

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Form S-3
August 14, 2009

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Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

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)
4810 Eastgate Mall
San Diego, CA 92121
(858) 812-7300

13-3818604
(I.R.S. Employer
Identification Number)

(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:

Scott M. Stanton, Esq.
Jeannette V. Filippone, Esq.
Morrison & Foerster LLP
12531 High Bluff Drive, Suite 100
San Diego, California 92130
(858) 720-5100

From time to time after the effective date of this Registration Statement.
(Approximate date of commencement of proposed sale to the public)

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, 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, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) 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 registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount to be Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value \$0.001 per share(4)	(2)	(3)	(3)	(1)
Preferred Stock, par value \$0.001 per share	(2)	(3)	(3)	(1)
Debt Securities	(2)	(3)	(3)	(1)
Warrants	(2)	(3)	(3)	(1)
Units	(2)	(3)	(3)	(1)
Total	(2)		\$100,000,000	\$5,580

(1) Calculated pursuant to Rule 457(o) under the Securities Act.

(2) There are being registered hereunder such indeterminate number of shares of common stock and preferred stock, such indeterminate principal amount of debt securities, such indeterminate number of warrants to purchase common stock, preferred stock and/or debt securities, and such indeterminate number of units as may be sold by the registrant from time to time, which together shall have an aggregate initial offering price not to exceed \$100,000,000. If any debt securities are issued at an original issue discount, then the offering price of such debt securities shall be in such greater principal amount at maturity as shall result in an aggregate offering price not to exceed \$100,000,000, less the aggregate dollar amount of all securities previously issued hereunder. Any securities registered hereunder may be sold separately or as units with the other securities registered hereunder. The proposed maximum offering price per unit will be determined, from time to time, by the registrant in connection with the issuance by the registrant of the securities registered hereunder. The securities registered hereunder also include such indeterminate number of shares of common stock and preferred stock and amount of debt securities as may be issued upon conversion of or exchange for preferred stock or debt securities that provide for conversion or exchange, upon exercise of warrants or pursuant to the antidilution provisions of any of such securities. In addition, pursuant to Rule 416 under the Securities Act, the shares being registered hereunder include such indeterminate number of shares of common stock and preferred stock as may be issuable with respect to the shares being registered hereunder as a result of stock splits, stock dividends or similar transactions.

(3) The proposed maximum aggregate offering price per class of security will be determined from time to time by the registrant in connection with the issuance by the registrant of the securities registered hereunder and is not specified as to each class of security pursuant to General Instruction I.D. of Form S-3 under the Securities Act.

(4)

Includes associated rights to purchase shares of the registrant's Series C Preferred Stock ("Purchase Rights") that are attached to all shares of our common stock, in accordance with the Rights Agreement, dated as of December 16, 2004, between the registrant and Wells Fargo, N.A. (the "Rights Agreement"). The Purchase Rights are not exercisable until the occurrence of certain events specified in the Rights Agreement, are evidenced by the stock certificates representing common stock and are transferable solely with the common stock. The value attributable to the Purchase Rights, if any, is reflected in the value of the common stock.

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.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 13, 2009

PROSPECTUS

**\$100,000,000
Common Stock
Preferred Stock
Debt Securities
Warrants
Units**

From time to time, we may offer up to \$100,000,000 of any combination of the securities described in this prospectus, either individually or in units. We may also offer common stock or preferred stock upon conversion of debt securities, common stock upon conversion of preferred stock, or common stock, preferred stock or debt securities upon the exercise of warrants.

We will provide the specific terms of these offerings and securities in one or more supplements to this prospectus. We may also authorize one or more free writing prospectuses to be provided to you in connection with these offerings. The prospectus supplement and any related free writing prospectus may also add, update or change information contained in this prospectus. You should carefully read this prospectus, the applicable prospectus supplement and any related free writing prospectus, as well as any documents incorporated by reference, before buying any of the securities being offered.

Our common stock is traded on the Nasdaq Global Select Market under the symbol "KTOS." On August 12, 2009, the last reported sale price of our common stock on the Nasdaq Global Select Market was \$0.84. The applicable prospectus supplement will contain information, where applicable, as to any other listing, if any, on the Nasdaq Global Select Market or any securities market or other exchange of the securities covered by the applicable prospectus supplement.

Investing in our securities involves a high degree of risk. You should review carefully the risks and uncertainties described under the heading "Risk Factors" contained in the applicable prospectus supplement and any related free writing prospectus, and under similar headings in the other documents that are incorporated by reference into this prospectus.

This prospectus may not be used to consummate a sale of any securities unless accompanied by a prospectus supplement.

The securities may be sold directly by us to investors, through agents designated from time to time or to or through underwriters or dealers, on a continuous or delayed basis. For additional information on the methods of sale, you should refer to the section entitled "Plan of Distribution" in this prospectus. If any agents or underwriters are involved in the sale of any securities with respect to which this prospectus is being delivered, the names of such agents or underwriters and any applicable fees, commissions, discounts and over-allotment options will be set forth in a prospectus supplement. The price to the public of such securities and the net proceeds that we expect to receive from such sale will also be set forth in a prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission utilizing a "shelf" registration process. Under this shelf registration process, we may offer shares of our common stock and preferred stock, various series of debt securities and/or warrants to purchase any of such securities, either individually or in units, in one or more offerings, up to a total dollar amount of \$100,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we offer a type or series of securities under this prospectus, we will provide a prospectus supplement that will contain more specific information about the terms of those securities. We may also authorize one or more free writing prospectuses to be provided to you that may contain material information relating to these offerings. We may also add or update in the prospectus supplement (and in any related free writing prospectus that we may authorize to be provided to you) any of the information contained in this prospectus or in the documents that we have incorporated by reference into this prospectus. We urge you to carefully read this prospectus, any applicable prospectus supplement and any related free writing prospectus, together with the information incorporated herein by reference as described under the heading "Where You Can Find Additional Information," before buying any of the securities being offered. **THIS PROSPECTUS MAY NOT BE USED TO CONSUMMATE A SALE OF SECURITIES UNLESS IT IS ACCOMPANIED BY A PROSPECTUS SUPPLEMENT.**

You should rely only on the information that we have provided or incorporated by reference in this prospectus, any applicable prospectus supplement and any related free writing prospectus that we may authorize to be provided to you. We have not authorized anyone to provide you with different information. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus, any applicable prospectus supplement or any related free writing prospectus that we may authorize to be provided to you. You must not rely on any unauthorized information or representation. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information in this prospectus, any applicable prospectus supplement or any related free writing prospectus is accurate only as of the date on the front of the document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus, any applicable prospectus supplement or any related free writing prospectus, or any sale of a security.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, will be filed or will be incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below under the heading "Where You Can Find Additional Information."

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KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

Kratos Defense & Security Solutions, Inc. is an innovative provider of mission critical engineering, information technology services and warfighter solutions. We work primarily for the U.S. government and federal government agencies, but we also perform work for state and local agencies and commercial customers. Our principal services are related to, but are not limited to, Command, Control, Communications, Computing, Intelligence, Surveillance and Reconnaissance (C4ISR); weapons systems lifecycle support and sustainment; military weapon range operations and technical services; missile, rocket and weapons system test and evaluation; missile and rocket mission launch services; public safety, security and surveillance systems; modeling and simulation; unmanned aerial vehicle products and technology; advanced network engineering and information technology services; and advanced information technology services. We offer our customers solutions and expertise to support their mission-critical needs by leveraging our skills across our core service areas.

We derive a substantial portion of our revenue from contracts performed for federal government agencies, including the U.S. Department of Defense (DOD), with the majority of our revenue currently generated from the delivery of mission-critical warfighter solutions, advanced engineering services, system integration and system sustainment services to defense and other non-DOD and civilian government agencies. We believe our diversified and stable client base, strong client relationships, broad array of contract vehicles, considerable employee base possessing government security clearances, extensive list of past performance qualifications, and significant management and operational capabilities position us for continued growth.

Prior to 2008 we were also an independent provider of outsourced engineering and network deployment services, security systems engineering and integration services and other technical services for the wireless communications industry, the U.S. government and enterprise customers. In 2006 and 2007, we undertook a transformation strategy whereby we divested our commercial wireless-related businesses and chose to pursue business with the federal government, primarily the DOD, through strategic acquisitions. On September 12, 2007, we changed our name from Wireless Facilities, Inc. to Kratos Defense & Security Solutions, Inc. In connection with our name change, we changed our NASDAQ Global Market trading symbol to "KTOS".

Our executive offices are located at 4810 Eastgate Mall, San Diego, California 92121, and our telephone number is (858) 812-7300. We maintain an Internet website at www.kratosdefense.com. Information contained in or accessible through our website does not constitute part of this prospectus.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus to "we," "us," "our" and "Kratos" refer to Kratos Defense & Security Solutions, Inc., a Delaware corporation.

RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully review the risks and uncertainties described under the heading "Risk Factors" contained in the applicable prospectus supplement and any related free writing prospectus, and under similar headings in the other documents, including our most recent annual report on Form 10-K, any subsequent quarterly reports on Form 10-Q or current report on Form 8-K we file after the date of this prospectus, that are incorporated by reference into this prospectus. The occurrence of any of these risks might cause you to lose all or part of your investment in the offered securities. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations and financial condition.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements may include statements relating to:

our future financial performance;

the growth of the market for our products and services;

expansion plans and opportunities; and

consolidation in the market or industries for our products and services.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms or other comparable terminology.

