KEYW HOLDING CORP
Form 10-Q
October 31, 2012

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, 2012

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	27-1594952
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
	21076

7740 Milestone Parkway, Suite 400
Hanover, Maryland
(Address of principal executive offices) (Zip Code)

(443) 733-1600

(Registrant's telephone number, including area code)

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. Yesx 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 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (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 October 11, 2012 was 34,970,204.

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PART I - Financial INFORMATION

ITEMI. FINANCIAL STATEMENTS

THE KEYW Holding Corporation AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollars shown in 000's except share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 52,164	$ 1,294
Receivables	45,892	40,630
Inventories, net	9,066	7,242
Prepaid expenses	2,349	2,511
Income tax receivable	27	27
Deferred tax asset, current	1,193	1,193
Total current assets	110,691	52,897
Property and equipment, net	15,459	8,707
Goodwill	164,466	164,466
Other intangibles, net	24,395	39,002
Deferred tax asset	4,737	2,348
Other assets	47	211
TOTAL ASSETS	$ 319,795	$ 267,631
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,412	$ 4,136
Accrued expenses	7,953	4,370
Accrued salaries & wages	12,424	9,644
Revolver	0	49,500
Deferred income taxes	1,591	1,591
Total current liabilities	25,380	69,241
Long-term liabilities:		
Non-current deferred tax liability	15,168	17,430
Other non-current liabilities	3,812	301

TOTAL LIABILITIES	44,360	86,972
Commitments and contingencies	0	0
Stockholders’ equity:		
Preferred stock, $0.001 par value; 5 million shares authorized, none issued	0	0
Common stock, $0.001 par value; 100 million shares authorized, 34,160,790 and 25,770,795 shares issued and outstanding	34	26
Additional paid-in capital	267,304	173,371
Retained earnings	8,097	7,262
Total stockholders’ equity	275,435	180,659
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 319,795	$ 267,631

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, 2012 (Unaudited)	Three months ended September 30, 2011 (Unaudited)	Nine months ended September 30, 2012 (Unaudited)	Nine months ended September 30, 2011 (Unaudited)
Revenues				
Services	$ 39,665	$ 40,793	$ 118,596	$ 121,978
Integrated Solutions	17,688	13,164	50,688	18,538
Total	57,353	53,957	169,284	140,516
Costs of Revenues				
Services	28,634	30,180	85,623	87,816
Integrated Solutions	9,232	8,628	26,312	12,273
Total	37,866	38,808	111,935	100,089
Gross Profit				
Services	11,031	10,613	32,973	34,162
Integrated Solutions	8,456	4,536	24,376	6,265
Total	19,487	15,149	57,349	40,427
Operating Expenses				
Operating expenses	13,914	11,231	40,415	31,561
Intangible amortization expense	4,869	3,573	14,607	8,106
Total	18,783	14,804	55,022	39,667
Operating Income	704	345	2,327	760
Non-Operating Expense, net	376	330	1,239	557
Income before Income Taxes	328	15	1,088	203
Income Tax (Benefit) Expense, net	(13)	(90)	253	(15)
Net Income	$ 341	$ 105	$ 835	$ 218
Weighted Average Common Shares Outstanding				
Basic	25,883,556	26,169,829	25,744,453	25,944,264
Diluted	29,357,193	29,061,409	28,548,768	29,140,838
Earnings per Share				

Basic	$0.01	$0.00	$0.03	$0.01
Diluted	$0.01	$0.00	$0.03	$0.01

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

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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, 2012	25,770,795	$ 26	$ 173,371	$ 7,262	$ 180,659
Net income	0	0	0	835	835
Option exercise	52,940	0	320	0	320
Warrant exercise	67,396	0	50	0	50
Restricted stock issuances	182,000	0	749	0	749
Restricted stock forfeitures	(26,150)	0	(51)	0	(51)
Stock repurchase	(396,191)	0	(2,948)	0	(2,948)
Stock issued in public offering, net of expenses	8,510,000	8	94,443	0	94,451
Stock based compensation		0	1,370	0	1,370
BALANCE, SEPTEMBER 30, 2012	34,160,790	$ 34	$ 267,304	$ 8,097	$ 275,435

