KEYW HOLDING CORP
Form 10-Q
November 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission File Number: 001-34891

The KEYW Holding Corporation

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	27-1594952 (I.R.S. Employer Identification No.)
1334 Ashton Road, Suite A Hanover, Maryland (Address of principal executive offices)	21076 (Zip Code)

Registrant's telephone number, including area code: (443) 270-5300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 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 x (Do not check if smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The number of shares outstanding of the issuer's common stock ($0.001 par value), as of the latest practicable date, October 24, 2011 is 26,183,884.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Dollars shown in 000's except share amounts)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,381	$ 5,795
Receivables	41,037	30,406
Inventories	6,726	5,183
Prepaid expenses	2,663	1,950
Income tax receivable	27	55
Deferred tax asset, current	1,475	1,475
Total current assets	54,309	44,864
Property and equipment, net	8,097	3,306
Goodwill	160,155	130,374
Other intangibles, net	42,211	22,716
Deferred tax asset	3,772	3,772
Other assets	211	232
TOTAL ASSETS	$ 268,755	$ 205,264
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,127	$ 6,292
Accrued expenses	3,275	5,847
Accrued salaries & wages	9,451	5,442
Revolver	49,000	—
Deferred income taxes	1,303	578
Total current liabilities	68,156	18,159
Long-term liabilities:		
Non-current deferred tax liability	17,869	11,869
Other non-current liabilities	132	125
TOTAL LIABILITIES	86,157	30,153
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5 million shares authorized, none issued	—	—
Common stock, $0.001 par value; 100 million shares authorized, 26,182,134 and 25,554,533 shares issued and outstanding	26	26
Additional paid-in capital	175,627	168,358

Retained earnings	6,945	6,727
Total stockholders’ equity	182,598	175,111
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 268,755	$ 205,264

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

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Dollars shown in 000's except share and per share amounts)

	Three months ended September 30, 2011 (Unaudited)	Three months ended September 30, 2010 (Unaudited)	Nine months ended September 30, 2011 (Unaudited)	Nine months ended September 30, 2010 (Unaudited)
Revenues				
Services	$ 40,793	$ 25,227	$ 121,978	$ 67,926
Products	13,164	3,765	18,538	10,725
Total	53,957	28,992	140,516	78,651
Costs of Revenues				
Services	30,180	18,243	87,816	49,377
Products	8,628	2,317	12,273	6,254
Total	38,808	20,560	100,089	55,631
Gross Profit				
Services	10,613	6,984	34,162	18,549
Products	4,536	1,448	6,265	4,471
Total	15,149	8,432	40,427	23,020
Operating Expenses				
Operating expenses	11,231	7,028	31,561	18,648
Intangible amortization expense	3,573	1,693	8,106	4,454
Total	14,804	8,721	39,667	23,102
Operating Income (Loss)	345	(289)	760	(82)
Non-Operating Expense (Income), net	330	(7,760)	557	(16,696)
Income before Income Taxes	15	7,471	203	16,614
Income Tax (Benefit) Expense, net	(90)	3,063	(15)	6,866
Net Income	$ 105	$ 4,408	$ 218	$ 9,748
Weighted Average Common Shares Outstanding				
Basic	26,169,829	15,531,332	25,944,264	15,174,140
Diluted	29,061,409	18,443,699	29,140,838	18,176,841
Earnings per Share				
Basic	$ 0.00	$ 0.28	$ 0.01	$ 0.64
Diluted	$ 0.00	$ 0.24	$ 0.01	$ 0.54

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

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity (unaudited)
(Dollars shown in 000's except share amounts)

	Common Stock		Additional Paid-In Capital	Retained	Total Stockholders'
	Shares	Amount	(APIC)	Earnings	Equity
BALANCE, JANUARY 1, 2011	25,554,533	$26	$168,358	$6,727	$ 175,111
Net income	—	—	—	218	218
Warrant exercise	78,455	0	422	—	422
Option exercise	46,733	0	271	—	271
Restricted stock issuances	137,800	0	416	—	416
Restricted stock forfeitures	(8,000)	—	—	—	—
Stock issued as part of JKA Technologies, Inc. acquisition	200,643	0	2,464	—	2,464
Stock issued as part of Forbes Analytic Software, Inc. acquisition	171,970	0	1,943	—	1,943
Stock based compensation	—	—	1,753	—	1,753
BALANCE, SEPTEMBER 30, 2011	26,182,134	$26	$175,627	$6,945	$ 182,598

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

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Dollars shown in 000's except share amounts)

	Nine months ended September 30, 2011 (Unaudited)	Nine months ended September 30, 2010 (Unaudited)
Net income	$ 218	$ 9,748
Adjustments to reconcile net income to net cash used in operating activities:		
Stock compensation	2,169	1,068
Depreciation/Amortization	9,245	4,988
Loss on disposal of equipment	—	10
Non-cash interest expense	—	1,006
Non-cash impact of TAGG earn-out reduction	—	(17,750)
Deferred taxes	(561)	7,049
Changes in operating assets and liabilities:		
Receivables	(2,193)	(6,333)
Inventory	(1,388)	(301)
Prepaid expenses	1,112	(542)
Accounts payable	(1,849)	(1,284)
Accrued expenses	(2,965)	2,114
Other balance sheet changes	272	(126)
Net cash provided by (used in) operating activities	4,060	(353)
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(55,213)	(27,629)
Purchase of property and equipment	(1,954)	(1,470)
Proceeds from the sale of equipment	—	128
Net cash used in investing activities	(57,167)	(28,971)
Cash flows from financing activities:		
Proceeds from revolver, net	49,000	10,500
Proceeds from subordinated debt	—	8,250
Proceeds from option and warrant exercises	693	4,500
Net cash provided by financing activities	49,693	23,250
Net decrease in cash and cash equivalents	(3,414)	(6,074)
Cash and cash equivalents at beginning of period	5,795	7,333
Cash and cash equivalents at end of period	$ 2,381	$ 1,259
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 342	$ 250
Cash paid for taxes	$ 93	$ 67

In conjunction with the JKA acquisition in March 2011, the Company issued 200,643 shares of KEYW common stock with an approximate value of $2.5 million.

In conjunction with the FASI acquisition in May 2011, the Company issued 171,970 shares of KEYW common stock with an approximate value of $1.9 million.

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

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

We prepared our interim consolidated condensed financial statements that accompany these notes in conformity with accounting principles generally accepted in the United States of America for interim information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X.

The interim financial information is unaudited, but reflects all normal adjustments that are, in our opinion, necessary to provide a fair statement of results for the interim periods presented. Certain information and note disclosures normally included in the annual financial statements have been condensed or omitted pursuant to those instructions. This interim information should be read in conjunction with the consolidated financial statements for the year ended December 31, 2010, contained in our Annual Report on Form 10-K and filed with the Securities and Exchange Commission on March 29, 2011 pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended.

Corporate Organization

The KEYW Holding Corporation ("Holdco") was incorporated in Maryland in December 2009. Holdco is a holding company and conducts its operations through The KEYW Corporation ("Opco") and its subsidiaries. Opco was incorporated in Maryland in May 2008 and began operations on August 4, 2008. Opco became Holdco's wholly-owned subsidiary on December 29, 2009, as part of a corporate reorganization (the "Reorganization"). References to the "Company", "KEYW", "we", "us", or "our" refer to Opco and its subsidiaries for any p prior to December 29, 2009, and to Holdco and its subsidiaries as of and after December 29, 2009.

We support the Intelligence Community's ("IC") transformation to Cyber Age mission and operations by providing agile solutions that offer both flexibility and scalability to the ICs' most challenging and highly classified problems. We provide a full range of engineering services as well as fully integrated platforms that support the entire intelligence process, including collection, analysis, processing and impact (synthesis of actionable information). Our platforms include products that we manufacture, as well as hardware and software that we integrate using the engineering services of our highly skilled and cleared workforce.