Forward-looking statements reflect our current views with respect to future events, outlooks or expectations for earnings, revenues, expenses or other future financial or business performance, strategies or expectations or the impact of legal or regulatory matters on business, results of operations or financial conditions, are based on assumptions and are subject to risks, uncertainties and other important factors. Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to: changes in the scope or timing of our projects; changes or cutbacks in spending or the appropriation of funding by the federal government, including the DOD, which could cause delays or cancellations of key government contracts; the timing, rescheduling or cancellation of significant customer contracts and agreements, or consolidation by or the loss of key customers; risks of adverse regulatory action or litigation; risks associated with debt leverage; failure to obtain court approval of the proposed litigation settlement or to ultimately settle the litigation; failure to successfully consummate acquisitions or integrate acquired operations; competition in the marketplace which could reduce revenues and profit margins; and other important factors that we discuss in greater detail under the heading "Risk Factors" contained in the applicable prospectus supplement and any related free writing prospectus, and in our most recent annual report on Form 10-K and in our most recent quarterly report on Form 10-Q, as well as any amendments thereto reflected in subsequent filings with the SEC. Given these risks, uncertainties and other important factors, you should not place undue reliance on these forward-looking statements. You should carefully read both this prospectus, the applicable prospectus supplement and any related free writing prospectus, together with the information incorporated herein by reference as described under the heading "Where You Can Find Additional Information," completely and with the understanding that our actual future results may be materially different from what we expect.

These forward-looking statements represent our estimates and assumptions only as of the date such forward-looking statements are made. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

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THE SECURITIES WE MAY OFFER

We may offer shares of our common stock and preferred stock, various series of debt securities and/or warrants to purchase any of such securities, either individually or in units, with a total value of up to \$100,000,000 from time to time under this prospectus at prices and on terms to be determined by market conditions at the time of any offering. This prospectus provides you with a general description of the securities we may offer. Each time we offer a type or series of securities under this prospectus, we will provide a prospectus supplement that will describe the specific amounts, prices and other important terms of the securities, including, to the extent applicable:

designation or classification;

aggregate principal amount or aggregate offering price;

maturity, if applicable;

original issue discount, if any;

rates and times of payment of interest or dividends, if any;

redemption, conversion, exercise, exchange or sinking fund terms, if any;

ranking;

restrictive covenants, if any;

voting or other rights, if any;

conversion prices, if any; and

important United States federal income tax considerations.

The prospectus supplement and any related free writing prospectus that we may authorize to be provided to you may also add or update information contained in this prospectus or in documents we have incorporated by reference. However, no prospectus supplement or free writing prospectus will offer a security that is not registered and described in this prospectus at the time of the effectiveness of the registration statement of which this prospectus is a part.

THIS PROSPECTUS MAY NOT BE USED TO CONSUMMATE A SALE OF SECURITIES UNLESS IT IS ACCOMPANIED BY A PROSPECTUS SUPPLEMENT.

We may sell the securities directly to investors or to or through agents, underwriters or dealers. We, and our agents or underwriters, reserve the right to accept or reject all or part of any proposed purchase of securities. If we do offer securities to or through agents or underwriters, we will include in the applicable prospectus supplement:

the names of those agents or underwriters;

applicable fees, discounts and commissions to be paid to them;

details regarding over-allotment options, if any; and

the net proceeds to us.

Common Stock. We may issue shares of our common stock from time to time. The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Subject to preferences that may be applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably only those dividends as may be declared by our board of directors out of legally available funds. Upon our liquidation, dissolution or winding up, holders of our common stock are entitled to share

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ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock.

Preferred Stock. We may issue shares of our preferred stock from time to time, in one or more series. Under our amended and restated certificate of incorporation, our board of directors has the authority, without further action by stockholders, to designate up to 5,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications and restrictions granted to or imposed upon the preferred stock, including dividend rights, conversion rights, voting rights, rights and terms of redemption, liquidation preference and sinking fund terms, any or all of which may be greater than the rights of the common stock.

If we sell any series of preferred stock under this prospectus, we will fix the designations, powers, preferences and rights of such series of preferred stock, as well as the qualifications, limitations or restrictions thereon, in the certificate of designation relating to that series. We will file as an exhibit to the registration statement of which this prospectus is a part, or will incorporate by reference from reports that we file with the SEC, the form of any certificate of designation that describes the terms of the series of preferred stock we are offering before the issuance of the related series of preferred stock. We urge you to read the applicable prospectus supplement (and any free writing prospectus that we may authorize to be provided to you) related to the series of preferred stock being offered, as well as the complete certificate of designation that contains the terms of the applicable series of preferred stock.

Debt Securities. We may issue debt securities from time to time, in one or more series, as either senior or subordinated debt or as senior or subordinated convertible debt. The senior debt securities will rank equally with any other unsecured and unsubordinated debt. The subordinated debt securities will be subordinate and junior in right of payment, to the extent and in the manner described in the instrument governing the debt, to all of our senior indebtedness. Convertible debt securities will be convertible into or exchangeable for our common stock or our other securities. Conversion may be mandatory or at your option and would be at prescribed conversion rates.

The debt securities will be issued under one or more indentures, which are contracts between us and a national banking association or other eligible party, as trustee. In this prospectus, we have summarized certain general features of the debt securities. We urge you, however, to read the applicable prospectus supplement (and any free writing prospectus that we may authorize to be provided to you) related to the series of debt securities being offered, as well as the complete indentures that contain the terms of the debt securities. Forms of indentures have been filed as exhibits to the registration statement of which this prospectus is a part, and supplemental indentures and forms of debt securities containing the terms of the debt securities being offered will be filed as exhibits to the registration statement of which this prospectus is a part or will be incorporated by reference from reports that we file with the SEC.

Warrants. We may issue warrants for the purchase of common stock, preferred stock and/or debt securities in one or more series. We may issue warrants independently or together with common stock, preferred stock and/or debt securities, and the warrants may be attached to or separate from these securities. In this prospectus, we have summarized certain general features of the warrants. We urge you, however, to read the applicable prospectus supplement (and any free writing prospectus that we may authorize to be provided to you) related to the particular series of warrants being offered, as well as the complete warrant agreements and warrant certificates that contain the terms of the warrants. We will file as an exhibit to the registration statement of which this prospectus is a part, or will incorporate by reference from reports that we file with the SEC, forms of the warrant agreements and forms of warrant certificates containing the terms of the warrants being offered.

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We will evidence each series of warrants by warrant certificates that we will issue. Warrants may be issued under an applicable warrant agreement that we enter into with a warrant agent. We will indicate the name and address of the warrant agent, if applicable, in the prospectus supplement relating to the particular series of warrants being offered.

Units. We may issue, in one or more series, units consisting of common stock, preferred stock, debt securities and/or warrants for the purchase of common stock, preferred stock and/or debt securities in any combination. In this prospectus, we have summarized certain general features of the units. We urge you, however, to read the applicable prospectus supplement (and any free writing prospectus that we may authorize to be provided to you) related to the series of units being offered, as well as the complete unit agreement that contains the terms of the units. We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from reports that we file with the SEC, the form of unit agreement and any supplemental agreements that describe the terms of the series of units we are offering before the issuance of the related series of units.

We will evidence each series of units by unit certificates that we will issue. Units may be issued under a unit agreement that we enter into with a unit agent. We will indicate the name and address of the unit agent, if applicable, in the prospectus supplement relating to the particular series of units being offered.

RATIO OF EARNINGS TO FIXED CHARGES

The following summary is qualified by the more detailed information appearing in the computation table found in Exhibit 12.1 to the registration statement of which this prospectus is part and the historical financial statements, including the notes to those financial statements, incorporated by reference in this prospectus.

Our earnings are inadequate to cover fixed charges. The following table sets forth the dollar amount of the coverage deficiency for all periods. We have not included a ratio of earnings to combined fixed charges and preferred stock dividends because no preferred dividends are accrued, accruing or payable on our outstanding preference shares.

	Six Months Ended June 28, 2009	12/28/2008	12/31/2007	Year Ended		
				12/31/2006	12/31/2005	12/31/2004
Ratio of Earnings to Fixed Charges						
Deficiency of Earnings Available to Cover Fixed Charges	\$ (40.6)	\$ (104.7)	\$ (25.9)	\$ (26.7)	\$ (0.6)	\$ (19.7)

USE OF PROCEEDS

Except as described in any prospectus supplement or in any related free writing prospectus that we may authorize to be provided to you, we currently intend to use the net proceeds from the sale of the securities offered hereby for general corporate purposes, including, among other things, working capital requirements and potential re-payment of indebtedness that may be outstanding at the time of any offering under this prospectus. We may also use a portion of the net proceeds to acquire or invest in businesses, services and technologies that are complementary to our own. Pending these uses, we expect to invest the net proceeds in short-term, investment-grade securities.

