

What was announced?

Kratos Defense & Security Solutions recently announced the merger of the Kratos Workforce Learning and Performance Group with DEI Services Corp. The agreement represents a strategic step in both companies' visions to support well-trained, high performance Warfighters for the U.S and its allies.

Together, the two companies will pursue growing opportunities in military training and simulation market. Within its Workforce Learning and Performance group, Kratos presently provides a variety of consulting and management services in support of customers seeking to get the most from their organizations and employees, including development of blended education and training programs that include traditional instructor-led courses, computer-based eLearning, social media learning and simulations.

DEI's deep expertise in constructing training simulators for military vehicles, particularly, maintenance training simulators, deepens Kratos' portfolio in this high-growth area.

For more information on Kratos and DEI, see the attached backgrounders.

What are DEI's market strengths?

Founded by Jose A. Diaz in 1996, DEI offers a range of simulation and training-related services and is one of a few companies that has integrated maintenance simulators into its product portfolio. DEI's trainers are used to troubleshoot and repair military equipment, including fixed wing, rotorcraft, naval vessels, and ground combat vehicles. DEI has carved out a core area of focus in part-task trainers that simulate specific components of a platform.

Why emphasize the maintenance training market?

Funding in major military departments is shifting towards expanding simulation capabilities to decrease wear and tear on operational assets while honing skills that will have the largest impact on a soldier when deployed on the battlefield. Live training is becoming too time consuming and costly, and perhaps more importantly, a younger generation of tech savvy soldiers who have grown up with video games are more comfortable using CBT and simulation media than their predecessors. Recent estimates predict the military training and simulation market will reach \$24.1 billion by 2015.

While simulators have received considerable attention for their use in operational and usability training, less covered have been their growing use in maintenance training for troubleshooting and repair. With the recent announced cancellations and postponements for new military platforms, current vehicle families are experiencing extended lifecycles and extended maintenance needs, substantiating maintenance trainers' importance in filling a critical need.

Recent studies have shown that maintenance simulators are just as effective as actual equipment trainers for training military maintenance technicians when measured by student achievement in the classroom. According to one report, acquisition and use of a maintenance simulator over a 15-year period would cost up to 38 percent less than an actual equipment trainer, validating claims that maintenance simulators are more cost-effective than actual equipment trainers. The cost to develop and fabricate one unit of a simulator was less than 60 percent of the cost of its counterpart actual equipment trainer in 7 of 11 cases investigated. The cost of fabricating an additional unit of the same simulator was less than 20 percent of the cost of its counterpart actual equipment trainer in 9 of these 11 cases.

What solutions does DEI offer?

DEI develops designs, manufactures, deploys and supports full scale maintenance and operational training systems and upgrades for the military. Among the company's most successful products are training and simulation solutions for fixed wing aircraft (including the Pegasus, Harrier, and Goshawk planes), rotor-wing

aircraft (including Blackhawk, Chinook, and Sea Stallion helicopters), and Ground Combat Vehicles (including M1 Abrams and M2 Bradley tanks).

In addition to a full range of products, DEI offers a variety of learning support services, including instructional systems development, interactive multimedia instruction, instructor led training products, desk top training systems, electronic classrooms, and logistic support. Major customers for these products and services include the Army, Navy, and Marine Corp.

How does DEI fit with Kratos' strategy?

The DEI-Kratos merger unites complementary visions, competencies, marketing channels and target customers.

Kratos' Workforce Learning & Performance Group offers a broad portfolio of services focused on providing solutions to help ensure that Warfighters and others are prepared and ready to meet their mission's goals. Kratos professionals guide clients through the technological evolution of learning delivery and administration by applying a blend of proven techniques focused on clear requirements, repeatable processes, and quality management. Strengths include front end analysis, competency definitions and development of blended Learning programs. The team has a particularly strong track record in developing simulation-based Information Technology training materials, such as creating full programs in ??? for the Navy's Center for Information Dominance.

Teaming with DEI greatly enhances the company's resources in the high-growth simulations market, adding new skills, capabilities and qualifications across a broader range of application areas. The result is a more comprehensive learning and performance business line that will provide a greater range of skills and services to new and shared customers. The combined company will wield the resources, mass and revenues to be a trusted and dependable partner for the long term.

Expected benefits of the agreement include:

- Added expertise in cutting-edge media technologies, learning theory, and creative design
- Combined resources, competencies and skill sets that will enable Kratos to pursue larger workforce and training IDIQs.
- Complementary customer bases which will facilitate the cross-selling of services.
- Cross-fertilization of skill sets that will enrich the depth of employees in this rapidly-evolving technology space.