We have acquired twelve businesses or operating entities since our inception including S&H Enterprises of Central Maryland, Inc. ("S&H") on September 2, 2008, Integrated Computer Concepts, Incorporated ("ICCI") and its wholly owned subsidiary Coreservlets.com, Inc. on September 30, 2008, the majority of assets from Embedded Systems Design, Inc. ("ESD") on July 23, 2009, the government contracting assets of Leading Edge Design & Systems, Inc. ("LEDS") on October 29, 2009, the assets of the Systems Engineering and Technical Assistance unit that supports the National Reconnaissance Office from General Dynamics Advanced Information Systems, Inc. ("Recon") on December 8, 2009, The Analysis Group, LLC ("TAGG") on February 22, 2010, Insight Information Technology, LLC ("IIT") on March 15, 2010, Sycamore.US, Inc. ("Sycamore") on November 29, 2010, Everest Technology Solutions, Inc. ("Everest") on December 10, 2010, JKA Technologies, Inc. ("JKA") on March 31, 2011, Forbes Analytic Software, Inc. ("FASI") on May 2, 2011 and Flight Landata, Inc. ("FLD") on August 5, 2011. See Note 2 – Acquisitions for additional information on these acquisitions.

Principles of Consolidation

The consolidated financial statements include the transactions of KEYW and its wholly owned subsidiaries, ICCI, S&H, TAGG, IIT, Sycamore, Everest, JKA, FASI and FLD from the date of their acquisition. All intercompany accounts and transactions have been eliminated.

Revenue Recognition

We derive the majority of our revenue from time-and-materials, firm-fixed-price, cost-plus-fixed-fee, and cost-plus-award-fee contracts. Revenues from cost reimbursable contracts are recorded as reimbursable costs are incurred, including an estimated share of the applicable contractual fees earned. For performance-based fees under cost reimbursable contracts, we recognize the relevant portion of the expected fee to be awarded by the client at the time such fee can be reasonably estimated, based on factors such as prior award experience and communications with the client regarding performance. For cost reimbursable contracts with performance-based fee incentives, we recognize the relevant portion of the fee upon customer approval. For time-and-materials contracts, revenue is recognized based on billable rates times hours delivered plus materials and other reimbursable costs incurred. For fixed-price production contracts, revenue and cost are recognized at a rate per unit as the units are delivered or by other methods to measure services provided. This method of accounting requires estimating the total revenues and total contract costs of the contract. During the performance of contracts, these estimates are periodically reviewed and revisions are made as required. The affect on revenue and contract profit as a result of these revisions is included in the periods in which the revisions are made. This method can result in the deferral of costs or the deferral of profit on these contracts. Because we assume the risk of performing a fixed-price contract at a set price, the failure to accurately estimate ultimate costs or to control costs during performance of the work could result, and in some instances has resulted, in reduced profits or losses on such contracts. Estimated losses on contracts at completion are recognized when identified.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Contract revenue recognition inherently involves estimation. Examples of estimates include the contemplated level of effort to accomplish the tasks under the contract, the cost of the effort, and an ongoing assessment of our progress toward completing the contract. From time to time, as part of our management processes, facts develop that require us to revise our estimated total costs or revenue. To the extent that a revised estimate affects contract profit or revenue previously recognized, we record the cumulative effect of the revision in the period in which the facts requiring the revision become known.

In certain circumstances, and based on correspondence with the end customer, management authorizes work to commence or to continue on a contract option, addition or amendment prior to the signing of formal modifications or amendments. We recognize revenue to the extent it is probable that the formal modifications or amendments will be finalized in a timely manner and that it is probable that the revenue recognized will be collected.

Cost of Revenues

Cost of revenues consists primarily of compensation expenses for program personnel, the fringe benefits associated with this compensation and other direct expenses incurred to complete programs, including cost of materials and subcontract efforts.

Inventories

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. Our inventory consists of specialty products that we manufacture on a limited quantity basis for our customers. We manufacture at quantity levels that are projected to be sold in the six-month period following production. The Company has not had any products sold below their standard pricing less applicable volume discounts.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Invoice terms range from net 10 days to net 30 days. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance (allowance for doubtful accounts) based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable. Currently there is no valuation allowance as the Company believes all of its accounts receivable are fully collectible.

Property and Equipment

All property and equipment are stated at acquisition cost or, in the case of self-constructed assets, the cost of labor and a reasonable allocation of overhead costs (no general and administrative costs are included). The cost of maintenance and repairs, which do not significantly improve or extend the life of the respective assets, are charged to operations as incurred.

Provision for depreciation and amortization are computed on a straight-line method over the estimated useful lives of between 3 and 7 years. Leasehold improvements are amortized over the shorter of the lives of the underlying leases or the estimated useful lives of the assets.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Long-Lived Assets (Excluding Goodwill)
The Company follows the provisions of FASB ASC Topic 360-10-35, Impairment or Disposal of Long-Lived Assets, in accounting for long-lived assets such as property and equipment and intangible assets subject to amortization. The guidance requires that long-lived assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss is recognized if the sum of the long-term undiscounted cash flows is less than the carrying amount of the long-lived asset being evaluated. Impairment losses are measured as the difference between the carrying value of long-lived assets and their fair market value based on discounted cash flows of the related assets. Impairment losses are treated as permanent reductions in the carrying amount of the assets. The Company has not recorded any impairment since inception.

Goodwill
Purchase price in excess of the fair value of tangible assets and identifiable intangible assets acquired and liabilities assumed in a business combination are recorded as goodwill. In accordance with FASB ASC Topic 350-20, Goodwill, the Company tests for impairment at least annually, using a two-step approach. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The Company operates as a single reporting unit. The fair value of the reporting unit is estimated using a market capitalization approach. If the carrying amount of the unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. The Company performed the test during the fourth quarter of fiscal year 2010 and found no impairment to the carrying value of goodwill. Management has concluded that there have been no events subsequent to the impairment test that would indicate an impairment of goodwill.

Intangibles
Intangible assets consist of customer related and technology intangibles acquired in various acquisitions. Intangible assets are amortized on a straight line basis over their estimated useful lives unless the pattern of usage of the benefits indicates an alternative method is more representative. The useful lives of the intangibles range from one to seven years.

Concentrations of Credit Risk
Prior to December 31, 2010, accounts at each financial institution were insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. As of December 31, 2010, under the Dodd Frank Act, all non-interest bearing accounts were fully insured by the FDIC. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash. In addition, we have credit risk associated with our receivables that arise in the ordinary course of business. In excess of 90% of our contracts are issued by the U.S. Government and any disruption to cash payments from our end customer could put the Company at risk.

Use of Estimates
Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant estimates include amortization lives, depreciation lives, income taxes and stock compensation expense. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents
We consider all highly liquid investments purchased with expected original maturities of three months or less, when purchased, to be cash equivalents.

Fair Value of Financial Instruments

The balance sheet includes various financial instruments consisting of cash and cash equivalents, accounts receivable, and accounts payable. The fair values of these instruments approximate the carrying values due to the short maturity of these instruments. The carrying amount of the debt approximates its fair value and is based on its effective interest compared to the current market rates.

Research and Development

Internally funded research and development expenses are expensed as incurred and are included in cost of operations in the accompanying consolidated statement of operations. In accordance with FASB ASC Topic 730, Research and Development, such costs consist primarily of payroll, materials, subcontractor and an allocation of overhead costs related to product development. Research and development costs totaled $904,000 and $167,000 for the three months ended September 30, 2011 and September 30, 2010, respectively. Research and development costs totaled $1,748,000 and $408,000 for the nine months ended September 30, 2011 and September 30, 2010, respectively.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enacted date. We will establish a valuation allowance if we determine that it is more likely than not that a deferred tax asset will not be realized.

For a tax position that meets the more-likely-than-not recognition threshold, the Company initially and subsequently measures the tax liability or benefit as the largest amount that it judges to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax obligations or benefits and subsequent adjustments as considered appropriate by management. The Company's policy is to record interest and penalties as an increase in the liability for uncertain tax obligations or benefits and a corresponding increase to the income tax provision. No such adjustments were recorded as of September 30, 2011 and December 31, 2010.

Earnings per Share

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the diluted weighted average common shares, which reflects the potential dilution of stock options, warrants, and contingently issuable shares that could share in our income if the securities were exercised.

