KTOS

2/7/18

Kratos defense and security solutions, ink
Founded in 1994
Price Target $14.35
Ticker KTOS

Defense and Security Industry,
CEO Mr. Eric M. DeMarco

Kratos is a security and defense technology conglomerate focused on US and foreignmilitary products, as well as industrial security and first responder technology. Kratos has a large array of services and products, from drones to smoke and heat detection systems and even microwave weapons.

Kratos has six major divisions as followed, unmanned systems, satellite communications, microwave electronics, cyber security/warfare, missile defense and combat systems. We think these industries will remain solid performers for the next three-five years. FrostGate sees a large upside in cyber warfare. We predict that the shift towards unmanned warfare is imminent and believe Kratos has positioned itself in a way that could potentially have dramatic upside to the value of the company if Kratos continues their forces on innovation.

Their corporate headquarters and employee count
Bridge Pointe Corporate Centre
Suite 200
San Diego, CA 92121
United States
858-812-7300
http://www.kratosdefense.com
Full Time Employees: **2,900**

Below are hyperlinks to the divisions on Kratos website.

- Microwave Products
- Defense & Rocket Support Services
- Unmanned Systems
- Technology & Training
- Public Safety & Security
- Modular Systems

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Trends and charts

The Chart below depicts the last 5 years as of 1/7/18 We see the overall trend since the election of president Trump has been very positive we predicts this trend to continue through 2018 and into 2019 . since the mid OCT 2017 highs we've seen a pull back of close to 25% to start the year, stabilizing and finding support between $10-11 dollars indicating there is a lot of strength in the market. Looking at this chart, you can see the trend line moving upwards, I don't think we are going to see the explosive gains we saw last year, unless they are awarded a large, unexpected contract. We have a price target of $14.75

KTOS 5 year

Defense spending for 2018 is projected to be $671 billion based on the budget increase from last year to what happened in March 2017, President Trump submitted a budget proposal for fiscal year (FY) 2018 to Congress. The proposal includes funding of $639 billion for the DoD, comprising a base budget of $574 billion and Overseas Contingency Operations / Global War on Terror (OCO/GWT) funding of $65 billion. The requested FY 2018 funding level for the DoD is approximately $32 billion over the FY 2017 funding level. Congress must approve or revise the President's FY 2018 budget proposals through enactment of appropriations bills and other policy legislation, which would then require final Presidential approval. However, 2019 and on, projections indicate that defense spending will be reduced by roughly 10-15 billion a year until budget goals are reached. Kratos Received 325.9 million from the government in 2017. And a total revenue of 668.7 million.

For the past two decades, the United States and many of its allies have been focused on the war against terrorism. We believe that 2016 was the beginning of the recapitalization of strategic national security platforms, and systems, not just in the United States, but globally. This trend is a result of a changing and increased strategic threat profile. This trend is a shift towards non-lethal defense and recon, using technology, primarily unmanned systems. Kratos' core business areas- satellite communications, unmanned systems and microwave electronics - are well positioned for this shift in focus and funding, both domestically and internationally.

Investing in strategic growth:

Over the past several years, Kratos has made significant investments in strategic growth areas including the unmanned tactical aircraft systems area. Specifically, they have increased internally funded research and development, capital expenditures and infrastructure investments, including executive management, bid, proposal and new business capture and pursuit expenses.

They have made these investments with the intention of designing and demonstrating high performance jet powered unmanned combat aerial systems. These investments have allowed them to retain the intellectual property rights and design packages for these platforms, and to ultimately secure sole source production positions in these strategic growth areas. They have invested over $50 million in their UAS (unmanned aerial systems) through internally funded research and development, contract design retrofit costs for new platforms under development and capital expenditures for aircraft and related equipment related to this strategic growth area.