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DESCRIPTION OF CAPITAL STOCK

Authorized and Outstanding Capital Stock

Our authorized capital stock consists of 195,000,000 shares of common stock, par value \$0.001 per share, and 5,000,000 shares of preferred stock, par value \$0.001 per share, issuable in one or more series designated by Kratos' board of directors, of which 63,637 shares have been designated Series A Preferred Stock, 90,000 shares have been designated Series B Preferred Stock and 1,200,000 have been designated Series C Preferred Stock. As of August 12, 2009, there were 130,262,590 shares of common stock, no shares of Series A Preferred Stock, 10,000 shares of Series B Preferred Stock and no shares of Series C Preferred Stock outstanding.

Common Stock

The holders of our common stock have one vote per share. Holders of common stock are not entitled to vote cumulatively for the election of directors. Generally, all matters to be voted on by stockholders must be approved by a majority, or, in the case of election of directors, by a plurality, of the votes cast at a meeting at which a quorum is present, voting together as a single class, subject to any voting rights granted to holders of any then outstanding preferred stock. Shares of common stock are entitled to participate equally in dividends when and as dividends may be declared by our board of directors out of funds legally available for the payment of dividends. In the event of our voluntary or involuntary liquidation, dissolution or winding up, the prior rights of our creditors and the liquidation preference of any preferred stock then outstanding must first be satisfied. The holders of common stock will be entitled to share in the remaining assets on a pro rata basis. No shares of common stock are subject to redemption or have redemptive rights to purchase additional shares of common stock.

Our common stock is listed on the Nasdaq Global Select Market under the symbol "KTOS".

Preferred Stock

Our certificate of incorporation provides that we may issue shares of preferred stock from time to time in one or more series. Our board of directors is authorized to fix the voting rights, if any, designations, powers, preferences, qualifications, limitations and restrictions thereof, applicable to the shares of each series. The board of directors may, without stockholder approval issue preferred stock with voting and other rights that could adversely affect the voting power and other rights of the holders of the common stock and could have anti-takeover effects, including preferred stock or rights to acquire preferred stock in connection with implementing a shareholder rights plan. The ability of the board of directors to issue preferred stock without stockholder approval could have the effect of delaying, deferring or preventing a change of control or the removal of its existing management.

Series A Preferred Stock

There are currently no shares of Series A Preferred Stock issued and outstanding.

Series B Preferred Stock

On May 30, 2002, we issued an aggregate of 90,000 shares of Series B Preferred Stock, 10,000 shares of which were outstanding on August 4, 2009. Each share of Series B Preferred Stock is currently convertible into 100 shares of common stock and will automatically convert into common stock if and when our common stock trades at or above \$11.00 per share for 30 consecutive trading days after that date. Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, before any payment is to be made to the holders of common stock, the holders of Series B Preferred Stock are entitled to receive \$500 per share plus all accumulated or accrued and unpaid dividends for such share. Holders of shares of Series B Preferred Stock are entitled to vote on all

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matters submitted to a vote of the holders of shares of common stock, including with respect to the election of members of the board of directors, on an as-converted to common stock basis.

Series C Preferred Stock

On December 16, 2004, in connection with the approval of our Stockholder Rights Plan, our board of directors authorized and declared a dividend of one right to purchase on one-hundredth of a share of Series C Preferred Stock for each outstanding share of common stock to stockholders of record as of the close of business December 27, 2004. Each right entitles the registered holder, subject to the terms of the Stockholder Rights Plan, to purchase one one-hundredth of a share of Series C Preferred at a purchase price of \$54.00, subject to adjustment. The rights are not exercisable until a Distribution Date occurs (as that term is defined in the Stockholder Rights Plan) and will expire at the close of business on the tenth anniversary of the Stockholder Rights Plan unless earlier redeemed or exchanged. There are currently no shares of Series C Preferred Stock issued and outstanding.

Anti-Takeover Provisions

The provisions of the Delaware General Corporation Law, or DGCL, our amended and restated certificate of incorporation, amended and restated bylaws and our Stockholder Rights Plan contain provisions that could discourage or make more difficult a change in control of the Company, including an acquisition of the Company by means of a tender offer, a proxy contest and removal of our incumbent officers and directors, without the support of our board of directors. A summary of these provisions follows.

Statutory Business Combination Provision

We are subject to Section 203 of the DGCL, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any "business combination" with an "interested stockholder" for a period of three years following the time that such stockholder became an interested stockholder, unless:

the board of directors of the corporation approves either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder, prior to the time the interested stockholder attained that status;

upon the closing of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

at or subsequent to such time, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

With certain exceptions, an "interested stockholder" is a person or group who or which owns 15% or more of the corporation's outstanding voting stock (including any rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights, and stock with respect to which the person has voting rights only), or is an affiliate or associate of the corporation and was the owner of 15% or more of such voting stock at any time within the previous three years.

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In general, Section 203 defines a business combination to include:

any merger or consolidation involving the corporation and the interested stockholder;

any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

A Delaware corporation may "opt out" of this provision with an express provision in its original certificate of incorporation or an express provision in its amended and restated certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. However, Kratos has not "opted out" of this provision. Section 203 could prohibit or delay mergers or other takeover or change-in-control attempts and, accordingly, may discourage attempts to acquire Kratos.

Stockholder Rights Plan

We have a stockholder rights plan that may discourage certain types of transactions involving an actual or potential change in control and may limit our stockholders' ability to approve transactions that they deem to be in their best interests.

Election and Removal of Directors

Our board of directors is elected annually by all holders of our capital stock. Directors may be removed without cause by the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote on such removal; provided however, that unless the entire board is removed, no individual director may be removed when the votes cast against such director's removal, or not consenting in writing to such removal, would be sufficient to elect that director if voted cumulatively at an election in which the same total number of votes were cast (or if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such directors most recent election were then being elected.

No Stockholder Action by Written Consent

Our certificate of incorporation provides that any action required or permitted to be taken by the holders of common stock at an annual or special meeting of stockholders must be effected at a duly called meeting and may not be taken or effected by written consent of the stockholders.

Stockholder Meetings

Under our amended and restated bylaws, only the chairman of the board of directors, the chief executive officer or a majority of the total number of authorized directors may call a special meeting of the stockholders, and any business conducted at any special meeting will be limited to the purpose or purposes specified in the order calling for the special meeting.

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Requirements for Advance Notification of Stockholder Nominations and Proposals

In order for our stockholders to properly bring nominations or business before an annual meeting, they must comply with certain notice requirements as provided by our amended and restated bylaws. Typically, in order for such notices to be timely, they must be provided to us not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting. For such notices to be timely in the event the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice must be provided to us not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made.

Amendment of Charter Provisions

The affirmative vote of the holders of at least 66-2/3% of the voting power of all of the then-outstanding shares of our voting stock, voting together as a single class, is required to, among other things, alter, amend or repeal certain provisions of our amended and restated certificate of incorporation, including those related to the election and removal of the board of directors, amendment of our bylaws and certificate of incorporation, restrictions against stockholder actions by written consent and the indemnification of officers and directors.

Our amended and restated bylaws may only be amended (or new bylaws adopted) by the board of directors or the affirmative vote of the holders of at least 66-2/3% of the voting power of all of the then-outstanding shares of our voting stock.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Wells Fargo Bank, N.A., Shareowner Services. Its address is 161 North Concord Exchange Street, South Saint Paul, MN, 55075 and its telephone number is (800) 468-9716. The transfer agent for any series of preferred stock that we may offer under this prospectus will be named and described in the prospectus supplement for that series.

DESCRIPTION OF DEBT SECURITIES

We may issue debt securities, in one or more series, as either senior or subordinated debt or as senior or subordinated convertible debt. While the terms we have summarized below will apply generally to any debt securities that we may offer under this prospectus, we will describe the particular terms of any debt securities that we may offer in more detail in the applicable prospectus supplement. The terms of any debt securities offered under a prospectus supplement may differ from the terms described below. Unless the context requires otherwise, whenever we refer to the indentures, we also are referring to any supplemental indentures that specify the terms of a particular series of debt securities.

We will issue the senior debt securities under the senior indenture that we will enter into with the trustee named in the senior indenture. We will issue the subordinated debt securities under the subordinated indenture that we will enter into with the trustee named in the subordinated indenture. The indentures will be qualified under the Trust Indenture Act of 1939. We use the term "debenture trustee" to refer to either the trustee under the senior indenture or the trustee under the subordinated indenture, as applicable. We have filed forms of indentures to the registration statement of which this prospectus is a part, and supplemental indentures and forms of debt securities containing the terms of the debt securities being offered will be filed as exhibits to the registration statement of which this prospectus is a part or will be incorporated by reference from reports that we file with the SEC.

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The following summaries of material provisions of the senior debt securities, the subordinated debt securities and the indentures are subject to, and qualified in their entirety by reference to, all of the provisions of the indenture applicable to a particular series of debt securities. We urge you to read the applicable prospectus supplements and any related free writing prospectuses related to the debt securities that we may offer under this prospectus, as well as the complete indentures that contains the terms of the debt securities. Except as we may otherwise indicate, the terms of the senior indenture and the subordinated indenture are identical.