The following table presents the calculation of basic and diluted net income per share (in thousands):

	Three Months Ended			Nine Months Ended		
	September 30, 2011	September 30, 2010		September 30, 2011	September 30, 2010	
Net income	$105	$4,408		$218	$9,748	
Weighted average shares – basic	26,170	15,531		25,944	15,174	
Effect of dilutive potential common shares	2,891	2,913	(1)	3,197	3,003	(1)
Weighted average shares – diluted	29,061	18,444		29,141	18,177	
Net income per share – basic	$0.00	$0.28		$0.01	$0.64	
Net income per share – diluted	$0.00	$0.24		$0.01	$0.54	
Anti-dilutive employee share-based awards, excluded	855	—		683	—	
Outstanding options and warrants, total	6,740	6,184		6,740	6,184	

(1) Dilutive shares pre-IPO were not calculated using the Treasury method as there was no market under which to purchase shares

Employee equity share options, similar equity instruments, and warrants granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the

dilutive effect of in-the-money options and in-the-money warrants. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible, are collectively assumed to be used to repurchase shares.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Stock Based Compensation
As discussed in Note 10, the Company adopted a new stock option plan in December 2009 in conjunction with the corporate reorganization. The Company applies the fair value method that requires all share-based payments to employees and non-employee directors, including grants of employee stock options, be expensed over their requisite service period based on their fair value at the grant date, using a prescribed option-pricing model. We use the Black-Scholes option-pricing model to value share-based payments. Compensation expense related to share-based awards is recognized on an accelerated basis. The expense recognized is based on the straight-line amortization of each individually vesting piece of a grant. Our typical grant vests 25% at issuance and 25% per year over the next three years. We expense the initial 25% vesting at issuance, all of the first year vesting in the first twelve months, the third vesting would be expensed over twenty-four months and the fourth tranche would be expensed over thirty-six months. The calculated expense is required to be based upon awards that ultimately vest and we have accordingly reduced the expense by estimated forfeitures.

The following assumptions were used for option grants during the quarters ended September 30, 2011 and September 30, 2010.

Dividend Yield — The Company has never declared or paid dividends on its common stock and has no plans to do so in the foreseeable future.

Risk-Free Interest Rate — Risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term approximating the expected life of the option term assumed at the date of grant.

Expected Volatility — Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The expected volatility is based on the historical volatility of existing comparable public companies for a period that approximates the estimated life of the options.

Expected Term of the Options — This is the period of time that the options granted are expected to remain unexercised. The Company estimates the expected life of the option term based on the expected tenure of employees and historical experience.

Forfeiture Rate — The Company estimates the percentage of options granted that are expected to be forfeited or canceled on an annual basis before stock options become fully vested. The Company uses the forfeiture rate that is a blend of past turnover data and a projection of expected results over the following twelve-month period based on projected levels of operations and headcount levels at various classification levels with the Company.

Segment Reporting
FASB ASC Topic 280, Segment Reporting, establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that these enterprises report selected information about operating segments in interim financial reports. The guidance also establishes standards for related disclosures about products and services, geographic areas and major customers. Management has concluded that the Company operates in one segment based upon the information used by management to evaluate the performance of its business and allocating resources and capital.

Recently Issued Accounting Pronouncements
In January 2010, the FASB issued ASU 2010-06, “Improving Disclosures about Fair Value Measurements,” (“ASU 2010-06”) to amend topic FASB ASC Topic 820 Fair Value Measurements and Disclosures, by improving disclosure

requirements in order to increase transparency in financial reporting. ASU 2010-06 requires that an entity disclose separately the amounts of significant transfers in and out of Level 1 and 2 fair value measurements and describe the reasons for the transfers. Furthermore, an entity should present information about purchases, sales, issuances, and settlements for Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosures for the level of disaggregation and disclosures about input and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements for the activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASU 2010-06 did not have a material impact on the Company's condensed consolidated financial statements.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

In July 2010, the FASB issued an accounting update to provide guidance to enhance disclosures related to the credit quality of a company's financing receivables portfolio and the associated allowance for credit losses. Pursuant to this accounting update, a company is required to provide a greater level of disaggregated information about its allowance for credit loss with the objective of facilitating users' evaluation of the nature of credit risk inherent in the company's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. The revised disclosures as of the end of the reporting period are effective for the Company beginning in 2011. The Company has evaluated the impact of this accounting update on its financial disclosures and determined that no additional disclosures are required.

In December 2010, the FASB issued ASU 2010-29, "Business combinations – disclosure of supplementary pro forma information," ("ASU 2010-29") to amend FASB ASC Topic 805 Business Combinations, by improving disclosure requirements related to the business combinations performed during the year being reported on. Under the amended guidance, a public entity that presents comparative financial statements must disclose the pro forma revenue and earnings of the combined entity as though the business combination had occurred as of the beginning of the prior annual reporting period. The Company has chosen to early adopt this amendment and included the pro forma disclosures in Note 2 – Acquisitions below.

In May 2011, the FASB issued a new accounting standard on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. We are required to adopt this standard in the first quarter of 2012. We do not expect this adoption to have a material impact on our financial statements.

In June 2011, the FASB issued a new accounting standard on the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. We are required to adopt this standard as of the beginning of 2013. The adoption of this standard will only impact the presentation of our financial statements.

In September 2011, the FASB issued guidance that simplified how entities test for goodwill impairment. This guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a two-step goodwill impairment test. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and early adoption is permitted. We plan to early adopt this guidance for our annual goodwill impairment test that will be conducted as of October 1, 2011. This guidance is not expected to have a material effect on our financial statements.

2. ACQUISITIONS

The Company has completed twelve acquisitions since it began operations in August 2008. The acquisitions were made to increase the Company's skill sets and to create sufficient critical mass to be able to serve as prime contractor on significant contracts. All of the acquisitions resulted in the Company recording goodwill and other intangibles. The goodwill was a result of the acquisitions focusing on acquiring cleared personnel to expand our presence with our main customer. The value of having that personnel generated the majority of the goodwill from the transactions and drove much of the purchase price. Several of the acquisitions involved issuance of Company common stock. The stock price for acquisition accounting was determined by the fair value on the acquisition date.

Details of the seven acquisitions completed since January 1, 2010 are outlined below:

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The Analysis Group, LLC
On February 22, 2010, the Company acquired all of the ownership interests of the principals of The Analysis Group, LLC ("TAGG") in exchange for approximately $34.6 million in cash and debt and an earn-out of up to 3 million common shares of the Company's stock. After adjusting for required working capital per the purchase agreement of $600,000, the Company paid approximately $23 million in cash and gave the sellers two notes for $3.4 million and $7.6 million at closing. The first note represents the escrow for the transaction and bears an annual interest rate of 3%. The second note bears an interest rate of 8%. Both notes were due the earlier of February 28, 2011, or within seven days of an initial public offering completed by the Company and were repaid in October 2010. Based on the revenue forecasts and the outlook for TAGG, the Company accrued $21.9 million of the earn-out value or approximately 2.4 million shares at $9.25 per share based on a probability weighted analysis. The Company has recorded $10.5 million of intangibles exclusively related to the value of contracts acquired that have an estimated useful life of 3 years. The goodwill is not amortizable for financial reporting but is amortizable for income tax purposes over fifteen years.

The earn-out shares are contingent upon achieving certain average revenue and margin thresholds for calendar years 2010 and 2011. Should total revenue exceed approximately $135 million and gross margins meet or exceed 20% for the two year period, additional cash will be paid to the sellers in a predetermined formula based on those two measuring criteria. The Company is accounting for the contingent earn-out shares under the liability method which requires the contingency shares to be revalued at each balance sheet date to the fair market value of the stock and based on the probability of the targets being achieved. The contingent shares were recorded at a $9.25 per share value at acquisition. Thus the total value of the transaction was approximately $57 million. Beginning in the second quarter of 2010, the Company has written down the value of the earn-out in each quarter with reductions of one million shares in each of the second and third quarters of 2010 and the remaining balance of 372,973 shares being written off in the fourth quarter of 2010. The resulting earn-out balance at December 31, 2010 and September 30, 2011 is zero. These write-downs were taken due to a combination of actual performance and reductions in the forecasted revenue for TAGG. Based on our analysis of the 2010 performance and forecasted revenue and profitability in 2011, the Company has determined that it is unlikely that the earn-out will be achieved at the minimum threshold level. The Company recognized approximately $21.9 million of income from the reduction in the earn-out accrual during 2010. The Company re-evaluated the earn-out at September 30, 2011 and determined that it is still unlikely that the earn-out will be achieved at the minimum threshold level.

TAGG has distinguished itself as a provider of high performance solutions to the Department of Defense, particularly Air Force Intelligence, and to the National Security community in general. TAGG had approximately 65 employees at the time of acquisition, most of whom have U.S. government clearances.