Competition:

The Defense market is competitive and includes many companies in the U.S. defense and security system integration industries. Many of the companies that they compete against have significantly greater financial, technical and marketing resources and generate greater revenues. Competition in the KGS and US segments include tier one, large U.S. Government contractors such as Northrop Grumman, Lockheed Martin, General Dynamics, Raytheon, BAE Systems, L3, Orbital/ATK and Boeing. While we view

other government contractors as competitors, Kratos also has strategic partnerships with these same companies in joint proposals or in the delivery of products, solutions and services for customers. Tier two competitors include smaller government contractors such as Mercury Computer, Qinetiq, Cobham and AAR. Intense competition and long operating cycles are key characteristics of their business within the defense industry. It is also common in the defense industry for work on major programs to be shared among several companies. A company competing to be a prime contractor or subcontractor on an award may, upon final award of the contract to another competitor, become a subcontractor for the final prime contractor. It is not unusual to compete for a contract award with a peer company and simultaneously perform as a supplier to or be a customer of that same competitor on other contracts, or vice versa.

Kratos operates in highly competitive markets and generally encounter intense competition to win contracts from many other firms, including mid-tier federal contractors with specialized capabilities, large defense contractors and IT services providers. Competition in the markets may increase as a result of a number of factors, such as the entrance of new or larger competitors, including those formed through alliances or consolidation, or the reduction in the overall number of government contracts. We may also face competition from prime contractors for whom we currently serve as subcontractors or teammates if those prime contractors choose to offer customer services of the type that are currently provided. Recently, procurement award determinations have been based on lowest price, technically acceptable proposals. In addition, they may face competition from subcontractors who, from time-to-time, seek to obtain prime contractor status on contracts for which they currently serve as a subcontractor.

Many competitors have greater financial, technical, marketing and public relations resources, larger customer bases and greater brand or name recognition. Such competitors may be able to utilize their substantially greater resources and economies of scale to, among other things:

Divert sales, by winning very large government contracts, a risk that is enhanced by the recent trend in government procurement practices to bundle services into larger contracts and the recent trend of making award determinations on a lowest price, technically acceptable basis.

Divert sales, by the award of government contracts to our competitors who may be willing to bid at substantially lower prices.

Force us to charge lower prices; or adversely affect our relationships with current customers, including our ability to continue to win competitively awarded engagements in which we are the incumbent.

If the market for products in our US segment expands, we expect that competition will intensify as additional competitors enter the market and current competitors expand their product lines. To secure contracts successfully when competing with larger, well-financed companies, Kratos may be forced to agree to contractual terms that provide for lower aggregate payments, over the life of the contract, which could adversely affect their margins. In addition, larger diversified competitors serving as prime

contractors may be able to supply underlying products and services from affiliated entities, which would prevent them from competing for subcontracting opportunities on these contracts. If they lose business to competitors or are forced to lower our prices, revenue and operating profits could decline.

The risk associated with investing in a company that is subject to the rules and regulations of the DOD should be noted and understood, fully before investing. KTOS is subject to strict rules and regulations for employees and directors and have a long list of procedures that must be followed to do business with them. If Kratos were to be hacked and vital information were to be shared with anyone, this could potentially be the end of the company, the government would be restricted of doing business with them and there for, they would lose almost 73% of their revenue. However, the risk of this happening is relatively low, and if they were to be hacked than that would mean that the US government was hacked as well because the majority of the Kratos facilities are located on military bases.