General

We will describe in the applicable prospectus supplement the terms of the series of debt securities being offered, including:

the title;

the principal amount being offered, and if a series, the total amount authorized and the total amount outstanding;

any limit on the amount that may be issued;

whether or not we will issue the series of debt securities in global form, the terms and who the depository will be;

the maturity date;

whether and under what circumstances, if any, we will pay additional amounts on any debt securities held by a person who is not a United States person for tax purposes, and whether we can redeem the debt securities if we have to pay such additional amounts;

the annual interest rate, which may be fixed or variable, or the method for determining the rate and the date interest will begin to accrue, the dates interest will be payable and the regular record dates for interest payment dates or the method for determining such dates;

whether or not the debt securities will be secured or unsecured, and the terms of any secured debt;

the terms of the subordination of any series of subordinated debt;

the place where payments will be payable;

restrictions on transfer, sale or other assignment, if any;

our right, if any, to defer payment of interest and the maximum length of any such deferral period;

the date, if any, after which, and the price at which, we may, at our option, redeem the series of debt securities pursuant to any optional or provisional redemption provisions and the terms of those redemption provisions;

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the date, if any, on which, and the price at which we are obligated, pursuant to any mandatory sinking fund or analogous fund provisions or otherwise, to redeem, or at the holder's option to purchase, the series of debt securities and the currency or currency unit in which the debt securities are payable;

whether the indenture will restrict our ability and/or the ability of our subsidiaries to:

incur additional indebtedness;

issue additional securities;

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create liens;

pay dividends and make distributions in respect of our capital stock and the capital stock of our subsidiaries;

redeem capital stock;

place restrictions on our subsidiaries' ability to pay dividends, make distributions or transfer assets;

make investments or other restricted payments;

sell or otherwise dispose of assets;

enter into sale-leaseback transactions;

engage in transactions with stockholders and affiliates;

issue or sell stock of our subsidiaries;

effect a consolidation or merger;

whether the indenture will require us to maintain any interest coverage, fixed charge, cash flow-based, asset-based or other financial ratios;

a discussion of any material United States federal income tax considerations applicable to the debt securities;

information describing any book-entry features;

provisions for a sinking fund purchase or other analogous fund, if any;

the applicability of the provisions in the indenture on discharge;

whether the debt securities are to be offered at a price such that they will be deemed to be offered at an "original issue discount" as defined in paragraph (a) of Section 1273 of the Internal Revenue Code;

the denominations in which we will issue the series of debt securities, if other than denominations of \$1,000 and any integral multiple thereof;

the currency of payment of debt securities if other than U.S. dollars and the manner of determining the equivalent amount in U.S. dollars; and

any other specific terms, preferences, rights or limitations of, or restrictions on, the debt securities, including any additional events of default or covenants provided with respect to the debt securities, and any terms that may be required by us or advisable under applicable laws or regulations.

Conversion or Exchange Rights

We will set forth in the prospectus supplement the terms on which a series of debt securities may be convertible into or exchangeable for our common stock or our other securities. We will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. We may include provisions pursuant to which the number of shares of our common stock or our other securities that the holders of the series of debt securities receive would be subject to adjustment.

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Consolidation, Merger or Sale

Unless we provide otherwise in the prospectus supplement applicable to a particular series of debt securities, the indentures will not contain any covenant that restricts our ability to merge or consolidate, or sell, convey, transfer or otherwise dispose of all or substantially all of our assets. However, any successor to or acquirer of such assets must assume all of our obligations under the indentures or the debt securities, as appropriate. If the debt securities are convertible into or exchangeable for our other securities or securities of other entities, the person with whom we consolidate or merge or to whom we sell all of our property must make provisions for the conversion of the debt securities into securities that the holders of the debt securities would have received if they had converted the debt securities before the consolidation, merger or sale.

Events of Default Under the Indenture

Unless we provide otherwise in the prospectus supplement applicable to a particular series of debt securities, the following are events of default under the indentures with respect to any series of debt securities that we may issue:

if we fail to pay interest when due and payable and our failure continues for 90 days and the time for payment has not been extended or deferred;

if we fail to pay the principal, premium or sinking fund payment, if any, when due and payable and the time for payment has not been extended or delayed;

if we fail to observe or perform any other covenant contained in the debt securities or the indentures, other than a covenant specifically relating to another series of debt securities, and our failure continues for 90 days after we receive notice from the debenture trustee or holders of at least 25% in aggregate principal amount of the outstanding debt securities of the applicable series; and

if specified events of bankruptcy, insolvency or reorganization occur.

If an event of default with respect to debt securities of any series occurs and is continuing, other than an event of default specified in the last bullet point above, the debenture trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series, by notice to us in writing, and to the debenture trustee if notice is given by such holders, may declare the unpaid principal of, premium, if any, and accrued interest, if any, due and payable immediately. If an event of default specified in the last bullet point above occurs with respect to us, the principal amount of and accrued interest, if any, of each issue of debt securities then outstanding shall be due and payable without any notice or other action on the part of the debenture trustee or any holder.

The holders of a majority in principal amount of the outstanding debt securities of an affected series may waive any default or event of default with respect to the series and its consequences, except defaults or events of default regarding payment of principal, premium, if any, or interest, unless we have cured the default or event of default in accordance with the indenture. Any waiver shall cure the default or event of default.

Subject to the terms of the indentures, if an event of default under an indenture shall occur and be continuing, the debenture trustee will be under no obligation to exercise any of its rights or powers under such indenture at the request or direction of any of the holders of the applicable series of debt securities, unless such holders have offered the debenture trustee reasonable indemnity. The holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the

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debenture trustee, or exercising any trust or power conferred on the debenture trustee, with respect to the debt securities of that series, provided that:

the direction so given by the holder is not in conflict with any law or the applicable indenture; and

subject to its duties under the Trust Indenture Act of 1939, the debenture trustee need not take any action that might involve it in personal liability or might be unduly prejudicial to the holders not involved in the proceeding.

A holder of the debt securities of any series will have the right to institute a proceeding under the indentures or to appoint a receiver or trustee, or to seek other remedies only if:

the holder has given written notice to the debenture trustee of a continuing event of default with respect to that series;

the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and such holders have offered reasonable indemnity to the debenture trustee to institute the proceeding as trustee; and

the debenture trustee does not institute the proceeding, and does not receive from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series other conflicting directions within 90 days after the notice, request and offer.

These limitations do not apply to a suit instituted by a holder of debt securities if we default in the payment of the principal, premium, if any, or interest on, the debt securities.

We will periodically file statements with the debenture trustee regarding our compliance with specified covenants in the indentures.

Modification of Indenture; Waiver

We and the debenture trustee may change an indenture without the consent of any holders with respect to specific matters:

to fix any ambiguity, defect or inconsistency in the indenture;

to comply with the provisions described above under "Description of Debt Securities Consolidation, Merger or Sale;"

to comply with any requirements of the SEC in connection with the qualification of any indenture under the Trust Indenture Act of 1939;

to add to, delete from or revise the conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication and delivery of debt securities, as set forth in the indenture;

to provide for the issuance of and establish the form and terms and conditions of the debt securities of any series as provided under "Description of Debt Securities General" to establish the form of any certifications required to be furnished pursuant to the terms of the indenture or any series of debt securities, or to add to the rights of the holders of any series of debt securities;

to evidence and provide for the acceptance of appointment hereunder by a successor trustee;

to provide for uncertificated debt securities in addition to or in place of certificated debt securities and to make all appropriate changes for such purpose;

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to add to our covenants such new covenants, restrictions, conditions or provisions for the protection of the holders, and to make the occurrence, or the occurrence and the continuance, of a default in any such additional covenants, restrictions, conditions or provisions an event of default; or

to change anything that does not materially adversely affect the interests of any holder of debt securities of any series.

In addition, under the indentures, the rights of holders of a series of debt securities may be changed by us and the debenture trustee with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding debt securities of each series that is affected. However, unless we provide otherwise in the prospectus supplement applicable to a particular series of debt securities, we and the debenture trustee may make the following changes only with the consent of each holder of any outstanding debt securities affected:

extending the fixed maturity of the series of debt securities;

reducing the principal amount, reducing the rate of or extending the time of payment of interest, or reducing any premium payable upon the redemption of any debt securities; or

reducing the percentage of debt securities, the holders of which are required to consent to any amendment, supplement, modification or waiver.

Discharge

Each indenture provides that we can elect to be discharged from our obligations with respect to one or more series of debt securities, except for specified obligations, including obligations to:

register the transfer or exchange of debt securities of the series;

replace stolen, lost or mutilated debt securities of the series;

maintain paying agencies;

hold monies for payment in trust;

recover excess money held by the debenture trustee;

compensate and indemnify the debenture trustee; and

appoint any successor trustee.

In order to exercise our rights to be discharged, we must deposit with the debenture trustee money or government obligations sufficient to pay all the principal of, any premium, if any, and interest on, the debt securities of the series on the dates payments are due.

Form, Exchange and Transfer

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We will issue the debt securities of each series only in fully registered form without coupons and, unless we provide otherwise in the applicable prospectus supplement, in denominations of \$1,000 and any integral multiple thereof. The indentures provide that we may issue debt securities of a series in temporary or permanent global form and as book-entry securities that will be deposited with, or on behalf of, The Depository Trust Company or another depository named by us and identified in a prospectus supplement with respect to that series. See "Legal Ownership of Securities" for a further description of the terms relating to any book-entry securities.