Insight Information Technology LLC
On March 15, 2010, the Company acquired all of the ownership interests of the principal of Insight Information Technology, LLC ("IIT") for $8 million and 250,000 shares of KEYW common stock valued at $9.25 per share, for a total purchase price of approximately $10.3 million. The Company has recorded $1.9 million of intangibles exclusively related to acquired contracts and trade name that have an estimated useful life of 3 years. The goodwill is not amortizable for financial reporting but is amortizable for income tax purposes over fifteen years.

IIT is a customer-focused information technology and professional services firm that specializes in the support of design, development, and delivery of state-of-the-art technology solutions, systems engineering and management consulting services. IIT had approximately 36 employees at the time of acquisition, most of whom have U.S. government clearances.

Sycamore.US, Inc.
On November 29, 2010, the Company acquired all of the outstanding stock of Sycamore.US, Inc. ("Sycamore") for $27 million in cash and 87,500 shares of KEYW common stock valued at $12.00 per share for a total purchase price of $28.1 million. The Company has recorded $5.9 million of intangibles exclusively related to acquired contracts and trade name that have an estimated useful life of 3 years. In conjunction with the transaction, the Company has made a 338(h)10 election that treats the transaction as an asset purchase for tax purposes, thereby permitting the Company to amortize the goodwill over 15 years for tax reporting. The goodwill is not amortizable for GAAP reporting.

Sycamore was founded in 1996 and is headquartered in Frederick, MD. Sycamore offers a broad range of cyber solutions and support including aerospace software engineering, cybersecurity, independent verification and validation, systems engineering, and risk management. Sycamore had approximately 156 employees at the time of acquisition, of whom approximately 133 have security clearances, primarily at the highest level.

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Everest Technology Solutions, Inc.
On December 10, 2010, the Company acquired all of the outstanding stock of Everest Technology Solutions, Inc. ("Everest") for $28 million in cash and 149,054 shares of KEYW common stock valued at $14.16 per share, for a total purchase price of $30.1 million. The Company has recorded $4.7 million of intangibles exclusively related to acquired contracts and trade name that have an estimated useful life of 3 years. This was an acquisition of a Qualified Subchapter S Subsidiary (QSub) which allows the transaction to be treated as an asset acquisition for tax purposes, thereby allowing the Company to amortize goodwill over 15 years for tax reporting. The goodwill is not amortizable for GAAP reporting.

Everest was founded in 1998 and is headquartered in Fairfax, VA. Everest offers a broad range of cyber superiority solutions and support including geospatial intelligence systems, cybersecurity, cloud computing and mission support. Everest had approximately 110 employees at the time of acquisition, of whom approximately 105 have security clearances at the highest level.

JKA Technologies, Inc.
On March 31, 2011, the Company acquired all of the outstanding stock of JKA Technologies, Inc. ("JKA") for $11.3 million in cash and 200,643 shares of KEYW common stock valued at $12.28 per share, for a total purchase price of approximately $14 million. The Company is still evaluating the intangible assets associated with this acquisition and the purchase price allocation has not been finalized. This was an acquisition of a Qualified Subchapter S Subsidiary (QSub) which allows the transaction to be treated as an asset acquisition for tax purposes, thereby allowing the Company to amortize goodwill over 15 years for tax reporting. The goodwill is not amortizable for GAAP reporting.

JKA was founded in 2002 and is headquartered in Columbia, MD. JKA offers a broad range of mission critical cyber superiority solutions and support including network engineering, information assurance, and systems and software engineering. JKA had approximately 65 employees at the time of acquisition, of whom approximately 60 have security clearances at the highest level.

Forbes Analytic Software, Inc.
On May 2, 2011, the Company acquired all of the outstanding stock of Forbes Analytic Software, Inc. ("FASI") for $14.7 million in cash and 171,970 shares of KEYW common stock valued at $11.30 per share, for a total purchase price of approximately $16.7 million. In conjunction with the transaction, the Company has made a 338(h)10 election that treats the transaction as an asset purchase for tax purposes, thereby permitting the Company to amortize the goodwill over 15 years for tax reporting. The goodwill is not amortizable for GAAP reporting.

FASI was founded in 1989 and is headquartered in Leesburg, VA. FASI offers a broad range of mission critical cyber superiority solutions and support including high-end software development, systems and software engineering and integration, and full lifecycle software support, from research and development to operations and maintenance. FASI had approximately 47 employees at the time of acquisition, of whom approximately 40 have security clearances at the highest level.

Flight Landata, Inc.
On August 5, 2011, the Company acquired Flight Landata, Inc. ("FLD") for $30.0 million in cash. The purchase price is subject to post-closing adjustments, including working capital and other adjustments, as of the closing date. KEYW expects that the acquisition will be accretive, subject to a final purchase price accounting analysis. The goodwill and intangible assets associated with this acquisition are not deductible for tax purposes, however the identified intangible assets are amortized under US GAAP.

FLD was founded in 1991 and is headquartered in North Andover, MA. FLD is a highly regarded provider of agile airborne Intelligence Surveillance and Reconnaissance (ISR) solutions and Micro Terrain Intelligence to the U.S. Defense Department and the Warfighter with significant operations in overseas theaters. FLD had approximately 28 employees at the time of acquisition, of whom 2 have security clearances.

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The total purchase price paid for the acquisitions described above have been allocated as follows:

(The final accounting for the FASI and FLD acquisition are still in progress.)

	(In thousands)						
	TAGG	IIT	Sycamore	Everest	JKA	FASI (unaudited)	FLD
Cash	$ 2,841	$ 531	$ 1,224	$ 403	$ 8	$ 452	$ 4,614
Current assets, net of cash acquired	5,590	697	3,942	3,914	2,800	2,386	5,125
Fixed assets	18	59	75	155	87	14	3,875
Intangibles	10,457	1,797	5,898	4,690	2,675	2,940	21,986
Goodwill	43,143	8,181	20,358	23,764	9,101	13,931	6,758
Other current assets	—	—	18	—	—	—	—
Total Assets Acquired	62,049	11,265	31,515	32,926	14,671	19,723	42,358
Current liabilities	6,093	952	3,465	2,817	952	3,071	944
Long-term obligations	21,950	—	—	—	—	—	7,090
Total Liabilities Assumed	28,043	952	3,465	2,817	952	3,071	8,034
Net Assets Acquired	$ 34,006	$ 10,313	$ 28,050	$ 30,109	$ 13,719	$ 16,652	$ 34,324
Net Cash Paid	$ 31,165	$ 7,469	$ 25,776	$ 27,597	$ 11,247	$ 14,257	$ 29,710
Equity Issued	$ —	$ 2,313	$ 1,050	$ 2,109	$ 2,464	$ 1,943	$ —
Actual Cash Paid	$ 34,006	$ 8,000	$ 27,000	$ 28,000	$ 11,255	$ 14,709	$ 34,324

All acquisitions were accounted for using the acquisition method of accounting. Results of operations for each acquired entity are included in the consolidated financial statements from the date of each acquisition. Each of the acquisitions outlined above complements the Company's strategic plan to expand its classified intelligence offerings into the national security marketplace. These acquisitions provide the Company with access to key customers, security clearances and technical expertise. As a result of these factors, the Company was willing to pay a purchase price that resulted in recording goodwill as part of the purchase price allocation.

The table below summarizes the unaudited pro forma income statement for the first nine months of 2011, assuming these acquisitions had been completed on the first day of the year. These pro forma statements do not include any adjustments that may have resulted for synergies between the acquisitions or for amortization of intangibles other than during the period the acquired entities were part of the Company. The 2011 activity for JKA, FASI and FLD includes the financial activity in 2011 prior to acquisition.

For Nine Months ended September 30, 2011 (In thousands)				
JKA	FASI	FLD	KEYW	Total

Revenue	$ 2,600	$ 3,903	$ 17,282	$ 140,516	$ 164,301
Cost of Revenues	1,341	2,258	8,321	100,089	112,009
Gross Profit	1,259	1,645	8,961	40,427	52,292
Operating Expenses	991	3,611	3,121	39,667	47,390
Operating Income (Loss)	268	(1,966)	5,840	760	4,902
Non-operating Expense	6	39	172	557	774
Income (Loss) before Taxes	262	(2,005)	5,668	203	4,128
Tax Expense (Benefit)	—	—	2,257	(15)	2,242
Net Income (Loss)	$ 262	$ (2,005)	$ 3,411	$ 218	$ 1,886

The table below summarizes the unaudited pro forma income statement for the third quarter of 2011, assuming this acquisition had been completed on the first day of the period. The activity for FLD is for the period prior to acquisition.