conducted under binding contracts, allows companies that perform well to benefit from a level of program continuity not frequently found in other industries. Competition in the PSS segment includes Siemens Building Technology, Johnson Controls, and Convergent Technologies, among others. We believe that the principal competitive factors in our ability to win new business include our intellectual property, proprietary products, technology and ability to rapidly design, demonstrate and deliver systems to the warfighter at a low cost. Also important is our past performance qualifications, customer relationships, domain and technology expertise, the ability to replace contract vehicles, the ability to deliver results within budget (time and cost), reputation, accountability, staffing flexibility, and project management expertise. Additionally, our ability to deliver cost effective products, solutions and services that meet our customers' requirements is a key differentiator. The current federal procurement environment in the government services area is driven primarily by "low price, technically acceptable" contract award decisions. Accordingly, innovation and the ability for a contractor to quickly deliver a low cost, technically compliant solution or product are critical in the current competitive environment. In addition, competitor bid protests have become more prevalent in the current competitive environment, resulting in further delay of contract procurement activity. In the U.S. defense, IT, and services markets, the U.S. Government has stressed competition and affordability in connection with its future procurement of products and services. This has led to fewer sole source awards, as well as more emphasis on cost competitiveness. In addition, the DoD has announced several initiatives to improve efficiency, refocus priorities, modify contract terms, and enhance DoD best practices including those used to procure goods and services from defense contractors. See the Industry Background section in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Industry Update section in Item 1 "Business" contained within this Annual Report. These initiatives, when implemented, together with planned reductions in defense spending levels, are likely to result in fewer new opportunities for our industry as a whole with more demanding terms. A reduced opportunity set is likely to intensify competition within the industry as companies compete for a more limited set of new programs.

Management and key factors

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One Notable sector leader is Steve Fendley, Steve Fendley is president of unmanned systems and Executive Chairman of 5-D systems a innovative unmanned systems company he co-founded the following is directly from 5-D systems website.

“A co-founder of 5-D, responsible for managing 5-D Systems across all locations and programs. Steve holds a bachelor’s degree in electrical engineering from Auburn University. He provides over 20 years of experience in the aerospace industry with a focus on unmanned systems. Steve's experience includes extensive overseas program development and support in addition to participation in domestic programs. He is the 5-D Systems design authority for company technical and airworthiness activities. His industry experience includes engineering and management positions with defense contractors, including Northrop Grumman and Tracer Flight Systems.” -http://www.5dsystems.com/leadership.php

The one year chart shows strong support levels under $11.00 USD

Our Opinion,

Kratos is a technology company disguised as a Defense company and in our opinion based on our research we believe the defense industry will largely shift focus to technology. Technology will not only help us save lives it can help us efficiently and effectively defend the United States of America. That is why we believe there is value in KTOS. Kratos has positioned itself to become the next leader of the industry, though technology and innovation we believe they can win more contracts and absorb more market share, and acquisitions of promising companies and the association with 5-D systems is a large part of the equation moving forward and we believe that the unmanned systems division will benefit greatly from the shift in spending for the united states DoD.

Risk Factors manufacturing and service:

As any company there are times things can go wrong, unfortunately being in the service industry as well as sales there is times that the job can go wrong and potentially cost money when a client is unsatisfied or we have a critical malfunction in the operation, This could affect revenue if this were to occur often. As well as service malfunctions, there could be potential defaults in the manufacturing process that could potentially be caused by an out-side vendor and have nothing to do with the performance of KTOS but may have an adverse effect on the stock price or revenue of KTOS in the near and long term if such events were to take place.

Fundamental risks: Debt/Equity swap diluting shareholder value, as well the potential for a sell of one or more subdivisions. This risk is due to the large 670 million refinanced debt at 7% due in 2019. This could potentially devalue the company significantly, even potential chapter 11 bankruptcy to secure financing or capital opening the company to suffer a massive loss. This is only potential If something were to go wrong and the company couldn't refinance this debt. This is unlikely unless there is a unforeseen travesty in the business, a fraud, or a lawsuit, that would cripple any business.

Despite the inevitable risks associated with this company most of the risks are general risks that would affect any company.

Material cost, tariff risk. Material risks associated with Kratos is relatively low. The majority of the materials are sourced within the US. Carbin Fiber and space age materials or rate earth materials due to specific contracts must be sourced from US suppliers specific to each contract.

Featured Products and services and subsidies:

Micro Systems: There is no other company in the world that has the experience and expertise that Micro Systems does in designing and developing advanced systems for a wider variety of unmanned vehicle platforms. For over 40 years we have been developing onboard vehicle and ground support equipment for high performance aerial target drones that have been designed to fly Mach speeds, perform precision maneuvers, and replicate real world threats. We have continued to grow our capability over the years and have expanded into a variety of high and low performance Unmanned Aerial Vehicle (UAV), training and combat/tactical Unmanned Ground Vehicles (UGV), and Sea Surface Target Vessels. The technical staff at Micro Systems includes hardware, software and systems level engineers with extensive relevant experience developing sophisticated unmanned systems for an array of complex mission requirements.

