein as the "outside date") may be extended to February 20, 2009 by either Kratos or SYS;

a governmental entity issues an order, decree or ruling or takes any other nonappealable final action permanently restraining, enjoining or otherwise prohibiting the merger;

the required Kratos or SYS shareholder vote has not been obtained at the applicable stockholder meeting or any adjournment or postponement thereof (except that this right is not available to any party who is in material breach of or has materially failed to fulfill its obligations under the merger agreement);

the SYS board of directors changes its recommendation that its shareholders vote in favor of the merger proposal, or if SYS enters into an acquisition agreement relating to an alternative transaction; or

the other party breaches any of its agreements or representations in the merger agreement in such a way as would cause one or more of the conditions to closing not to be satisfied, and such breach is either incurable or is not cured after 30 days' written notice;

by Kratos, if:

SYS willfully and materially breaches its covenants with respect to non-solicitation of an alternative acquisition proposal or its obligations to hold its shareholders meeting and mail this Proxy Statement to its shareholders; or

SYS's board of directors determines to accept an alternative acquisition proposal for a change of control transaction, in which case SYS would be required to pay the applicable termination fee (as described below); or

by SYS to accept a proposal from a third party to acquire SYS that SYS's board of directors determines to be superior to the terms of Kratos' proposed acquisition of SYS, if SYS's board of directors changes or withdraws its recommendation of the merger in response to such superior proposal and pays the applicable termination fee (as described below).

Termination Fees and Expenses

Pursuant to the merger agreement, SYS is required to pay a termination fee of \$2,394,000 dollars to Kratos in the event the merger agreement is terminated:

By Kratos, if

the SYS board of directors has failed to reconfirm its recommendation of approval of the SYS voting proposal after Kratos requests such reconfirmation pursuant to the terms of the merger agreement;

the SYS board of directors or any committee of the SYS board of directors has approved or recommended to the SYS shareholders an alternative acquisition transaction;

SYS enters into an alternative acquisition transaction; or

SYS has willfully breached its obligations under the merger agreement pertaining to non-solicitation of alternative acquisition proposals and the SYS shareholder meeting to approve the SYS Voting Agreement.

By SYS, if its board of directors or any committee thereof has made a recommendation to accept an alternative transaction proposal and SYS enters into an alternative acquisition agreement which was the subject of such adverse recommendation change.

Whether or not the merger is completed, all costs and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those costs or expenses, except that Kratos and SYS will share equally the expenses incurred in connection with the printing and mailing of this Proxy Statement.

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This termination fee could discourage other companies from seeking to acquire or merge with either SYS or Kratos. See "The Merger Agreement Termination," " Termination Fees and Expenses" and " Effect of Termination," beginning on pages 86, 87 and 88, respectively.

Comparison of the rights of Kratos and SYS shareholders

The rights of SYS shareholders as Kratos stockholders after the merger will be governed by Kratos' certificate of incorporation and bylaws, each as amended, and the laws of the State of Delaware. Those rights differ from the rights of SYS shareholders under SYS's articles of incorporation and bylaws and the laws of the State of California.

Matters to be Considered at the Meetings

Kratos

Kratos stockholders will be asked to vote on the following six proposals:

1. To elect five directors for one-year terms or until their successors are elected and duly qualified.
2. To ratify the selection of Grant Thornton LLP as the independent auditors of Kratos for the fiscal year ending December 28, 2008.
3. To approve an amendment to the Kratos 1999 Employee Stock Purchase Plan to increase the aggregate number of shares that may be issued under the Plan by 1,500,000 shares.
4. To approve an amendment to the Kratos 2005 Equity Incentive Plan to increase the aggregate number of shares that may be issued under the Plan by 3,000,000 shares.
5. To approve the issuance of Kratos common stock, par value \$0.001 per share, pursuant to the Agreement and Plan of Merger and Reorganization, dated as of February 20, 2008, by and among Kratos Defense & Security Solutions, Inc., White Shadow, Inc., and SYS, as the same may be amended from time to time.
6. To approve any motion to adjourn or postpone the annual meeting to a later date or dates, if necessary, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to approve the first five proposals listed above.
7. To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

The Kratos board of directors unanimously recommends that Kratos stockholders vote FOR all of the proposals set forth above, as more fully described under "Kratos Annual Meeting" beginning on page 155.

SYS

SYS shareholders will be asked to vote on the following two proposals:

1. To adopt and approve the Agreement and Plan of Merger and Reorganization.
2. To approve any motion to adjourn or postpone the special meeting to a later date or dates, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.
3. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

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The SYS board of directors unanimously recommends that SYS shareholders vote FOR all of the proposals set forth above, as more fully described under "SYS Special Meeting" beginning on page 206.

Voting by Kratos and SYS Directors and Executive Officers

On May 19, 2008, the record date set by the Kratos board of directors, directors and executive officers of Kratos and their affiliates owned and were entitled to vote 7,190,308 shares of Kratos common stock, or approximately 9.0%, of the total voting power of the shares of Kratos common stock outstanding on that date.