	For Three Months ended September 30, 2011 (In thousands)		
	FLD	KEYW	Total
Revenue	$ 3,565	$ 53,957	$ 57,522
Cost of Revenues	2,474	38,808	41,282
Gross Profit	1,091	15,149	16,240
Operating Expenses	214	14,804	15,018
Operating Income	877	345	1,222
Non-operating Expense	128	330	458
Income before Taxes	749	15	764
Tax Expense (Benefit)	89	(90)	(1)
Net Income	$ 660	$ 105	$ 765

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The table below summarizes the unaudited pro forma income statement for the first nine months of 2010, assuming these acquisitions had been completed on the first day of the year. These pro forma statements do not include any adjustments that may have resulted for synergies between the acquisitions or for amortization of intangibles other than during the period the acquired entities were part of the Company. The 2010 activity for TAGG and Insight includes the financial activity in 2010 prior to acquisition.

	For Nine Months ended September 30, 2010 (In thousands)								
	TAGG	IIT	Sycamore	Everest	JKA	FASI	FLD	KEYW	Total
Revenue	$ 3,854	$ 1,066	$ 16,499	$ 15,117	$ 9,436	$ 7,728	$ 15,199	$ 78,651	$ 147,550
Cost of Revenues	3,227	904	11,930	9,237	6,582	4,291	7,118	55,631	98,920
Gross Profit	627	162	4,569	5,880	2,854	3,437	8,081	23,020	48,630
Operating Expenses	720	204	2,944	6,261	1,268	2,612	1,951	23,102	39,062
Operating (Loss) Income	(93)	(42)	1,625	(381)	1,586	825	6,130	(82)	9,568
Non-operating (Income) Expense	(5)	—	—	—	—	35	82	(16,696)	(16,584)
(Loss) Income before Taxes	(88)	(42)	1,625	(381)	1,586	790	6,048	16,614	26,152
Tax Expense	—	—	—	—	—	—	2,144	6,866	9,010
Net (Loss) Income	$ (88)	$ (42)	$ 1,625	$ (381)	$ 1,586	$ 790	$ 3,904	$ 9,748	$ 17,142

The table below summarizes the unaudited pro forma income statement for the third quarter of 2010, assuming these acquisitions had been completed on the first day of the period.

	For Three Months ended September 30, 2010 (In thousands)						
	Sycamore	Everest	JKA	FASI	FLD	KEYW	Total
Revenue	$ 5,853	$ 5,560	$ 3,256	$ 2,819	$ 6,225	$ 28,992	$ 52,705
Cost of Revenues	4,237	3,312	2,345	1,718	3,810	20,560	35,982
Gross Profit	1,616	2,248	911	1,101	2,415	8,432	16,723
Operating Expenses	1,112	1,946	441	909	546	8,721	13,675
Operating Income (Loss)	504	302	470	192	1,869	(289)	3,048
Non-operating Expense (Income)	—	—	—	16	40	(7,760)	(7,704)
Income before Taxes	504	302	470	176	1,829	7,471	10,752
Tax Expense	—	—	—	—	1,126	3,063	4,189
Net Income	$ 504	$ 302	$ 470	$ 176	$ 703	$ 4,408	$ 6,563

3. FAIR VALUE MEASUREMENTS

We group financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1	Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from available pricing sources for market transactions involving identical assets or liabilities.
Level 2	Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use (1) observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; (2) quoted prices in active markets that are not active; or (3) other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company did not have any financial assets or liabilities that were subject to valuation at September 30, 2011.

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4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
Accounts Receivable		
Billed AR	$ 29,026	$ 24,194
Unbilled AR	12,011	6,212
Total AR	$ 41,037	$ 30,406

Unbilled amounts represent revenue recognized which could not be billed by the period end based on contract terms. The majority of the unbilled amounts were billed subsequent to period end. Retainages typically exist at the end of a project and/or if there is a disputed item on an invoice received by a customer. At September 30, 2011 and December 31, 2010, retained amounts are insignificant and are expected to be collected subsequent to the balance sheet date.

Management does not currently have an allowance for doubtful accounts recorded because management believes that all of the accounts receivable are fully collectible.

Most of the Company's revenues are derived from contracts with the U.S. Government, in which we are either the prime contractor or a subcontractor, depending on the award.

5. INVENTORIES

Inventories at September 30, 2011 and December 31, 2010 consisted of work in process at various stages of production and finished goods. This inventory, which consists primarily of mobile communications devices, is valued at the lower of cost (as calculated using the weighted average method) or market. The cost of the work in process consists of materials put into production, the cost of labor and an allocation of overhead costs. We determined that no reserve for obsolescence or other consideration was necessary for the inventory.

6. PREPAID EXPENSES

Prepaids at September 30, 2011 and December 31, 2010 primarily consist of prepaid insurance, bonuses, rent, prepaid taxes and professional fees.

7. PROPERTY AND EQUIPMENT

Property and equipment are as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Property and Equipment		
Aircraft	$ 4,396	$ —

Buildings and Improvements	973	564
Manufacturing Equipment	1,830	1,435
Office Equipment	3,130	2,400
Total	$ 10,329	$ 4,399
Accumulated Depreciation	(2,232)	(1,093)
Property and Equipment, net	$ 8,097	$ 3,306

Depreciation expense charged to operations was $1,139,000 and $534,000 for the nine months ended September 30, 2011 and 2010, respectively. Depreciation expense charged to operations was $612,000 and $213,000 for the three months ended September 30, 2011 and 2010, respectively.

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8. AMORTIZATION OF INTANGIBLE ASSETS

The following values were assigned to intangible assets (other than goodwill) for the acquisitions noted below:

		September 30, 2011 (In thousands)		
Acquisition	Intangible	Gross Book Value	Accumulated Amortization	Net Book Value
S&H	Contracts – Fixed Price Level of Effort	$ 1,606	$ 915	$ 691
ICCI	Contracts – Fixed Price Level of Effort	1,181	741	440
ICCI	Contracts – T&M and IDIQ	3,018	2,790	228
ESD	Contracts	1,207	529	678
LEDS	Contracts	1,019	808	211
Recon	Contracts	925	671	254
TAGG	Contracts	10,457	5,592	4,865
IIT	Contracts	1,615	830	785
IIT	Trade name	182	94	88
Sycamore	Contracts	5,898	1,638	4,260
Everest	Contracts	4,690	782	3,908
JKA	Contracts	2,675	446	2,229
FASI	Contracts	2,940	306	2,634
FLD (1)	Contracts	21,986	1,046	20,940
		$ 59,399	$ 17,188	$ 42,211

(1) FLD Intangible valuation in process as of September 30, 2011.

The Company recorded amortization expense of $8.1 million and $4.5 million for the nine month periods ended September 30, 2011 and 2010, respectively. The Company recorded amortization expense of $3.6 million and $1.7 million for the three month periods ended September 30, 2011 and 2010, respectively.

Estimated future intangible amortization expense by year as of September 30, 2011(In thousands) (1)

2011 (2)	2012	2013	2014	2015
$ 3,924	$ 17,104	$ 12,959	$ 7,120	$ 1,105

(1) FLD Intangible valuation in process as of September 30, 2011.
(2) October 1, 2011 – December 31, 2011

9. DEBT

In February 2011, the Company entered into a new $50 million credit facility that includes an accordion feature allowing for an additional $25 million in borrowing. The credit facility is a 3 year agreement and is a multi-bank facility with Bank of America as lead bank. In conjunction with the FLD acquisition, the Company increased the credit facility to $65 million and reloaded the accordion to $25 million. The borrowing availability under this facility is based on KEYW's 'Total Leverage Ratio' which is a relationship between 'Funded Indebtedness' to EBITDA as defined in the credit agreement. The agreement contains standard financial covenants. When drawing funds on this facility we have the option of choosing between a 'Euro Rate Loan' which is based on the British Bankers Association

LIBOR or a 'Base Rate Loan' which is based on the higher of (a) the Federal Funds Rate plus ½ of 1.0%, (b) the Prime Rate, or (c) The Eurodollar Rate plus 1.0%. If we select the 'Euro Rate Loan' the actual 'applicable rate' would be 200 to 300 basis points above the stated rate depending on our most recent quarterly calculation of our 'Total Leverage Ratio'. If we select the 'Base Rate Loan' the actual 'applicable rate' would be 100 to 200 basis points above the stated rate depending on our most recent quarterly calculation of our 'Total Leverage Ratio'. We are able to lock in our selected interest rates for periods of up to six months. At September 30, 2011, we have an outstanding balance of $49 million under this facility at interest rates ranging from 2.47% - 2.69% depending on length of lock-in. The Company is in compliance with all loan covenants at September 30, 2011. Interest expense recognized in the first nine months of 2011 related to this agreement was approximately $543,000. Interest expense recognized for the three month period ended September 30, 2011 related to this agreement was approximately $322,000. Interest expense for those same periods in 2010 was $1,676,000 and$1,005,000.