Micro Systems a Kratos Company for unmanned systems. offers a series of solid state high reliability transponders for command and control data links, radar tracking, and Identify Friend or Foe (IFF) applications. Transponders are available to support many different frequency bands including UHF, C-Band and L-Band are available. They also support various command message data link formats including

Gulf Range Drone Control System (GRDCS) and a variety of custom message data link formats defined to support specific mission requirements. Our robust systems support Line of Sight (LOS) communication as well as radio-relay message transmitting for Over-The-Horizon capability, they can also provide custom designed transponders based on customer specific requirements.

Intellectual Property of Kratos Defense is a key to the long-term success of the company as many companies will have to pay to use their ideas or have Kratos defense themselves produce the product. This could be a large source of revenue with little overhead and operating costs to generate passive income alongside their traditional sources of revenue to potentially make up for their small operating margins.

The following is a Transcript from an interview with Kratos defense CEO Eric DeMarco on the Shift in the defense environment, Here is a link as well. Pod cast with CEO of KRATOS

I can't speak to the corporate aspects of this but here are some things which seem appropriate to me:

1. In the 1980s, anyone working with Israel was anathema in the U.S. defense aerospace business due to the excessively 'friendly' attitudes whose cooperative program results led to extensively technology theft by the state of Israel. You could not look at Israeli engineers as individuals but had to always evaluate them as agents of Israeli foreign policy goals to completely techint exploit American defense technology business leveraging as market share. Oh how times have changed...

Or not.

2. The 'Loyal Wingman' program will fail for at least three reasons:
a. What is stealth but a datafile...
The nature of VLO is not what we have been told it is. Anyone LOOKING AT the F-35 is going to see a largely conventional jet whose principle 40-60` cone of steath protection makes ZERO sense for a jet designed to deliver penetrating strikes. The answer to what modern stealth does look like is Teal Parrot and 'Fuzzy Balls'. As an onskin or local to airframe, active cancellation system. This is not something where you can go light. And it takes years to tailor the system. Just think about what that means on a 'robust VLO' design which has stealth goodness baked right in like a chocolate chip cookie. You cannot

change it without massive (costly) reskinning efforts. This is not a coating. It's an in-skin circuit grid such as the Chinese have advertised they have 'discovered', post F-35 cyberespionge exploit. It is also why the mission data files are so critical and all encompassing now. Because, to get perfect LO against radar threats, you must cancel signal across the entire surface skin of the airframe, phase, Doppler and frequency matched to -individual radars-, by chassis numbers as particular waveform thumbprints. That's expensive, it's not going to happen on a drone and without it, your wingman is a signal mirror in the sky to where YOU are.

b. They are doing this backwards.

Just look at the drone program (Teal Dawn, Buffalo Hunter etc.) in SEA. Where some 70% of the ISR mission was flown by both very high and very low altitude platforms with tailored penaid packages (contrail suppressant, RAM etc.) for each. Because RF-4, RF-101 and RA-5 could not hack the mission. If you have excellent drone coverage inherent to long range and sacrificial tease-the-emission trace capabilities, you can target for strikes. Because the drones can be there for-evuh. And are easy to retask if shot down.

The JSF/Valkyrie (LCAS-D) pairing effort, if it happens, seeks to reverse this. In that the drone is the bomb chucker and the MANNED asset is the eyeball ISR system. If you are actually flying to 1,500nm radii, at a typical 300 knot cruise, with an 8-10 hour maximum mission time for manned assets, how does this work out? ISR is akin to ASW in that you are looking in a lot of holes for particular snakes and 90% of your mission time, you come up dry in your santization effort.