How will DEI be integrated into Kratos?

DEI will operate as the Training and Simulations unit of Kratos' Workforce Learning and Performance operations, part of the IT Solutions (ITS) Division. The ITS division specializes in supporting network-centered defense, intelligence, and government agencies and commercial customers with products and services that maximize Network Operations, Cyber Security, Enterprise Information Management (EIM), and Workforce Performance. Jose A. Diaz, DEI's founder, will run the Training and Simulations unit, which will debut at the Annual Utility Helicopter Conference in St Louis next month.

DEI Company Background

DEI Company Overview

DEI Services Corporation is a design and integration provider of simulation and training devices to military customers. One of the few companies in the military training and simulation industry specializing in maintenance simulators, DEI couples full-scale COTS products with operational training systems that replicate the spatial constraints present within tactical vehicles. Manufacturing operations are "work order based," driven by both manufacturing engineers and material coordinators.

DEI's simulator training devices are complemented by interactive courseware products, which are designed through state-of-the-art technical data package tool sets. DEI's current products include training systems that support fixed-wing aircraft, rotorcraft, and ground combat vehicles. They are backed by corporate capabilities encompassing the scope of skills required to successfully develop, deploy, and support state-of-the-art training systems for the modern war fighter.

Founded in

1996 by Jose A. Diaz

Headquarters

7213 Sandscove Court, Suite 1
Winter Park, FL 32792
Phone: 407-678-3388, Fax: 407-678-8008

Number of Employees

131, including technical engineers, SMEs, and Interactive Multimedia Instruction professionals, all with a broad range of military and tactical platform skills

Core Areas of Focus

Simulations and Training Devices

- 131 devices and 16 Simulators delivered to date
- Competencies: Requirements Analysis, System Design, Systems/Hardware/Software Engineering, Manufacturing/Assembly, Product Validation, System Deployment and Support
- Products: Full-Scale Operational Training Systems, Full-Scale Maintenance Training Systems, Training System Upgrades, Part-Task Trainers, Aviation Physiology & Water Survival

Blended Learning Solutions

- 2400 courseware hours delivered
- Competencies: Instructional Systems Development, Systems Approach to Training, Interactive Multimedia Instruction, Web-Based SCORM Conformant IMI, Instructor-Led Training
- Products: Desk-Top Training Systems, Micro-Sims, Electronic Classrooms

Logistics Support Services

- 441 publications delivered to date
- Competencies: Logistics & Life Cycle Cost Management, Supportability Assessment & Planning, Engineering Design & Manufacturing Support, Training & Transition
- Products: Fielded Training Systems, Operational Logistics, Technical Services, Contractor Field Services

Major Programs

Blackhawk (UH-60) – An ongoing 9 year relationship with the Army that has resulted in \$28M in contract awards over the past 4 years under the NSWC IH contract

Bradley – A 5 year relationship that has resulted in \$8.5M of product delivery under RTI STOC I

Abrams – 9 year relationship, resulting in over \$33M in contact awards and sole source decisions under RTI STOC I

Chinook (CH-47) – Over \$20M in contract awards under NSWC IH contract

Facilities

DEI's operation is located in Winter Park, Florida. Company operations occupy approximately 100,000 square feet of office and high bay manufacturing space. These facilities include air-conditioned, high-bay fabrication and integration areas with a total of more than 37,000 feet, multiple roll-up doors, and 20 to 28 foot ceilings. Each of the high-bays can support multiple, full-sized training devices. Additionally, DEI has more than 13,000 square feet dedicated to stockrooms, secure Government Furnished Equipment cages, shipping, receiving and inspection area, and off-site storage.

Facilities include a well-equipped machine shop tooled to support prototype/modeling functions, as well as a dedicated test laboratory fully staffed with test engineers and technicians. This test lab is furnished with a variety of test equipment to perform bench testing, unit-under-test, and system level testing in support of manufacturing and integration activities. The remaining space includes engineering and administrative facilities, five conference rooms, and ample parking. More than 15 percent of the total space is easily reconfigurable to provide additional manufacturing or office space to readily accommodate changing requirements.