During the first nine months of 2010, the Company entered into various debt agreements in order to fund the acquisitions of TAGG and IIT. All of the debt, with the exception of the revolver, contained clauses that required the debt to be retired within seven days of an initial public offering.

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On February 22, 2010, the Company entered into two debt agreements with Bank of America in conjunction with the closing of the TAGG transaction. The debt consisted of an asset-backed revolver secured by the assets of the Company. The revolver provided for up to $17.5 million of borrowings based on the receivables base of the Company. The revolver also had an accordion feature that provided the ability for the Company to borrow up to an additional $10 million to pursue additional acquisitions subject to bank approval. The interest rate on the debt was adjustable and was equal to the LIBOR rate plus a margin that ranged from 2.0 - 2.5 basis points based on certain financial ratios. This debt was repaid in full in October 2010.

The second Bank of America debt was a $5 million term loan that matured in February 2011 and began amortizing in May 2010 at $500,000 per month plus interest. The interest rate on the debt was adjustable and was equal to the LIBOR rate plus a margin that ranged from 2.0 - 2.5 basis points based on certain financial ratios. This loan was repaid in full in August 2010.

In conjunction with the TAGG acquisition, the sellers took back debt totaling $11 million that was to mature on February 28, 2011. The debt was broken into two segments with the first amount of $3.4 million bearing interest at 3% and the remaining $7.6 million bearing interest at 8%. This debt was subordinate to the Bank of America debt. This debt was repaid in full in October 2010.

In March and April 2010, the Company borrowed $8.25 million from five shareholders and/or Board members. The terms of the debt were 8% interest, 20,000 warrants per $1 million financed and a maturity date of March 2012. If the debt remained unpaid at maturity, the Company was required to issue additional warrants in the same amount as originally issued. The strike price of the warrants is $9.25 and the warrants expire seven years from issuance. The warrant valuation, as calculated using the Black-Scholes method, was being treated as an original issue discount with the expense being recognized as non-cash interest expense over the life of the loans. The Company recognized the remaining original issue discount ($450,000) as interest expense on September 30, 2010. This debt was repaid in full in October 2010.

10. STOCK-BASED COMPENSATION

On December 29, 2009, the Company, in conjunction with the corporate reorganization, adopted The KEYW Holding Corporation 2009 Stock Incentive Plan. The plan terms are similar to the previous 2008 plan, except that the new plan has a maximum amount of shares available for issuance of 12,000,000 with a soft cap of 12% of the outstanding shares available for issuance. The 2009 plan provides for the issuance of stock options, restricted stock and restricted stock units.

Stock Options

The Company generally issues stock option awards that vest over varying periods, ranging from three to five years, and have a ten-year life. We estimate the fair value of stock options using the Black-Scholes option-pricing model. Because our common stock did not trade publicly until October 1, 2010, we do not use historical data to determine volatility of our stock. We determine volatility by using the historical stock volatility of public companies in our industry with similar characteristics. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards. All option awards terminate within ninety days or sooner after termination from the Company except as provided in certain circumstances under our senior executive employment agreements.

The option grants during the first nine months of 2011 consist of options issued to new hires or discretionary awards. All equity issuances are priced at market value based upon our publicly-traded share price on the date of

grant.

The Black-Scholes model requires certain inputs related to dividend yield, risk-free interest rate, expected volatility and forfeitures in order to price the option values. During 2011, our assumptions related to these inputs were as follows:

-Dividend yield was zero as we have no current intentions to pay any dividends
-Risk-free interest rate ranging from 0.90% - 2.24%
-Expected volatility ranging from 28.35% - 36.35%
-Forfeitures ranging from 15% - 39%

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A summary of stock option activity for the period ended September 30, 2011 is as follows:

	Number of Shares	Option Exercise Price	Weighted Average Exercise Price
Outstanding January 1, 2011	1,732,962		
Granted	601,700	$9.17 – $14.57	12.93
Exercised	(46,733)	$5.00 - $11.99	5.79
Cancelled	(137,531)	$5.00 - $14.57	9.64
Options Outstanding September 30, 2011	2,150,398		

All stock based compensation has been recorded as part of operating expenses. Accounting standards require forfeitures to be estimated at the time an award is granted and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeiture estimates are disclosed in the information regarding the option grants above. For the periods ended September 30, 2011 and 2010, share-based compensation expense is based on awards ultimately expected to vest and has been reduced for estimated forfeitures. The total unrecognized stock compensation expense at September 30, 2011 is approximately $4.3 million, which will be recognized over four years.

As of September 30, 2011, outstanding stock options were as follows:

Exercise Price	Options Outstanding	Options Vested	Weighted Average Remaining Life (Years)
$ 5.00	138,624	73,218	7.02
$ 5.50	841,524	384,345	8.09
$ 9.17	51,000	5,250	9.85
$ 9.25	185,125	92,569	8.58
$ 10.00	79,500	39,752	8.83
$ 10.88	20,000	5,000	9.59
$ 11.18	12,250	3,064	9.67
$ 11.23	3,500	875	9.83
$ 11.30	46,250	11,565	9.58
$ 11.67	21,750	5,441	9.92
$ 11.97	8,500	2,126	9.75
$ 11.99	134,675	33,687	9.16
$ 12.28	77,150	19,289	9.50
$ 12.65	50,000	12,500	9.07
$ 14.25	11,250	2,814	9.41
$ 14.33	158,000	39,525	9.19
$ 14.57	311,300	77,827	9.33
	2,150,398	808,847	

2009 STOCK INCENTIVE PLAN	
	3,141,856

Total equity available to issue	
Total equity outstanding or exercised	1,638,616
Total equity remaining	1,503,240

Restricted Stock Awards

During 2011, the Company has issued restricted stock for employee incentive plans, strategic hirings and related to the FASI acquisition. The Company issued 37,800 shares of restricted common stock to existing employees under the long-term incentive plan. These shares cliff vest in three years. The Company issued an additional 12,000 restricted shares to two other employees. The majority of these shares cliff vest in three years. Another 84,000 shares were issued in conjunction with the FASI acquisition in May 2011 and 4,000 shares in August 2011. These shares vest 25% on June 15, 2013, 25% on December 15, 2013, 25% on June 15, 2014 and 25% on December 15, 2014. The expense for these shares will be recognized over the vesting life of each individual tranche of shares based upon the fair value of a share of stock at the date of grant. All restricted stock awards have no exercise price.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

As of September 30, 2011, outstanding unvested restricted stock awards were as follows:

	Unvested Shares
Outstanding January 1, 2011	449,160
Granted	137,800
Vested	(186,414)
Cancelled	(8,000)
Outstanding September 30, 2011	392,546

11. WARRANTS

During the first nine months of 2011, warrant holders exercised 78,455 warrants. The exercise price for all of these exercises was paid in cash. Our warrants do contain provisions that allow warrant holders to cashlessly exercise their warrants at their option.

On March 15, 2010, one of the Company's largest shareholders elected to exercise 1,022,728 warrants for a total exercise price of approximately $4.5 million. The proceeds from this issuance were used to pay down the outstanding balance on the revolver.

In conjunction with the IIT acquisition, the Company issued 215,000 warrants to purchase our common stock at $9.25 per share. These warrants vested immediately and expire seven years from issuance. The costs associated with these warrants were treated as an original issue discount to the debt and will be expensed over the two-year note term. The total original issue discount was approximately $584,000, as calculated using the Black-Scholes model, and was expensed in its entirety by September 30, 2010.

As of September 30, 2011, outstanding warrants were as follows:

Exercise Price	Warrants Outstanding	Warrants Vested	Weighted Average Remaining Life (Years)
$ 4.00	2,092,000	2,092,000	3.89
$ 5.50	2,287,235	2,287,235	4.65
$ 9.25	210,000	210,000	5.46
	4,589,235	4,589,235	

12. SUBSEQUENT EVENTS

In connection with the preparation of its financial statements for the nine months ended September 30, 2011, the Company has evaluated events that occurred subsequent to September 30, 2011 to determine whether any of these events required recognition or disclosure in the first nine months of 2011 financial statements. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information that management believes is relevant to an assessment and an understanding of the Company's operations and financial condition. This discussion should be read in conjunction with the attached unaudited consolidated financial statements and accompanying notes as well as our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission on March 29, 2011.