If you have 4 drones for every one F-35, you have an inverse coverage problem in that you cannot do CCD type 'swing round an fly by again, in another 20 minutes' condition. Rather, you have to do what the SCARs were doing in AfG and Iraq: running major amounts of burner time between areas to bring (F-14D) a high rez AAQ-25 and secure comm link system into play which could cue strikers cycling through with 100,000 dollars worth of CBU-105 or GBU-12 to hit targets before their gas as station time forced them to drop on 'area targets' in a given truck park zone and fly home.

And an F-35, with that dragster engine, is going to suck gas at a heck of a rate, on the wrong side of an extended radius, trying to match this behavior, even assuming the Valkyrie can hang time stick around for awhile.

No. The way you do this is the exact opposite of what is being suggested: You put a lot of cheap apertures (APY-9 Lynx and AAS-52B MTS equivalent, inside a stealth envelope) and you let the drones do the gathering so that they are the ones whose cheap-numbers vacuum the battlespace and the F-35 is the SDB bomber.

The problem with this is then, again, that high end, A2AD avoiding, VLO is not coming on a 2 year development curve. Nor is it going to be cheap. And the same applies to a very high capability, mixed EO/IR recce MEP _if_ that system comes with a MEMS based, high datarate, commo system that can push TTNT waveforms through a CDL bandpipe (X or Ka) without choking. We are talking AESA on a stick here with a very complex spatial tracking array to get back to a satellite or pseudolite relay, first time, every time. And thus contain emission trace risk with very short burst transmissions. We know this can be done. An APG-77 did it back in the early 2000s with a 170MB SAR WAS map in about 4 seconds. The question is whether it can be made small enough to tuck under a VLO aperture cover and not an MQ-9 'xenomorph head'. At cost.

My belief is that it cannot. You are going to pay for the quality of data security and network rate systems that you want or your are going to be constantly at risk of lost network security as opsec and mission

effectiveness. Which brings us to...
c. Fleet Affordability vs. Mission Responsiveness.
Again, if we are talking a 60 million dollar ISR drone in company with an 80-90 million dollar ISR fighter, we are screwing up. That is NOT a 'hi lo mix' because there is no truck platform. And the manned system is SO SLOW to get on station and respond with fires that you are talking about a genuine dichotomy of contradictory mission function.
If you fly racetracks with autonomous drone platforms and send snapshots based on highly directional microwave MEMS comms, you DON'T NEED to have a manned vs. unmanned intermediate system hub node. It in fact becomes a bottleneck vulnerability whether configured like this:

UCAV.....UCAV.....UCAV.....UCAV
.....F-35.....

Or...

F-35+UCAV.....F-35+UCAV.....F-35+UCAV.....F-35+UCAV

Because performance and signature disparities are too significant.

However; if the drones pass data directly, then you can remove the manned asset altogether as the stovepipe integration speeds the engagement process through CCD (Coherent Change Detection = pixel to pixel image recognition) on the drone, backpass to the CAOC and then a forward hand to a network fires platform like an Ohio Followon or stealthy SSC/FF platform which can be a lot closer than a carrier while remaining completely invisible/bunker protected.

As it fires MISSILES like the Hoplite and the HSSW. Which can fly 300nm @ Mach 3 in 15 minutes and 80K or 900nm @ Mach 7 and 200K in 20 minutes. Entirely beyond 90% of existing air defenses. And probably faster than a manned asset, operating at extreme radius, can shift to a weapons release point without consuming all it's burner time fuel reserves in one engagement.

Again, deep attack with a loitering recce:strike complex is a TIME DOMAIN condition, where you are sanitizing huge haystack areas of nothin' to find that one needle of valid threat signature.

And if you cannot afford a JSF+UCAV pairing, you certainly cannot afford a JSF+UCAV+Missile equivalent. Which means that one has to go. And keeping the missiles and unmanneds lets you invest more in signature reduction for the loitering targeter. And avoid the worries of 15+ years of Gen-5 technology base loss inherent to FIVE HOURS of target penetration by a manned asset. You just loft over the threat and only worry about the splash end defenses which you handle with saturation.