At the option of the holder, subject to the terms of the indentures and the limitations applicable to global securities described in the applicable prospectus supplement, the holder of the debt securities of

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any series can exchange the debt securities for other debt securities of the same series, in any authorized denomination and of like tenor and aggregate principal amount.

Subject to the terms of the indentures and the limitations applicable to global securities set forth in the applicable prospectus supplement, holders of the debt securities may present the debt securities for exchange or for registration of transfer, duly endorsed or with the form of transfer endorsed thereon duly executed if so required by us or the security registrar, at the office of the security registrar or at the office of any transfer agent designated by us for this purpose. Unless otherwise provided in the debt securities that the holder presents for transfer or exchange, we will impose no service charge for any registration of transfer or exchange, but we may require payment of any taxes or other governmental charges.

We will name in the applicable prospectus supplement the security registrar, and any transfer agent in addition to the security registrar, that we initially designate for any debt securities. We may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

If we elect to redeem the debt securities of any series, we will not b569 5,356,981 29 FINANCIAL HIGHLIGHTS CALIFORNIA INTERMEDIATE MUNICIPAL FUND The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements. PERIOD FROM YEAR ENDED SEPTEMBER 27, 2002^ OCTOBER 31, TO OCTOBER 31, ----- 2003 2002 COMMON SHARE NET ASSET VALUE, BEGINNING OF PERIOD \$ 14.31 \$ 14.32 ----- INCOME FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS: NET INVESTMENT INCOME (LOSS) .85 .02 NET GAINS OR LOSSES ON SECURITIES (BOTH REALIZED AND UNREALIZED) .14 -- COMMON SHARE EQUIVALENT OF DISTRIBUTIONS TO PREFERRED SHAREHOLDERS FROM NET INVESTMENT INCOME (.08) -- ----- TOTAL FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS .91 .02 ----- LESS DISTRIBUTIONS TO COMMON SHAREHOLDERS: FROM NET INVESTMENT INCOME (.75) -- ----- LESS CAPITAL CHARGES: ISSUANCE OF COMMON SHARES -- (.03) ISSUANCE OF PREFERRED SHARES (.11) -- ----- TOTAL CAPITAL CHARGES (.11) (.03) ----- COMMON SHARE NET ASSET VALUE, END OF PERIOD \$ 14.36 \$ 14.31 ----- COMMON SHARE MARKET VALUE, END OF PERIOD \$ 13.00 \$ 15.00 ----- TOTAL RETURN, COMMON SHARE NET ASSET VALUE+ +6.02% -0.10%** TOTAL RETURN, COMMON SHARE MARKET VALUE+ -8.44% +0.00%** RATIOS/SUPPLEMENTAL DATA++ NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS, END OF PERIOD (IN MILLIONS) \$ 97.5 \$ 94.5 PREFERRED STOCK, AT LIQUIDATION VALUE (\$25,000 PER SHARE LIQUIDATION PREFERENCE) (IN MILLIONS) \$ 59.0 \$ -- RATIO OF GROSS EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS# .88% .84%* RATIO OF NET EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS## .88% .83%* RATIO OF NET INVESTMENT INCOME (LOSS) EXCLUDING PREFERRED STOCK DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 5.88% 1.10%* RATIO OF PREFERRED STOCK DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS .56% --% RATIO OF NET INVESTMENT INCOME (LOSS) INCLUDING PREFERRED STOCK DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 5.32% 1.10%* PORTFOLIO TURNOVER RATE 9% 0% ASSET COVERAGE PER SHARE OF PREFERRED STOCK, END OF PERIOD@ \$ 66,332 \$ -- See Notes to Financial Highlights 30 FINANCIAL HIGHLIGHTS INTERMEDIATE MUNICIPAL FUND The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements. PERIOD FROM YEAR ENDED SEPTEMBER 27, 2002^ OCTOBER 31, TO OCTOBER 31, ----- 2003 2002 COMMON SHARE NET ASSET VALUE, BEGINNING OF PERIOD \$ 14.30 \$ 14.32 ----- INCOME FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS: NET INVESTMENT INCOME (LOSS) .88 .01 NET GAINS OR LOSSES ON SECURITIES (BOTH REALIZED AND UNREALIZED) .25 -- COMMON SHARE EQUIVALENT OF DISTRIBUTIONS TO PREFERRED SHAREHOLDERS FROM NET INVESTMENT INCOME (.09) -- ----- TOTAL FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS 1.04 .01 ----- LESS DISTRIBUTIONS TO COMMON SHAREHOLDERS: FROM NET INVESTMENT INCOME (.80) -- ----- LESS CAPITAL CHARGES: ISSUANCE OF COMMON SHARES -- (.03) ISSUANCE OF PREFERRED SHARES (.10) -- ----- TOTAL CAPITAL CHARGES (.10) (.03) ----- COMMON SHARE NET ASSET VALUE, END OF PERIOD \$ 14.44 \$ 14.30 ----- COMMON SHARE MARKET VALUE, END OF PERIOD \$ 13.33 \$ 15.00 ----- TOTAL RETURN, COMMON SHARE NET ASSET VALUE+ +6.88% -0.17%** TOTAL RETURN, COMMON SHARE MARKET VALUE+ -5.94% +0.00%** RATIOS/SUPPLEMENTAL DATA++ NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS, END OF PERIOD (IN MILLIONS) \$ 299.1 \$ 293.3 PREFERRED STOCK, AT LIQUIDATION VALUE (\$25,000 PER SHARE LIQUIDATION PREFERENCE) (IN MILLIONS) \$ 179.4 \$ -- RATIO OF GROSS EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS# .74% .51%* RATIO OF NET EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS## .74% .51%* RATIO OF NET INVESTMENT INCOME (LOSS) EXCLUDING PREFERRED STOCK DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 6.08% 1.62%* RATIO OF PREFERRED STOCK DIVIDENDS

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TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS .59% --% RATIO OF NET INVESTMENT INCOME (LOSS) INCLUDING PREFERRED STOCK DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 5.49% 1.62%* PORTFOLIO TURNOVER RATE 10% 0% ASSET COVERAGE PER SHARE OF PREFERRED STOCK, END OF PERIOD@ \$ 66,694 \$ -- See Notes to Financial Highlights 31 FINANCIAL HIGHLIGHTS NEW YORK INTERMEDIATE MUNICIPAL FUND The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements. PERIOD FROM YEAR ENDED SEPTEMBER 27, 2002^ OCTOBER 31, TO OCTOBER 31, -----