FORWARD-LOOKING STATEMENTS

The matters discussed in this Quarterly Report may constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, activity levels, performance or achievements to be materially different from any future results, activity levels, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "could", "expect", "estimate", "may", "potential", "will", and "would", or similar words. You should read statements that these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. There may be events in the future that we are not able to predict or control accurately, and numerous factors may cause events, our results of operations, financial performance, achievements, or industry performance, to differ materially from those reflected in the forward-looking statements. The factors listed in the section captioned "Risk Factors," contained in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission on March 29, 2011, as well as any cautionary language in this Quarterly Report, provide examples of such risks, uncertainties, and events.

You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report. Subsequent events and developments may cause our views to change. While we may elect to update the forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

DESCRIPTION OF THE COMPANY

We provide mission-critical cybersecurity and cyber superiority solutions to defense, intelligence and national security agencies. Our solutions, services and products support the collection, processing, analysis and use of intelligence data and information in the domain of cyberspace. Cyberspace is the global environment of data and information that encompasses all parts of the electromagnetic spectrum in which intelligence data may exist or transmit. See "Item 1 – Business" in our Annual Report on Form 10-K for fiscal year ended December 31, 2010 for a detailed description of our business.

Organically, we grew over 25% from 2009 to 2010, as we expanded our services platform and our products reached the right target markets. We expect to continue on a high organic growth trajectory in the next several years. Pro-forma revenue growth for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 was 11.4%. Excluding our Air Force revenue for those two periods, our growth rate was 19.8%. Management believes that pro-forma comparisons are the best indicators for viewing the Company due to the significant number of acquisitions in 2011 and 2010.

Our strategy is divided into four parts:

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Leveraging our distinct culture, which we describe as “Agile NDA”, products and solutions to expand our U.S. Government Business;

- Pursuing and integrating strategic, capability-enhancing acquisitions;
- Fully integrating and accelerating our business development efforts; and
- Building and leveraging our research and development efforts.

This strategy is producing organic growth of our intelligence and cyber focused business, and expansion of our capabilities to include multiple intelligence domain areas (INT’s).

A large part of our internal growth strategy is focused on capitalizing on the contract opportunities and synergies related to the acquisitions we have completed since our IPO: Sycamore, Everest, and FASI offer opportunities to expand our activities with our customers based in Virginia. In particular, they offer an opportunity to expand prime contract work with the geospatial intelligence community. These companies provide a substantial platform for us to leverage our agile business model through successful program management and execution at agencies where we have acquired a significant foothold in both contracts and capabilities. We believe that the synergies within our companies should allow additional growth of our prime contract vehicles as we migrate, over time, work we are currently performing as a subcontractor to prime contract vehicles.

Our organic growth opportunities at our largest customer are also enhanced by our recent acquisitions. Sycamore and JKA offer opportunities for expansion at our largest customer, including both prime and subcontracting opportunities. Demand for our services in our market remains strong and continues to exceed our capacity. We continue to offer a highly competitive compensation structure within our market and have a very active and successful recruiting program.

The FLD acquisition provides further growth opportunities to expand our services. FLD's platform meets certain customer requirements for additional intelligence gathering needs that exist within our customer set. Integrating our classified customers with FLD's platform should enable growth with customers previously inaccessible by either company individually. With the addition of FLD, KEYW now offers a comprehensive geospatial intelligence capability that extends from collection, through processing and analysis, to the creation of impact with a broad community of users (from policy/decision makers to the warrior).

We continue to actively search for acquisition candidates that fit our strategic platform. The flow of acquisition candidates has remained strong.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and determine whether contingent assets and liabilities, if any, are disclosed in the financial statements. On an ongoing basis, we evaluate our estimates and assumptions, including those related to long-term contracts, product returns, bad debts, inventories, fixed asset lives, income taxes, environmental matters, litigation, and other contingencies. These estimates and assumptions are described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2010. We base our estimates and assumptions on historical experience and on various factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from our estimates under different assumptions or conditions. There have been no material changes to our critical accounting policies, estimates and assumptions or the judgments affecting the application of those estimates and assumptions since the filing of our 2010 Annual Report on Form 10-K.

COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010

The following discussion and analysis should be read in conjunction with the unaudited financial statements (and notes thereto) and other financial information of the Company appearing elsewhere in this report. In addition, see Note 2 – Acquisitions to our unaudited financial statements included in this Quarterly Report for specific information with respect to the assumptions and adjustments made in calculating the pro forma financial information for the three

month periods ended September 30, 2011 and September 30, 2010 set forth below.

Consolidated Overview (000's)

(In thousands)	Three Months Ended September 30, 2011		Three Months Ended September 30, 2010		Pro Forma Three Months Ended September 30, 2011		Pro Forma Three Months Ended September 30, 2010	
Revenue	$53,957		$28,992		$57,522		$52,705	
Gross Margin	$15,149	28.1 %	$8,432	29.1 %	$16,240	28.2 %	$16,723	31.7 %
Cost of Operations	$11,231	20.8 %	$7,028	24.2 %	$11,445	19.9 %	$11,982	22.7 %
Intangible Amortization	$3,573	6.6 %	$1,693	5.8 %	$3,573	6.2 %	$1,693	3.2 %
Non-operating Expense(Income)	$330	0.6 %	$(7,760)	(26.8)%	$458	0.8 %	$(7,704)	(14.6)%

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THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Revenue for the three months ended September 30, 2011, increased on a year-over-year basis by $25.0 million, or 86%, as compared to the three months ended September 30, 2010. The main drivers for this increase were the acquisitions that occurred subsequent to September 30, 2010, including Sycamore, Everest, JKA, FASI and FLD offset in part by decreases in our Air Force services. These acquisitions accounted for $23.2 million of the revenue increase. Organically, our services business decreased by $2.4 million, or 10% quarter over quarter as a result of Air Force services work decreasing by $3.5 million between the two periods. This decreased revenue was expected and we expect comparisons for our Air Force work for the fourth quarter of 2011 to be significantly lower than the fourth quarter of 2010 as well. Excluding our Air Force work, services revenue increased by 6%. Our product revenue increased by $9.4 million between the two periods due to the surface mount product delivery of approximately $5.0 million in the third quarter of 2011 and the inclusion of FLD revenue.

On a pro forma basis, revenue for the combined entity for the three months ended September 30, 2011 was $57.5 million, an increase of 9% from the quarter ended September 30, 2010. This $4.8 million revenue growth was due to the surface mount product delivery of $5.0 million and increased services revenue, excluding Air Force services, on both prime and subcontracts. Our Air Force services work decreased by $3.5 million between those periods. Pro forma growth excluding Air Force services work was 18%.

Gross margins decreased as a percentage of revenue in both products and services for the quarter ended September 30, 2011 as compared to the quarter ended September 30, 2010. The product margin decreased due to the maturity level of the products delivered as our SMT lab contract was a first run product and our margins are typically the lowest on initial product runs. Our services margins declined due to significantly lower margins on our Air Force services work, increased fringe costs as acquisitions joined our benefit plans, and a growth in the percentage of subcontracted labor to direct labor for the quarter. Revenue generated through subcontracted labor is generally lower margin than self-performed work. Accordingly, as the percentage of services revenue derived from subcontractors increases, gross margins decrease. We expect services margins to return to the 27-28% range in the fourth quarter of 2011.

Our cost of operations increased by $4.2 million from the third quarter of 2010 to the third quarter of 2011, primarily due to increases from the additional acquisitions including: personnel costs, employee stock compensation and facilities expense. Our accounting policy expenses stock options and restricted stock based on each individual vesting tranche, thereby increasing the non-cash stock compensation expense in the early periods of an option. Our headcount and facilities have expanded both through acquisition and organic growth. The cost of operations as a percentage of revenue has declined every quarter in 2011 and we expect that to continue in the fourth quarter of 2011.