Key Contracts

NAVSEA Indian Head
PEO STRI Omnibus Contract II (STOC II), Lot I
PEO STRI Omnibus Contract II (STOC II), Lot II
Training Systems Contract II (TSCII), Lot I

Key Customers

U.S. Army
PEO Aviation
PEO STRI
Army National Guard
U.S. Navy
NAWCTSD
CNATRA
Naval Air Maintenance Reserves
NSWC Indian Head
U.S. Marine Corps
PMTRASYS

Leadership Team

Jose A. Diaz - President and Chief Executive Officer/Founder
William Patton – SVP, Business Development
Jeff Calvert – VP, Systems Integration
Scott George – VP, Program Development
Charles Mitchell – VP, Program Development

Kratos Defense & Security Solutions Company Background

Kratos Company Overview

Having experienced a 41% growth rate since 2003, Kratos Defense & Security Solutions is a mid-tier prime contractor with focus on defense, intelligence and homeland security. Kratos' core areas of business center around IT, weapons, engineering, and public safety and security. Kratos has a national presence with strong local relationships, and offers a broad solution portfolio coupled with diversified expertise. With resources to deliver products ranging from a single solution through end-to-end support for strategic programs, Kratos has a track record of excellence in support of DoD's modernization agenda, including supporting the joint war fighting capability, enabling rapid access to information for strategic decisions, reducing the cost of defense business operations, and improving financial stewardship to the American people.

For more information, visit www.KratosDefense.com

Founded in

1994, formerly Wireless Facilities, Inc

Locations

Corporate Headquarters

Bridge Pointe Corporate Centre
4820 Eastgate Mall, Suite 200
San Diego, CA 92121
Phone: 858.812.7300, Fax: 858.812.7301

33 offices in 14 states across the United States. For more information, visit www.KratosDefense.com/about/locations.asp

Stock Symbol

Publicly traded on NASDAQ: KTOS

FY2009 Revenue

\$350M

Number of Employees

1800, 70% with security clearances

Kratos Business Units

Kratos' areas of focus in support of the Warfighter include:

Information Technology & Workplace Performance (ITS)

- Network Operations, Enterprise Information Management (EIM), Cyber-Security, and Workforce Learning & Performance

Weapon Systems (WSS)

- Weapon system solutions and services including rocket program services, technology initiatives, and advanced weapon system research and engineering

Defense Engineering (DES)

- C4ISR, systems engineering, operational logistics support, and program & acquisition management

Public Safety and Security (PSS)

- Systems integrator of advanced life safety, security and surveillance systems for government and commercial applications

Kratos Workforce Learning &

Dedicated to supporting high-performance teams and organization

Performance Solutions Group

through analysis, learning, and strategic communication, Kratos' Workforce Learning & Performance Group is a full-service team committed to providing solutions to help ensure that Warfighters and others are prepared and ready to meet their missions goals. With 1800 employees in over 14 states, Kratos professionals guide clients through the technological evolution of learning delivery and administration by applying a blend of proven techniques focused on clear requirements, repeatable processes, and quality management. Emphasizing a rigorous, proprietary process for up front analysis that identifies performance gaps, causes, and solutions, Kratos experts help define workforce competencies, align them with performance goals and integrate them into learning and communications solutions. These research-based methodologies are applied to developing the right blend of instructional media based on specific requirements, including computer-based eLearning, simulations, social media and learning 2.0 and traditional instructor-led courses.

Key Contracts

GSA Alliant
CECOM R2, FIRST, ITES, OPTARSS, S3
ENCORE II
STOC II
Millennia Lite
NETCENTS
SSC LANT, SSC PAC
SeaPort-e

Key Customers

DISA
U.S. Navy Center for Information Dominance
Navy Facilities Engineering Service Center (NFESC)
Joint Protection Enterprise Network (JPEN)
Defense Logistics Agency
Missile Defense Agency
Army National Guard
Department of Energy
IRS
NASA

Commercial Learning Customers:

3M
American Honda Motor Company
CitiGroup
Dave & Buster's Restaurants
General Electric
Nokia
Petco

Leadership Team

Eric DeMarco - President and Chief Executive Officer
Deanna Lund - Executive Vice President and CFO
Richard Selvaggio - President, Weapon Systems Solutions
Phil Carrai - President, Information Technology Solutions
Dave Carter - President, Defense Engineering Solutions
Ben Goodwin - President, Public Safety & Security Segment

Board of Directors

Scott Anderson, Principal, Cedar Grove Partners, LLC

Bandel Carano, General Partner, Oak Investment Partners, LLC

Eric DeMarco, President & CEO, Kratos Defense & Security
Solutions, Inc.

William Hoglund, Safe Boats International, LLC

Scot Jarvis, Cedar Grove Partners, LLC

Sam Liberatore