On May 15, 2008, the record date set by the SYS board of directors, directors and executive officers of SYS and their affiliates owned and were entitled to vote 4,190,373 shares of SYS common stock, or approximately 21.1% of the shares of SYS common stock outstanding on that date. Stockholders of SYS holding approximately 7.4% of the shares of SYS common stock outstanding on that date have executed voting agreements agreeing to vote in favor of the merger.

SELECTED HISTORICAL FINANCIAL DATA OF KRATOS

The tables below present summary selected consolidated historical financial data of KRATOS (in millions except for per share data) prepared in accordance with accounting principles generally accepted in the United States of America. This information should be read in conjunction with "INFORMATION RELATING TO KRATOS KRATOS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," "INFORMATION RELATING TO KRATOS BUSINESS" and Kratos' consolidated financial statements and related notes, included elsewhere in this proxy statement/prospectus.

	Year Ended December 31, (in millions)					Three Months Ended	
	2003	2004	2005	2006	2007	March 31, 2007	March 30, 2008
	Unaudited						
CONSOLIDATED STATEMENT OF OPERATIONS DATA:							
Revenues	\$ 43.4	\$ 116.9	\$ 152.3	\$ 153.1	\$ 193.6	\$ 49.0	\$ 68.2
Operating costs and expenses:							
Costs of revenues	22.2	87.9	115.7	124.2	162.0	41.7	55.6
Selling, general and administrative expenses	18.0	28.9	35.5	38.5	39.5	9.1	11.9
Stock option investigation and related fees					14.0	1.5	
Estimated cost for settlement of securities litigation					4.9		
Loss (recovery) of unauthorized issuance of stock options	5.7				(3.4)		
Contingent acquisition consideration and restatement fees		13.9	(2.1)	0.1			
Impairment and restructuring fees	0.1			21.8	1.2		
Total operating costs and expenses	46.0	130.7	149.1	184.6	218.2	52.3	67.5
Operating income (loss) from continuing operations	(2.6)	(13.8)	3.2	(31.5)	(24.6)	(3.3)	0.7
Other (income) expense:							
Interest income (expense), net	0.9	0.2	0.1	(0.7)	(1.2)		(2.3)
Impairment of investments in unconsolidated subsidiaries		(2.9)			(1.8)		
Other income and (expense), net	(0.1)	(0.1)	0.2	(0.2)	0.7	0.5	(0.4)
Total other (income) expense	0.8	(2.8)	0.3	(0.9)	(2.3)	0.5	(2.7)
Income (loss) from continuing operations before income taxes	(1.8)	(16.6)	3.5	(32.4)	(26.9)	(2.8)	(2.0)
Provision (benefit) for income taxes from continuing operations	(1.0)	(8.4)	(0.1)	13.8	1.3	0.2	0.5
Income (loss) from continuing operations	(0.8)	(8.2)	3.6	(46.2)	(28.2)	(3.0)	(2.5)
Income (loss) from discontinued operations	2.7	23.2	(2.0)	(11.7)	(12.6)	(17.1)	0.6
Net income (loss)	\$ 1.9	\$ 15.0	\$ 1.6	\$ (57.9)	\$ (40.8)	\$ (20.1)	\$ (1.9)
Basic earnings (loss) per common share:							
Continuing operations	\$ (0.01)	\$ (0.12)	\$ 0.05	\$ (0.63)	\$ (0.38)	\$ (0.04)	\$ (0.03)
Discontinued operations	0.04	0.34	(0.03)	(0.16)	(0.17)	(0.23)	0.01
Net income (loss)	\$ 0.03	\$ 0.22	\$ 0.02	\$ (0.79)	\$ (0.55)	\$ (0.27)	\$ (0.02)

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	Three Months Ended							
Diluted earnings (loss) per common share:								
Continuing operations	\$ (0.01)	\$ (0.12)	\$ 0.05	\$ (0.63)	\$ (0.38)	\$ (0.04)	\$ (0.03)	
Discontinued operations	0.04	0.34	(0.03)	(0.16)	(0.17)	(0.23)	0.01	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss)	\$ 0.03	\$ 0.22	\$ 0.02	\$ (0.79)	\$ (0.55)	\$ (0.27)	\$ (0.02)	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average common shares outstanding:								
Basic	68.4	67.7	74.0	73.5	74.0	73.9	79.0	
Diluted	68.4	67.7	75.0	73.5	74.0	73.9	79.0	

	December 31, (in millions)					March 30, (in millions)
	2003	2004	2005	2006	2007	2008
						(unaudited)
CONSOLIDATED BALANCE SHEET DATA:						
Cash and cash equivalents	\$ 75.8	\$ 58.0	\$ 7.7	\$ 5.4	\$ 8.6	\$ 11.0
Working capital	132.5	98.6	67.4	(3.8)	23.4	24.5
Goodwill	5.5	57.1	94.4	129.9	194.5	196.7
Other intangible assets	1.9	6.4	7.4	13.4	19.9	18.7
Total assets	279.3	330.7	342.0	337.7	335.3	334.1
Total debt	0.7	1.9	0.7	51.4	76.7	78.8
Stockholders' equity	\$ 191.9	\$ 219.6	\$ 229.7	\$ 187.1	\$ 167.2	\$ 167.2

SELECTED HISTORICAL FINANCIAL DATA OF SYS

The tables below present summary selected consolidated historical financial data of SYS (*in millions except for per share data*) prepared in accordance with accounting principles generally accepted in the United States of America. This information should be read in conjunction with "INFORMATION RELATING TO SYS SYS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," "INFORMATION RELATING TO SYS BUSINESS" and SYS's consolidated financial statements and related notes, included elsewhere in this proxy statement/prospectus.