Intangible amortization expense has increased from the five acquisitions completed since October 1, 2010, including Sycamore, Everest, JKA, FASI and FLD. The net impact of these acquisitions was $2.2 million of additional amortization expense in the third quarter of 2011 as compared with the third quarter of 2010. We do not expect amortization expense to start to decline until late 2012 when certain earlier acquisitions become fully amortized. We expect amortization expense to increase in the fourth quarter of 2011 as FLD will be included in our operating results for a full three months.

The two main drivers of non-operating income in the third quarter of 2010 were write-down of the TAGG earn-out of $9.25 million, offset by interest expense of $1.0 million. The third quarter 2011 non-operating expense is mainly interest expense of $322,000. We expect interest expense to be about the same in the fourth quarter of 2011 and be the largest component of that line item.

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010

The following discussion and analysis should be read in conjunction with the unaudited financial statements (and notes thereto) and other financial information of the Company appearing elsewhere in this report. In addition, see Note 2 – Acquisitions to our unaudited financial statements included in this Quarterly Report for specific information with respect to the assumptions and adjustments made in calculating the pro forma financial information for the nine month periods ended September 30, 2011 and September 30, 2010 set forth below.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Consolidated Overview (000's)

(In thousands)	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010		Pro Forma Nine Months Ended September 30, 2011 (Unaudited)		Pro Forma Nine Months Ended September 30, 2010 (Unaudited)	
Revenue	$140,516		$78,651		$164,301		$147,550	
Gross Margin	$40,427	28.8 %	$23,020	29.3 %	$52,296	31.8 %	$48,630	33.0 %
Cost of Operations	$31,561	22.5 %	$18,648	23.7 %	$39,284	23.9 %	$34,608	23.5 %
IntangibleAmortization	$8,106	5.8 %	$4,454	5.7 %	$8,106	4.9 %	$4,454	3.0 %
Non-operating Expense(Income)	$557	0.4 %	$(16,696)	(21.2)%	$774	0.5 %	$(16,584)	(11.2)%

Revenue for the nine months ended September 30, 2011, increased on a year-over-year basis by $61.9 million, or 78.7%, as compared to the nine months ended September 30, 2010. The main drivers for the increase were the acquisitions that occurred subsequent to September 30, 2010, including Sycamore, Everest, JKA, FASI and FLD and the impact of the TAGG and IIT acquisitions made during the first quarter of 2010. The five acquisitions completed since October 1, 2010 accounted for $54.2 million of the revenue increase. Organically, our services business grew 7.4% overall (17.8% excluding our Air Force services work) year over year as a result of adding additional headcount through the expansion of our contract vehicles.

On a pro forma basis, revenue for the combined entity for the nine months ended September 30, 2011 was $164.3 million, an increase of $16.8 million, or 11.4% (19.8% excluding Air Force services) from September 30, 2010. The increase in revenue is primarily due to overall organic growth, a large prime contract win by Everest under which work commenced in September 2010, and staffing growth in most areas. Revenue was down significantly between these periods in our Air Force services.

Overall gross margins decreased slightly (0.5 percentage points) year over year due to improved services margins and the impact of higher margin work with Everest and FASI, offset by lower product margins (7.9 percentage points). Services gross margin increased (0.7 percentage points) both as a percentage of revenue and in dollars, in the nine months ended September 30, 2011 as compared with the nine months ended September 30, 2010. The primary driver for the dollar increase is the increased revenue described above. On a pro forma basis, assuming all of our acquisitions had been completed on January 1, 2010; services margins were flat between the periods mainly due to higher margins from Everest and FASI offset by lower margins in our Air Force services work.

Our cost of operations increased by $12.9 million from the first nine months of 2010 to the first nine months of 2011, primarily due to increases from the additional acquisitions, personnel costs, employee stock compensation and facilities expense. Specifically, stock compensation increased by $1.1 million, primarily due to the stock options and restricted stock issued in conjunction with the Sycamore, Everest, JKA, FASI and FLD acquisitions. Our accounting policy expenses stock options based on each individual vesting tranche, thereby increasing the non-cash stock compensation expense in the early periods of an option. Our headcount and facilities have expanded both through acquisition and organic growth.

The main driver of the non-operating income in the first nine months of 2010 was the write-down of the accrued TAGG earn-out of $17.8 million. Interest expense was $1.7 million for the period. For the nine months ended September 30, 2011, non-operating expense of $557,000 predominately consisted of interest expense totaling $543,000.

Liquidity and Capital Resources

Cash and cash equivalents totaled approximately $2.4 million at September 30, 2011. Our working capital, defined as current assets minus current liabilities, is ($13.8) million at September 30, 2011. This represents a decrease of $40.5 million from December 31, 2010 primarily as a result of borrowings to fund the acquisitions of JKA, FASI and FLD. During 2011, we have borrowed $59 million for acquisitions and have repaid $10 million of that as of September 30, 2011. During 2011, we have continued to strengthen the balance sheet as outstanding receivables as a percentage of quarterly sales have decreased since December 31, 2010 while our current liabilities, excluding the revolver debt, have remained flat or decreased. At September 30, 2011, the Company is in compliance with all debt covenants.

We believe that our cash from operations will be sufficient to fund our operations as we continue to grow in addition to allowing us to continue to pay down our outstanding debt. Expansion of our FLD flight operations may require the acquisition of additional aircraft assets, which may limit the amount by which we are able to pay down debt. We may utilize our line of credit to fund acquisitions and to provide liquidity in the event of federal governmental budgetary issues, including failure or delay by Congress and the President in approving federal budgets in the future.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

We will continue to acquire companies when there is a strategic fit. At September 30, 2011, we have approximately $35 million of available cash with which to complete additional acquisitions under our existing credit facilities. We may need to increase our credit facilities to complete large acquisitions that require a significant cash component.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In addition to the risks inherent in our operations, we are exposed to financial, market, political and economic risks. The following discussion provides additional detail regarding our exposure to interest rates and foreign exchange rate risks.

Interest Rate Risk

At September 30, 2011, the Company had approximately $49 million outstanding under its revolving credit facility with variable interest rates. Historically, we have not mitigated our exposure to fluctuations in interest rates by entering into interest rate hedge agreements, nor do we have any plans to do so in the immediate future. We have locked in the interest rate for all of our debt for up to six months. We believe that any change in interest rates would be immaterial to the Company over the next six months.

Foreign Exchange Risk

We currently do not have any foreign currency risk, and accordingly estimate that an immediate 10% change in foreign exchange rates would have no impact on our reported net income. We do not currently utilize any derivative financial instruments to hedge foreign currency risks.

ITEM 4. CONTROLS AND PROCEDURES

Based on management’s evaluation (with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO)), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the nine months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of September 30, 2011 and the date of this filing, the Company has no on-going legal matters.

ITEM 1A. RISK FACTORS

We are subject to several risk factors that could have a direct and material impact on the operations of the Company and the market price of our common stock. Those risk factors are disclosed under "Risk Factors" in our 2010 Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders (the "Annual Meeting") of The KEYW Holding Corporation ("KEYW" or the "Company") was held on August 17, 2011. Please see the Company's Form 8-K filed with the Securities and Exchange Commission on August 18, 2011 for further details.

ITEM 6. EXHIBITS

Exhibits – See Exhibit Index

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 3rd day of November 2011.

THE KEYW HOLDING CORPORATION

By: /s/ Leonard E. Moodispaw
Leonard E. Moodispaw
President and Chief Executive Officer

By: /s/ John E. Krobath
John E. Krobath
Chief Financial Officer

Exhibit No.	Exhibit Description	
2.1	Agreement and Plan of Merger, dated as of July 27, 2011, by and among The KEYW Corporation ("Purchaser"), FLD Acquisition Corporation, a wholly-owned subsidiary of Purchaser, Flight Landata, Inc., and Jill Mann of Mann & Mann, P.C., as the Stockholder Representative	1
31.1	Certification of the Chief Executive Officer pursuant to R Rule 13a-14(a)/15d-14(a)	*
31.2	Certification of the Chief Financial Officer pursuant to R Rule 13a-14(a)/15d-14(a)	*
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer and Principal Accounting Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002	2
101.INS	XBRL Instance Document	**
101.SCH	XBRL Taxonomy Extension Schema Document	**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	**

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1 Incorporated by reference to Exhibit 2.1 to the Company's Form 8-K, dated August 5, 2011 and filed with the Securities and Exchange Commission on August 10, 2011.

2 This exhibit is being "furnished" with this periodic report and is not deemed "filed" with the Securities and Exchange Commission and is not incorporated by reference in any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation by reference language in any such filing.

* Filed herewith.

** Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.