-----	2003	2002	COMMON SHARE NET ASSET VALUE, BEGINNING OF PERIOD	\$ 14.32	\$ 14.32	-----
-----			INCOME FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS: NET INVESTMENT INCOME (LOSS)	.86	.03	-----
-----			NET GAINS OR LOSSES ON SECURITIES (BOTH REALIZED AND UNREALIZED)	.19	--	-----
-----			COMMON SHARE EQUIVALENT OF DISTRIBUTIONS TO PREFERRED SHAREHOLDERS FROM NET INVESTMENT INCOME	(.08)	--	-----
-----			TOTAL FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS	.97	.03	-----
-----			LESS DISTRIBUTIONS TO COMMON SHAREHOLDERS: FROM NET INVESTMENT INCOME	(.78)	--	-----
-----			LESS CAPITAL CHARGES: ISSUANCE OF COMMON SHARES --	(.03)	ISSUANCE OF PREFERRED SHARES (.11)	--
-----			TOTAL CAPITAL CHARGES (.11)	(.03)	-----	COMMON SHARE NET ASSET VALUE, END OF PERIOD
-----			\$ 14.40	\$ 14.32	-----	COMMON SHARE MARKET VALUE, END OF PERIOD
-----			\$ 15.00	-----		\$ 13.27
-----			TOTAL RETURN, COMMON SHARE NET ASSET VALUE+	+6.36%	-0.03%**	TOTAL RETURN, COMMON SHARE MARKET VALUE+
-----			-6.43%	+0.00%**	RATIOS/SUPPLEMENTAL DATA++	NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS, END OF PERIOD (IN MILLIONS)
-----			\$ 80.3	\$ 76.7	PREFERRED STOCK, AT LIQUIDATION VALUE (\$25,000 PER SHARE LIQUIDATION PREFERENCE) (IN MILLIONS)	\$ 48.3
-----			--	RATIO OF GROSS EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS#	.92%	.94%*
-----			RATIO OF NET EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS##	.92%	.93%*	RATIO OF NET INVESTMENT INCOME (LOSS) EXCLUDING PREFERRED STOCK DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS
-----			6.02%	1.22%*	RATIO OF PREFERRED STOCK DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS	.57%
-----			--% RATIO OF NET INVESTMENT INCOME (LOSS) INCLUDING PREFERRED STOCK DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS	5.45%	1.22%*	PORTFOLIO TURNOVER RATE
-----			11%	0%	ASSET COVERAGE PER SHARE OF PREFERRED STOCK, END OF PERIOD@	\$ 66,617
-----			\$ --	See Notes to Financial Highlights 32	NOTES TO FINANCIAL HIGHLIGHTS INTERMEDIATE MUNICIPAL CLOSED-END FUNDS +	Total return based on per share net asset value reflects the effects of changes in net asset value on the performance of each Fund during each fiscal period. Total return based on per share market value assumes the purchase of common shares at the market price on the first day and sales of common shares at the market price on the last day of the period indicated. Dividends and distributions, if any, are assumed to be reinvested at prices obtained under each Fund's dividend reinvestment plan. Results represent past performance and do not guarantee future results. For each Fund, total return would have been lower if Management had not waived the investment management fee. # The Fund is required to calculate an expense ratio without taking into consideration any expense reductions related to expense offset arrangements. ## After waiver of investment management fee. Had Management not undertaken such action the annualized ratios of net expenses to average daily net assets applicable to common shareholders would have been: YEAR ENDED PERIOD ENDED OCTOBER 31, OCTOBER 31, 2003 2002(1) CALIFORNIA INTERMEDIATE MUNICIPAL FUND INC. 1.26% 1.08% INTERMEDIATE MUNICIPAL FUND INC. 1.13% .76% NEW YORK INTERMEDIATE MUNICIPAL FUND INC. 1.31% 1.18% (1) Period from September 27, 2002 to October 31, 2002. ^ The date investment operations commenced. * Annualized. ** Not annualized. @ Calculated by subtracting the Fund's total liabilities (excluding accumulated unpaid dividends on AMPS) from the Fund's total assets and dividing by the number of AMPS. ++ Expense ratios do not include the effect of dividend payments to AMPS. Income ratios include income earned on assets attributable to AMPS. 33 REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS To the Board of Directors and Shareholders of Neuberger Berman California Intermediate Municipal Fund Inc. Neuberger Berman Intermediate Municipal Fund Inc. Neuberger Berman New York Intermediate Municipal Fund Inc. We have audited the accompanying statements of assets and liabilities, including the schedules of investments, of Neuberger Berman California Intermediate Municipal Fund Inc., Neuberger Berman Intermediate Municipal Fund Inc., and Neuberger Berman New York Intermediate Municipal Fund Inc. (the "Funds") as of October 31, 2003, the related statements of operations for the year then ended, the statements of changes in net assets for the year ended October 31, 2003, and for the period from September 27, 2002 (commencement of operations) to October 31, 2002 and financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of October 31, 2003, by correspondence with the custodian and brokers or other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of each of Neuberger Berman California Intermediate Municipal Fund Inc., Neuberger Berman Intermediate Municipal Fund Inc., and Neuberger Berman New York Intermediate Municipal Fund Inc. at October 31, 2003, the results of their operations for the year then ended, the changes in their net assets for the year ended October 31, 2003 and for the period from September 27, 2002 (commencement of operations) to October 31, 2002, and their financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States. /s/ ERNST AND YOUNG LLP Boston, Massachusetts December 5, 2003 34 DIVIDEND REINVESTMENT PLAN (UNAUDITED) The Fund's Board has established a Dividend Reinvestment Plan (the "Plan") pursuant to which all holders of common stock ("Common Stockholders") whose shares are registered in their own names will have all dividends and any capital gain distributions (referred to collectively in this section as "dividends")

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on their shares automatically reinvested in additional shares of common stock ("Common Shares") by The Bank of New York, as agent for the Common Stockholders ("Plan Agent"), unless such Common Stockholders elect to receive cash. An election to receive cash may be revoked or reinstated at a Common Stockholder's option. In the case of record Common Stockholders such as banks, brokers or other nominees that hold shares of common stock for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the record Common Stockholder as representing the total amount registered in such Common Stockholder's name and held for the account of beneficial owners who participate in the Plan. Common Stockholders whose shares are held in the name of a bank, broker or other nominee should contact the nominee for details. Such stockholders may not be able to transfer their shares to another nominee and continue to participate in the Plan. All dividends to investors who elect not to participate in the Plan (or whose bank, broker or other nominee elects not to participate on the investor's behalf), will be paid in cash by check mailed, in the case of direct Common Stockholders, to the record holder by The Bank of New York, as the Fund's dividend disbursement agent. Unless you (or your bank, broker or other nominee) elect not to participate in the Plan, the number of Common Shares you will receive as a result of a Fund dividend will be determined as follows: (1) If Common Shares are trading at or above their net asset value (minus estimated brokerage commissions that would be incurred upon the purchase of Common Shares on the open market) on the payment date, the Fund will issue new Common Shares at the greater of (i) the net asset value per Common Share on the payment date or (ii) 95% of the market price per Common Share on the payment date. Because Common Shares may be issued at less than their market price, Plan participants may get a benefit that non-participants do not. (2) If Common Shares are trading below their net asset value (minus estimated brokerage commissions that would be incurred upon the purchase of Common Shares on the open market) on the payment date, the Plan Agent will receive the dividend in cash and will purchase Common Shares in the open market, on the American Stock Exchange or elsewhere, for the participants' accounts. It is possible that the market price for the Common Shares may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per Common Share paid by the Plan Agent may exceed the market price thereof on the payment date, resulting in the purchase of fewer Common Shares than if the dividend had been paid in Common Shares issued by the Fund. The Plan Agent will use all dividends received in cash to purchase Common Shares in the open market on or shortly after the payment date, but in no event later than the ex-dividend date for the next dividend. Interest will not be paid on any uninvested cash payments. If you own Common Shares directly, you may withdraw from the Plan at any time by giving written notice to the Plan Agent; please be sure to include your name and account number. You may also rejoin the Plan later. Contact the Plan Agent at the following address for information on how to do so: The Bank of New York, ATTN: Stock Transfer Administration, 101 Barclay Street, 11-E, New York, New York 10286. If you wish, the Plan Agent will sell the Common Shares and send you the proceeds, minus brokerage commissions. The Plan Agent maintains all stockholders' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information stockholders may need for tax records. The Plan Agent will also furnish each Common Stockholder with written instructions detailing the procedures for electing not to participate in the Plan and to instead receive dividends in cash. Common Shares in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all Common Shares held for you under the Plan. There is no brokerage charge for reinvestment of your dividends in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. 35 Automatically reinvested dividends are taxed in the same manner as cash dividends. The Fund and the Plan Agent reserve the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained from your broker or by calling The Bank of New York at 1-800-524-4458. Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that from time to time the Fund may purchase shares of its common stock in the open market at market prices. 36 DIRECTORY INVESTMENT MANAGER AND ADMINISTRATOR Neuberger Berman Management Inc. 605 Third Avenue 2nd Floor New York, NY 10158-0180 877.461.1899 or 212.476.8800 SUB-ADVISER Neuberger Berman, LLC 605 Third Avenue New York, NY 10158-3698 CUSTODIAN State Street Bank and Trust Company 225 Franklin Street Boston, MA 02110 STOCK TRANSFER AGENT Bank of New York 101 Barclay Street, 11-E New York, NY 10286 LEGAL COUNSEL Kirkpatrick & Lockhart LLP 1800 Massachusetts Avenue, NW 2nd Floor Washington, DC 20036-1800 INDEPENDENT AUDITORS Ernst & Young LLP 200 Clarendon Street Boston, MA 02116 37 DIRECTORS AND OFFICERS (UNAUDITED) The following tables set forth information concerning the directors and officers of the Funds. All persons named as directors and officers also serve in similar capacities for other funds administered or managed by NB Management and Neuberger Berman, LLC. The Statement of Additional Information for each Fund includes additional information about fund directors and is available upon request, without charge, by calling (877) 461-1899. THE BOARD OF DIRECTORS NUMBER OF PORTFOLIOS IN FUND COMPLEX NAME, AGE, ADDRESS (1) OVERSEEN BY OTHER DIRECTORSHIPS HELD OUTSIDE AND POSITION WITH FUND PRINCIPAL OCCUPATION(S) (2) DIRECTOR FUND COMPLEX BY DIRECTOR

----- CLASS I INDEPENDENT FUND

DIRECTORS* Faith Colish (68) Counsel, Carter Ledyard & Milburn LLP (law 37 Director, American Bar Retirement Director firm) since October 2002; Formerly, Attorney Association (ABRA) since 1997 at Law and President, Faith Colish, A (not-for-profit membership Professional Corporation, 1980 to 2002. association). C. Anne Harvey (66) Consultant, C.A. Harvey Associates, since 37 Member, Individual Investors Director June 2001; Director, AARP, 1978 to December Advisory Committee to the New 2000. York Stock Exchange Board of Directors, 1998 to June 2002; President, Board of Associates to The National Rehabilitation Hospital's Board of Directors, since 2002; Member, American Savings Education Council's Policy Board (ASEC), 1998-2000; Member, Executive Committee, Crime Prevention Coalition of America, 1997-2000. Cornelius T. Ryan (71) Founding General Partner, Oxford Partners and 37 Director, Capital Cash Director Oxford Bioscience Partners (venture capital Management Trust (money market partnerships) and President, Oxford Venture fund), Naragansett Insured Corporation. Tax-Free Income Fund, Rocky Mountain Equity Fund, Prime Cash Fund, several private companies and QuadraMed Corporation (NASDAQ). Peter P. Trapp (58) Regional Manager for Atlanta Region, Ford 37 Director Motor Credit Company since August 1997; prior thereto, President, Ford Life Insurance Company, April 1995 until August 1997. 38 NUMBER OF PORTFOLIOS IN FUND COMPLEX NAME, AGE, ADDRESS (1) OVERSEEN BY OTHER DIRECTORSHIPS HELD OUTSIDE AND POSITION WITH FUND PRINCIPAL OCCUPATION(S) (2) DIRECTOR FUND COMPLEX BY DIRECTOR