The statement of operations data for the nine months ended March 28, 2008 and March 30, 2007, and the balance sheet data as of March 28, 2008 are unaudited but include, in the opinion of management of SYS, all adjustments including normal recurring adjustments, necessary for a fair presentation of such information. Results for the nine months ended March 28, 2008 and March 30, 2007 are not necessarily indicative of the results that may be expected for any other interim periods or for the fiscal year as a whole.

	Year Ended June 30,					Nine Months Ended	
	2003	2004	2005	2006	2007	March 30, 2007	March 28, 2008
	(In millions)					(Unaudited)	
CONSOLIDATED STATEMENT OF OPERATIONS DATA:							
Revenues	\$ 24.8	\$ 34.9	\$ 45.8	\$ 55.9	\$ 75.8	\$ 54.5	\$ 57.3
Operating costs and expenses:							
Costs of revenues	20.6	28.8	37.4	44.6	58.0	42.0	41.8
Selling, general and administrative expenses	3.5	4.1	4.9	8.5	15.5	11.0	10.1
Research, engineering and development expenses			0.7	3.6	4.0	3.0	3.2
Merger transaction costs							0.5
Legal settlement	1.0						
Impairment charges				1.3			
Total operating costs and expenses	25.1	32.9	43.0	58.0	77.5	56.0	55.6
Income (loss) from operations	(0.3)	2.0	2.8	(2.1)	(1.7)	(1.5)	1.7
Other (income) expense:							
Other income		(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Interest expense	0.2	0.3	0.5	0.5	0.8	0.5	0.3
Total other income	0.2	0.2	0.4	0.3	0.7	0.4	0.2
Income (loss) from continuing operations before income taxes	(0.5)	1.8	2.4	(2.4)	(2.4)	(1.9)	1.5
Income tax (benefit) provision	(0.2)	0.8	1.0	(0.7)	(0.7)	(0.4)	0.9
Income (loss) from continuing operations	(0.3)	1.0	1.4	(1.7)	(1.7)	(1.5)	0.6
Loss from discontinued operations, net of taxes	(0.5)						
Net income (loss)	(0.8)	1.0	1.4	(1.7)	(1.7)	(1.5)	0.6
Net income (loss) applicable to common stock	\$ (0.8)	\$ 1.0	\$ 1.4	(1.7)	(1.7)	(1.5)	\$ 0.6
Basic earnings (loss) per common share:							
Continuing operations	\$ (0.06)	\$ 0.15	\$ 0.16	(0.14)	(0.10)	(0.09)	0.03
Discontinued operations	(0.09)						

	June 30,					March 28,
	2003	2004	2005	2006	2007	2008
						(Unaudited)
CONSOLIDATED BALANCE SHEET DATA:						
Cash and cash equivalents	\$	\$	2.2	\$	3.5	\$
Working capital	3.2	5.2	8.1	7.3	8.2	8.1
Goodwill		5.5	7.3	18.6	23.5	23.1
Other intangible assets		0.6	1.2	3.4	6.1	5.3
Total assets	7.7	17.7	24.8	42.2	52.4	50.4
Total debt	1.2	3.6	2.4	3.9	3.6	3.6
Preference stock	0.1					
Stockholders' equity	3.1	8.3	15.4	27.5	35.1	37.1

SUMMARY UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA

The following summary unaudited pro forma condensed combined financial information is designed to show how the merger of Kratos and SYS might have affected historical financial statements if the merger had been completed at an earlier time and was prepared based on the historical financial results reported by Kratos, including Haverstick, and SYS. The following should be read in connection with "Unaudited Pro Forma Condensed Combined Financial Statements" beginning on page 210 and the Kratos, SYS and Haverstick audited consolidated financial statements beginning on pages FI-1, FII-1 and FIII-1, respectively.

The pro forma condensed combined financial data is presented for illustrative purposes only and is not necessarily indicative of the financial condition or results of operations of future periods or the financial condition or results of operations that actually would have been realized had the entities been a single company during these periods.

	Year Ended December 31, 2007	Period Ended March 30, 2008
	(In millions, except per share amounts)	(In millions, except per share amounts)
Statements of Operations Data:		
Revenues	\$ 366.8	\$ 86.9
Operating income (loss)	(20.6)	1.2
Net loss from continuing operations	\$ (34.0)	\$ (2.3)
Loss per common share:		
Basic	\$ (0.33)	\$ (0.02)
Diluted		