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, 2012 (Unaudited)	Nine months ended September 30, 2011 (Unaudited)
Net income	$ 835	$ 218
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock compensation	2,068	2,169
Depreciation/Amortization	17,747	9,245
Deferred taxes	(2,389)	(561)
Changes in operating assets and liabilities:		
Receivables	(5,262)	(2,193)
Inventory	(1,824)	(1,388)
Prepaid expenses	162	1,112
Accounts payable	(724)	(1,849)
Accrued expenses	3,643	(2,965)
Other balance sheet changes	163	272
Net cash provided by operating activities	14,419	4,060
Cash flows from investing activities:		
Acquisitions, net of cash acquired	0	(55,213)
Purchases of property and equipment	(5,922)	(1,954)
Net cash used in investing activities	(5,922)	(57,167)
Cash flows from financing activities:		
Proceeds from stock issuance, net	94,451	0
Proceeds from revolver, net	(49,500)	49,000
Repurchase of stock	(2,948)	0
Proceeds from option and warrant exercises	370	693
Net cash provided by financing activities	42,373	49,693
Net increase (decrease) in cash and cash equivalents	50,870	(3,414)
Cash and cash equivalents at beginning of period	1,294	5,795
Cash and cash equivalents at end of period	$ 52,164	$ 2,381
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,304	$ 342
Cash paid for taxes	$ 4,227	$ 93

Supplemental disclosure of non-cash investing and financing activities:

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.

In conjunction with the May 2012 move to the new facilities, the Company added approximately $4.0 million of leasehold improvements that were paid for by the landlord as part of the buildout. This amount was included in other non-current liabilities as deferred rent.

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, 2011, contained in our Annual Report on Form 10-K and filed with the Securities and Exchange Commission on March 15, 2012.

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 period prior to Decemb 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 thirteen 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") 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, Flight Landata, Inc. ("FLD") on August 5, 2011 and certain government contracting assets from National Semiconductor Corporation ("TI") on December 16, 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. Consistent with December 31, 2011, we recorded an inventory reserve for certain products where the market has not developed as expected.

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 45 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 either a straight-line method or accelerated methods acceptable under accounting principles generally accepted in the United States of America ("US GAAP") 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.

Capitalized Software

The Company, beginning in the third quarter of 2012, began to capitalize software development costs related to software products designed for sale or licensing. Once technological feasibility is established, applicable software development costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We consider technological feasibility to be established when we have completed all necessary planning and design and after all high-risk development issues are resolved through coding and testing. Moreover, these activities are necessary to establish that the product can meet our design specifications including functions, features, and technical performance requirements. We discontinue capitalization when the product is available for general release to customers. All of our capitalized software relates to Project G which is not anticipated to be available for general release until early 2013.

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 charges 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. As of the measurement of October 1, 2011, the Company operated 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 2011 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. Beginning in the fourth quarter of 2011, the Company began operating in two segments. In 2012, goodwill will be evaluated at the individual reporting unit level.

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

Substantially all of the Company's cash and cash equivalents are maintained at financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") at September 30, 2012. 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 US GAAP. 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 percentage of completion revenue, 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.

The KEYW HOLDING CORPORATION AND SUBSIDIARIES

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 statements 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 $1,688,000 and $904,000 for the three months ended September 30, 2012 and September 30, 2011, respectively. Research and development costs totaled $4,154,000 and $1,748,000 for the nine months ended September 30, 2012 and September 30, 2011, respectively.

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, 2012 or December 31, 2011.