----- DIRECTOR WHO IS AN

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"INTERESTED PERSON" Peter E. Sundman* (44) Executive Vice President, Neuberger Berman 37 Executive Vice President, Chief Executive Officer, since 1999; Principal, Neuberger Berman from Neuberger Berman Inc. (holding Director and Chairman 1997 until 1999; Senior Vice President, NB company) since 1999 and Director of the Board Management from 1996 until 1999. from October 1999 through March 2003; President and Director, NB Management since 1999; Head of Neuberger Berman Inc.'s Mutual Funds and Institutional Business since 1999; Director and Vice President, Neuberger & Berman Agency, Inc. since 2000. CLASS II INDEPENDENT FUND DIRECTORS* John Cannon (73) Consultant. Formerly, Chairman and Chief 37 Independent Trustee or Director Director Investment Officer, CDC Capital Management of three series of (registered investment adviser), 1993-January OppenheimerFunds: Limited Term 1999; prior thereto, President and Chief New York Municipal Fund, Executive Officer, AMA Investment Advisors, an Rochester Fund Municipals, and affiliate of the American Medical Association. Oppenheimer Convertible Securities Fund, since 1992. Barry Hirsch (70) Attorney at Law. Senior Counsel, Loews 37 Director Corporation (diversified financial corporation) May 2002 until April 2003; prior thereto, Senior Vice President, Secretary and General Counsel, Loews Corporation. John P. Rosenthal (70) Senior Vice President of Burnham Securities 37 Director, 92nd Street Y (non-Director Inc. (a registered broker-dealer) since profit) since 1967; Formerly, 1991. Director, Cancer Treatment Holdings, Inc. 39 NUMBER OF PORTFOLIOS IN FUND COMPLEX NAME, AGE, ADDRESS (1) OVERSEEN BY OTHER DIRECTORSHIPS HELD OUTSIDE AND POSITION WITH FUND PRINCIPAL OCCUPATION(S) (2) DIRECTOR FUND COMPLEX BY DIRECTOR

----- Tom Decker Seip (53) General Partner, Seip Investments LP (a 37 Director, H&R Block, Inc. Director private investment partnership); President (financial services company) since and CEO, Weststaff, Inc. (temporary May 2001; Director, General Magic staffing), May 2001 to January 2002; Senior (voice recognition software) since Executive at the Charles Schwab November 2001; Director, Forward Corporation from 1983 to 1999, including Management, Inc. (asset Chief Executive Officer, Charles Schwab management), since 2001; Director, Investment Management, Inc. and Trustee, E-Finance Corporation (credit Schwab Family of Funds and Schwab decisioning services) since 1999; Investments from 1997 to 1998 and Director, Save-Daily.com (micro Executive Vice President- Retail investing services) since 1999; Brokerage, Charles Schwab Investment Formerly, Director, Offroad Capital Management from 1994 to 1997. Inc. (pre-public internet commerce company). DIRECTOR WHO IS AN "INTERESTED PERSON" Jack L. Rivkin* (63) Executive Vice President and Chief 37 Director, Dale Carnegie and President and Director Investment Officer, Neuberger Berman since Associates, Inc. (private company) 2002 and 2003, respectively; Director and since 1998; Director, Emagin Chairman, NB Management since December Corp. (public company) since 2002; Executive Vice President, Citigroup 1997; Director, Solbright, Inc. Investments, Inc. from September 1995 to (private company) since 1998; February 2002; Executive Vice President, Director, Infogate, Inc. (private Citigroup Inc. from September 1995 to company) since 1997. February 2002. CLASS III INDEPENDENT FUND DIRECTORS* Walter G. Ehlers (70) Consultant; Retired President and 37 Director Director, Teachers Insurance & Annuity (TIAA) and College Retirement Equities Fund (CREF). Robert A. Kavesh (76) Marcus Nadler Professor of Finance and 37 Director, DEL Laboratories, Director Economics Emeritus, New York University Inc. (cosmetics and Stern School of Business. pharmaceuticals) since 1978; The Caring Community (not-for-profit). Howard A. Mileaf (66) Retired. Formerly, Vice President and 37 Director, WHX Corporation Director Special Counsel, WHX Corporation (holding (holding company) since August company) 1993-2001. 2002; Director, Webfinancial Corporation (holding company) since December 2002; Director, State Theatre of New Jersey (not-for-profit theater) since 2000; Formerly, Director, Kevlin Corporation (manufacturer of microwave and other products). 40 NUMBER OF PORTFOLIOS IN FUND COMPLEX NAME, AGE, ADDRESS (1) OVERSEEN BY OTHER DIRECTORSHIPS HELD OUTSIDE AND POSITION WITH FUND PRINCIPAL OCCUPATION(S) (2) DIRECTOR FUND COMPLEX BY DIRECTOR

----- INDEPENDENT FUND DIRECTORS* William E. Rulon (71) Retired. Senior Vice President, Foodmaker, 37 Director, Pro-Kids Golf and Director Inc. (operator and franchiser of Learning Academy (teach golf and restaurants) until January 1997. computer usage to "at risk" children) since 1998; Director, Prandium, Inc. (restaurants) from March 2001 until July 2002. Candace L. Straight (56) Private investor and consultant 37 Director, Providence Washington Director specializing in the insurance industry; (property and casualty insurance Advisory Director, Securitas Capital LLC company) since December 1998; (a global private equity investment firm Director, Summit Global Partners dedicated to making investments in the (insurance brokerage firm) since insurance sector). October 2000. DIRECTOR WHO IS AN "INTERESTED PERSON" Edward I. O'Brien* (75) Member, Investment Policy Committee, Edward 37 Director, Legg Mason, Inc. Director Jones, 1993-2001; President, Securities (financial services holding Industry Association ("SIA ") (securities company) since 1993; Director, industry's representative in government Boston Financial Group (real relations and regulatory matters at the estate and tax shelters) federal and state levels) 1974-1992; Adviser 1993-1999. to SIA, November 1992- November 1993. * Indicates a director who is an "interested person" within the meaning of the 1940 Act. Mr. Sundman and Mr. Rivkin are interested persons of the Fund by virtue of the fact that each is an officer and/or director of NB Management and Executive Vice President of Neuberger Berman. Mr. O'Brien is an interested person of the Fund by virtue of the fact that he is a director of Legg Mason, Inc., a wholly owned subsidiary of which, from time to time, serves as a broker or dealer to the Fund and other funds or accounts for which NB Management serves as investment manager. (1) The business address of each listed person is 605 Third Avenue, New York, New York 10158. (2) Except as otherwise indicated, each person has held the positions shown for at least the last five years. The Board of Directors shall at all times be divided as equally as possible into three classes of Directors designated Class I, Class II, and Class III. The terms of office of Class I, Class II, and Class III Directors shall expire at the annual meetings of stockholders held in 2006, 2004, and 2005 respectively, and at each third annual meeting of stockholders thereafter. 41 INFORMATION ABOUT THE OFFICERS OF THE FUND (OTHER THAN THOSE LISTED ABOVE) POSITION AND NAME, AGE, AND ADDRESS (1) LENGTH OF TIME SERVED (2) PRINCIPAL OCCUPATION(S)

----- Claudia A. Brandon (47) Secretary since 2002 Vice President-Mutual Fund Board Relations, NB Management since 2000; Vice President, Neuberger Berman since 2002 and employee since 1999; Vice President, NB Management from 1986 to 1999; Secretary, ten registered investment companies for which NB Management acts as investment manager and administrator (four since 2002 and three since 2003). Robert Conti (47) Vice President since 2002 Senior Vice President, Neuberger Berman since 2003; Vice President, Neuberger Berman from 1999 until 2003; Senior Vice President, NB Management since 2000; Controller, NB Management until 1996; Treasurer, NB Management from 1996 until 1999; Vice President, ten

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registered investment companies for which NB Management acts as investment manager and administrator (three since 2000, four since 2002 and three since 2003). Brian P. Gaffney (50) Vice President since 2002 Managing Director, Neuberger Berman since 1999; Senior Vice President, NB Management since 2000; Vice President, NB Management from 1997 until 1999; Vice President, ten registered investment companies for which NB Management acts as investment manager and administrator (three since 2000, four since 2002 and three since 2003). Sheila R. James (38) Assistant Secretary since 2002 Employee, Neuberger Berman since 1999; Employee, NB Management from 1991 to 1999; Assistant Secretary, ten registered investment companies for which NB Management acts as investment manager and administrator (seven since 2002 and three since 2003). Kevin Lyons (48) Assistant Secretary since 2003 Employee, Neuberger Berman since 1999; Employee, NB Management from 1993 to 1999; Assistant Secretary, ten registered investment companies for which NB Management acts as investment manager and administrator (since 2003). 42 POSITION AND NAME, AGE, AND ADDRESS (1) LENGTH OF TIME SERVED (2)