And this practicality is exactly why it will never be purchased. Because men don't ride missiles like Slim Pickens yeehawing that B-28 to impact. But they do sign checks.

For airplanes.

And it is the manned jet which is screwing up the A2AD defeat system because the A2AD system is _designed to work against them_. Pull the jet and they can shoot down a dozen missiles and 4 drones per mission and you'll just task two dozen and 8 UCAV for the next.

But only if you can afford it because you haven't leveraged the farm on 426 billlion dollars worth of F-35s and 1.6 trillion over the life of the program.

This is the sin of manned aviation in an emergent warfighter condition like Korea or Taiwan or Iran or Pak-India. You have to break into the theater in the same motion as you start supporting engaged allied forces. If you have to spend 7-10 days reducing threats with DEAD, you've just shifted from saving the circled settler wagons from the indians with a cavalry charge over the hill to Normandy. And where that reinvasion happen in a near-peer threat's backyard, you will generate an October Crisis condition in terms of getting assets which are not immediately threatened, into the theater in numbers sufficient to sustain the recapture mission.

Add to this conditional threats from SSL and Hunting Weapons and you have a major threat mismatch in both target value risk and sortie rate sustainment. Which designing a UCAV to 'help out' a manned asset will not resolve.

Financial analysist and our findings.

Current assets and liabilities at the end of the third quarter from 2016 to 2017 shows significant growth YOY due largely to a stock offering raising 268 million.

Chart In millions

end of third Quarter	2017				2016		
Current assets:							
Cash and cash equivalents	239.2				69.1		
Restricted cash	0.2				0.5		
Accounts receivable, net	244.2				229.4		
Inventoried costs	62.8				55.4		
Prepaid expenses	11.6				8.9		
Other current assets	9.8				9.8		
Total current assets	567.8				373.1		
Property, plant and equipment, net	56.7				49.8		
Goodwill	485.3				485.4		
Intangible assets, net	24.5				32.6		
Other assets	8.4				7.7		
Total assets	1,142.70				948.6		
Liabilities and Stockholders' Equity							
Current liabilities:							
Accounts payable	50.6				52.7		
Accrued expenses	41.8				50		
Accrued compensation	33.7				39.1		
Accrued interest	10				3.6		
Billings in excess of costs and earnings on uncompleted contracts	51.1				41.8		
Other current liabilities	10.5				7.7		
Current liabilities of discontinued operations	1.1				1.6		
Total current liabilities	198.8				196.5		
Long-term debt, net of current portion	369.7				431		
Other long-term liabilities	38.5				41		
Non-current liabilities of discontinued operations	3.8				3.7		
Total liabilities	610.8				672.2		
Commitments and contingencies							
Stockholders' equity:							
Preferred stock, $0.001 par value, 5,000,000 shares authorized, 0 shares outstanding at October 1, 2017 and December 25, 2016	—				—		
Common stock, $0.001 par value, 195,000,000 shares authorized; 103,295,733 and 73,945,533 shares issued and outstanding at October 1, 2017 and December 25, 2016, respectively	—				—		
Additional paid-in capital	1,232.20				956.2		
Accumulated other comprehensive loss	(1.8		)		(1.7		)
Accumulated deficit	(698.5		)		(678.1		)
Total stockholders' equity	531.9				276.4		
Total liabilities and stockholders' equity	$	1,142.70			$	948.6	

The following sheet shows the financials for the operating activities for the period between 2017 and 2016

Chart in millions

End of third Quarter						
Operating activities:						
Net loss	$	(20.5	)		$	(56.2
Loss from discontinued operations	0.2				0.2	
Loss from continuing operations	(20.3		)		(56.0	
Adjustments to reconcile loss from continuing operations to net cash used in operating activities from continuing operations:						
Depreciation and amortization	17				17.3	
Stock-based compensation	6.8				4.2	
Deferred income taxes	1.9				3.2	
Amortization of deferred financing costs	1				1.2	
Amortization of discount on Senior Secured Notes	0.6				0.7	
Loss on extinguishment of debt	2.1				—	
Provision for doubtful accounts	0.1				0.3	
Litigation related charges	—				1.7	
Provision for non-cash restructuring charges	—				7.7	
Changes in assets and liabilities, net of acquisitions:						
Accounts receivable	(14.9		)		(3.3	
Inventoried costs	(4.9		)		(8.5	
Prepaid expenses and other assets	(6.2		)		2	
Accounts payable	(1.6		)		(1.4	
Accrued expenses	(8.7		)		11.9	
Accrued compensation	(5.5		)		(3.9	

Continued on next page

End of Third Quarter	2017		2016	
Advance payments received on contracts	(0.5	)	2.7	
Accrued interest	6.5		7.8	
Billings in excess of costs and earnings on uncompleted contracts	9.2		0.3	
Income tax receivable and payable	1.3		0.8	
Other liabilities	(0.6	)	2.6	
Net cash used in operating activities from continuing operations	(16.7	)	(8.7	
Investing activities:				
Cash paid for acquisitions, net of cash acquired	0.2		—	
Change in restricted cash	0.2		0.1	
Capital expenditures	(19.0	)	(5.1	
Proceeds from sale of assets	0.7		—	
Net cash used in investing activities from continuing operations	(17.9	)	(5.0	
Financing activities:				
Extinguishment of long-term debt	(64.0	)	—	
Proceeds from the issuance of common stock	268		—	
Repayment of debt	(0.8	)	(0.8	
Proceeds from exercise of restricted stock units, employee stock options, and employee stock purchase plan	1.5		2.1	
Net cash provided by financing activities from continuing operations	204.7		1.3	
Net cash flows of continuing operations	170.1		(12.4	
Net operating cash flows of discontinued operations	(0.1	)	0.1	
Net investing cash flows of discontinued operations	(0.5	)	4.3	
Effect of exchange rate changes on cash and cash equivalents	0.6		—	
Net increase (decrease) in cash and cash equivalents	170.1		(8.0	
Cash and cash equivalents at beginning of period	69.1		28.5	
Cash and cash equivalents at end of period	$	239.2	$	20.5

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The above sheet over all shows the cash on hand at the end of the third quarter 2016 to 2017 an increase of over 100%. This also shows the activities and how cash was generated and used. This cash increase was due to many factors however the sale of common stock of 268 million dollars helped boost cash on hand helping increase operating efficiencies and supporting the overall output for the company in the term ending October 2017 Our take away from the assets and cash portions of the financials are mixed. Kratos has an extremely high operating cost and bleeds a lot of cash. However they also have assets that have increased in value YOY and have paid down a lot of debt during this time, it shows that they believe investing in the company is the most beneficial use of the company's assets. They also refinanced about 670 million worth of debt to a flat rate of 7% due in 2019. If this debt can be refinanced to extend this period. We should see absolute profitability within the next five-ten years. However, if they are unable to refinance this debt further we could potentially be looking at a equity exchange which could potentially dilute shareholder holder value or the liquidation of assets which could limit growth and the overall market value which is the major risk we see, however this seems unlikely. If we were to see them sell a portion of their business such as one of the subdivisions we could potentially see rapid growth and shareholder value go up as they can pay down debts and invest in more profitable sectors. These are the major risks we see that could potentially affect the shareholder value. With the forward looking guidance, we think this company is going to be around to stay. The Aerospace industry is a tough business, this is a relatively young company and building the proper infrastructure is expensive. Now they are in the stages of paying off their liabilities and winning contracts these sheets are not unlike similar competitors and companies of this size, however the intellectual property Is the key to the equation and the future of unmanned systems.

Assets: $ 1.1

EPS $-0.32

Revenue$ 688 m

Market cap $ 1.14

Current price $ 11.23

Shares outstanding: 103.30 M

FrostGate Capital Price Target: $14.35

Rating: Buy/Strong Hold

Disclaimer: FrostGate Capital does hold a position in the above-mentioned security, we plan to hold that position in any of the securities mentioned above for a minimum of the next 72 hours.