PRINCIPAL OCCUPATION(S) -----
John M. McGovern (33) Assistant Treasurer since 2002 Employee, NB Management since 1993; Assistant Treasurer, ten registered investment companies for which NB Management acts as investment manager and administrator (seven since 2002 and three since 2003). Barbara Muinos (44) Treasurer and Principal Financial and Vice President, Neuberger Berman since Accounting Officer since 2002 1999; Assistant Vice President, NB Management from 1993 to 1999; Treasurer and Principal Financial and Accounting Officer, ten registered investment companies for which NB Management acts as investment manager and administrator (seven since 2002 and three since 2003); Assistant Treasurer, three registered investment companies for which NB Management acts as investment manager and administrator from 1996 until 2002. Frederic B. Soule (57) Vice President since 2002 Senior Vice President, Neuberger Berman since 2003; Vice President, Neuberger Berman from 1999 until 2003; Vice President, NB Management from 1995 until 1999; Vice President, ten registered investment companies for which NB Management acts as investment manager and administrator (three since 2000, four since 2002 and three since 2003). Trani Jo Wyman (34) Assistant Treasurer since 2002 Employee, NB Management since 1991; Assistant Treasurer, ten registered investment companies for which NB Management acts as investment manager and administrator (seven since 2002 and three since 2003). ----- (1) The business address of each listed person is 605 Third Avenue, New York, New York 10158. (2) Except as otherwise indicated, each individual has held the positions shown for at least the last five years. 43 REPORT OF VOTES OF SHAREHOLDERS (UNAUDITED) Special meetings of shareholders of the Neuberger Berman Intermediate Municipal Closed-End Funds were held on September 23, 2003. Upon completion of the acquisition of Neuberger Berman Inc. by Lehman Brothers Holdings Inc. (the "Transaction"), the management agreement between each Fund and NB Management, and the sub-advisory agreement between NB Management and Neuberger Berman LLC with respect to each Fund, automatically terminated. To provide for continuity of management, the shareholders of each Fund voted on the following matters, which became effective upon completion of the Transaction on October 31, 2003: PROPOSAL 1--TO APPROVE A NEW MANAGEMENT AGREEMENT BETWEEN EACH FUND AND NB MANAGEMENT NEUBERGER BERMAN INTERMEDIATE MUNICIPAL CLOSED-END FUNDS VOTES FOR VOTES AGAINST ABSTENTIONS* California 4,761,341.423 44,477.000 72,457.000 Intermediate 13,336,082.586 188,210.688 193,261.000 New York 3,819,821.296 66,494.000 50,546.000 PROPOSAL 2--TO APPROVE A NEW SUB-ADVISORY AGREEMENT BETWEEN NB MANAGEMENT AND NEUBERGER BERMAN LLC WITH RESPECT TO EACH FUND NEUBERGER BERMAN INTERMEDIATE MUNICIPAL CLOSED-END FUNDS VOTES FOR VOTES AGAINST ABSTENTIONS* California 4,750,710.423 44,477.00 83,088.000 Intermediate 13,338,082.586 183,034.688 196,437.000 New York 3,821,707.296 67,544.000 47,610.000 * Abstentions were counted as shares that were present and entitled to vote for purposes of determining a quorum and had a negative effect on the proposals. 44 [NEUBERGER BERMAN LOGO] A LEHMAN BROTHERS COMPANY NEUBERGER BERMAN MANAGEMENT INC. 605 Third Avenue 2nd Floor New York, NY 10158-0180 INTERNAL SALES & Services 877.461.1899 www.nb.com [RECYCLE LOGO] C0453 12/03 Statistics and projections in this report are derived from sources deemed to be reliable but cannot be regarded as a representation of future results of the Funds. This report is prepared for the general information of shareholders and is not an offer of shares of the Funds. ITEM 2. CODE OF ETHICS At a meeting on September 10, 2003, the Board of Directors ("Board") of Neuberger Berman California Intermediate Municipal Fund Inc. ("Registrant") adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions ("Code of Ethics"). A copy of the Code of Ethics is filed as Exhibit 10(a)(1) to this Form N-CSR. ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT The Board has determined that the Registrant has two audit committee financial experts serving on its audit committee. The Registrant's audit committee financial experts are John Cannon and Walter G. Ehlers. Mr. Cannon and Mr. Ehlers are both independent directors as defined by Form N-CSR. ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES Form N-CSR disclosure requirement not yet effective with respect to the Registrant. ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS The Board has established an Audit Committee to oversee particular aspects of the Registrant's management. The Audit Committee's purposes are (a) to oversee the accounting and financial reporting processes of the Registrant and their internal controls and, as the Committee deems appropriate, to inquire into the internal controls of certain service providers; (b) to oversee the quality and objectivity of the Registrant's financial statements and the independent audit thereof; (c) to oversee, or, as appropriate, assist Board oversight of, the Registrant's compliance with legal and regulatory requirements that relate to the Portfolios' accounting and financial reporting, internal controls and independent audits; (d) to approve prior to appointment the engagement of the Registrant's independent auditors and, in connection therewith, to review and evaluate the qualifications, independence and performance of the Registrant's independent auditors; and (e) to act as a liaison between the Registrant's independent auditors and the full Board. The Audit Committee is composed entirely of Independent Fund Directors; its members are John Cannon, Walter G. Ehlers, Cornelius T. Ryan (Chairman), Tom D. Seip (appointed 12/10/03), and Peter P. Trapp. ITEM 6. [RESERVED] ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. The Board has delegated to Neuberger Berman, LLC ("Neuberger Berman") the responsibility to vote proxies related to the securities held in the Fund's portfolios. Under this authority, Neuberger Berman is required by the Board to vote proxies related to portfolio securities in the best interests of the Fund and its stockholders. The Board permits Neuberger Berman to contract with a third party to obtain proxy voting and related services, including research of current issues. Neuberger Berman has implemented written Proxy Voting Policies and Procedures ("Proxy Voting Policy") that are designed to reasonably ensure that Neuberger Berman votes proxies prudently and in the best interest of its advisory clients for whom Neuberger Berman has voting authority, including the Fund. The Proxy Voting Policy also describes

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how Neuberger Berman addresses any conflicts that may arise between its interests and those of its clients with respect to proxy voting. Neuberger Berman's Proxy Committee is responsible for developing, authorizing, implementing and updating the Proxy Voting Policy, overseeing the proxy voting process and engaging and overseeing any independent third-party vendors as voting delegate to review, monitor and/or vote proxies. In order to apply the Proxy Voting Policy noted above in a timely and consistent manner, Neuberger Berman utilizes Institutional Shareholder Services Inc. ("ISS") to vote proxies in accordance with Neuberger Berman's voting guidelines. Neuberger Berman's guidelines adopt the voting recommendations of ISS. Neuberger Berman retains final authority and fiduciary responsibility for proxy voting. Neuberger Berman believes that this process is reasonably designed to address material conflicts of interest that may arise between Neuberger Berman and a client as to how proxies are voted. In the event that an investment professional at Neuberger Berman believes that it is in the best interests of a client or clients to vote proxies in a manner inconsistent with Neuberger Berman's proxy voting guidelines or in a manner inconsistent with ISS recommendations, the Proxy Committee will review information submitted by the investment professional to determine that there is no material conflict of interest between Neuberger Berman and the client with respect to the voting of the proxy in that manner. If the Proxy Committee determines that the voting of a proxy as recommended by the investment professional presents a material conflict of interest between Neuberger Berman and the client or clients with respect to the voting of the proxy, the Proxy Committee shall: (i) take no further action, in which case ISS shall vote such proxy in accordance with the proxy voting guidelines or as ISS recommends; (ii) disclose such conflict to the client or clients and obtain written direction from the client as to how to vote the proxy; (iii) suggest that the client or clients engage another party to determine how to vote the proxy; or (iv) engage another independent third party to determine how to vote the proxy.

ITEM 8. [RESERVED] ITEM 9. CONTROLS AND PROCEDURES (a) Based on an evaluation of the disclosure controls and procedures (as defined in rule 30a-2(c) under the Act) as of a date within 90 days of the filing date of this document, the Chief Executive Officer and Treasurer and Principal Financial and Accounting Officer of the Registrant have concluded that such disclosure controls and procedures are effectively designed to ensure that information required to be disclosed by the Registrant is accumulated and communicated to the Registrant's management to allow timely decisions regarding required disclosure. (b) There were no significant changes in the Registrant's internal controls over financial reporting (as defined in rule 30a-3(d) under the Act) that occurred during the Registrant's second fiscal half-year that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

ITEM 10. EXHIBITS (a) A copy of the Code of Ethics is filed as Exhibit 10(a)(1). (b) The certifications required by Rule 30a-2 of the Investment Company Act of 1940, as amended, and Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are attached hereto. The certifications provided pursuant to Section 906 of the Sarbanes-Oxley Act are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act"), or otherwise subject to the liability of that section. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Registrant specifically incorporates them by reference.

SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. Neuberger Berman Intermediate Municipal Fund Inc. By: /s/ Peter E. Sundman ----- Peter E. Sundman Chief Executive Officer Date: December 31, 2003 Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. By: /s/ Peter E. Sundman ----- Peter E. Sundman Chief Executive Officer Date: December 31, 2003 By: /s/ Barbara Muinos ----- Barbara Muinos Treasurer and Principal Financial and Accounting Officer Date: January 8, 2004