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 unaudited):

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net income	$ 341	$ 105	$ 835	$ 218
Weighted average shares – basic	25,884	26,170	25,744	25,944
Effect of dilutive potential common shares	3,473	2,891	2,805	3,197
Weighted average shares – diluted	29,357	29,061	28,549	29,141
Net income per share – basic	$ 0.01	$ 0.00	$ 0.03	$ 0.01
Net income per share – diluted	$ 0.01	$ 0.00	$ 0.03	$ 0.01
Anti-dilutive employee share-based awards, excluded	689	855	880	693
Outstanding options and warrants, total	7,125	6,740	7,125	6,740

The KEYW HOLDING CORPORATION AND SUBSIDIARIES

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.

Stock Based Compensation

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, the entire 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, 2012 and September 30, 2011.

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 Section 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, beginning in the fourth quarter of 2011, operates in two segments based upon the information used by the chief operating decision maker to evaluate the performance of its business and allocating resources and capital. These segments are Services and Integrated Solutions. Our Services segment is for revenue generated from labor-based activities. The Integrated Solutions segment contains all activities of our Company that are product-related or originated from a product.

Recently Issued Accounting Pronouncements

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. The adoption of this standard did not have a material impact on our financial statements.

The KEYW HOLDING CORPORATION AND SUBSIDIARIES

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. The adoption of this standard will only impact the presentation of our financial statements if and when we have elements of comprehensive income.

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. This guidance is not expected to have a material effect on our financial statements.

2. ACQUISITIONS

The Company has completed thirteen 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 four acquisitions completed since January 1, 2011 are outlined below:

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. 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 was 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 $14.8 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 was 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”) and its wholly-owned subsidiary FLI-HI, LLC for $30.0 million in cash. The purchase price was subject to post-closing adjustments, including working capital and other adjustments, as of the closing date. 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.

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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.

National Semiconductor Corporation

On December 16, 2011, the Company acquired certain government contracting assets from National Semiconductor Corporation ("TI") for $2.0 million in cash and $2.0 million in contingent consideration. The Company has recognized $1.5 million of goodwill and $2.5 million of intangibles associated with this transaction. Eighteen fully-cleared personnel joined the Company as part of this acquisition.

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

	JKA	FASI	FLD	TI
Cash	$8	$452	$4,614	$0
Current assets, net of cash acquired	2,934	2,413	5,126	0
Fixed assets	87	14	3,875	0
Intangibles	2,680	2,775	21,741	2,500
Goodwill	9,097	14,155	11,456	1,500
Total Assets Acquired	14,806	19,809	46,812	4,000
Current liabilities	1,079	2,661	944	2,000
Long-term obligations	0	0	10,636	0
Total Liabilities Assumed	1,079	2,661	11,580	2,000
Net Assets Acquired	$13,727	$17,148	$35,232	$2,000
Net Cash Paid	$11,255	$14,753	$30,618	$2,000
Equity Issued	2,464	1,943	0	0
Actual Cash Paid	$11,263	$15,205	$35,232	$2,000

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 statement of operations for the first nine months of 2011, assuming these acquisitions had been completed on the first day of the year. A pro forma income statement is not presented for 2012 as there have been no acquisitions on or prior to September 30, 2012. These pro forma statements do not include any adjustments that may have resulted from synergies between the acquisitions or from 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. Activity for the TI acquisition is not included for any period presented due to its immateriality.

	For Nine Months ended September 30, 2011 (In Thousands and Unaudited)				
	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, net	6	39	172	557	774
Income (Loss) before Taxes	262	(2,005)	5,668	203	4,128
Tax Expense (Benefit), net	0	0	2,257	(15)	2,242
Net Income (Loss)	$ 262	$ (2,005)	$ 3,411	$ 218	$ 1,886

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The table below summarizes the unaudited pro forma statement of operations for the third quarter of 2011, assuming that the FLD acquisition had been completed on the first day of the year.

	For Three Months ended September 30, 2011 (In Thousands and Unaudited)		
	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, net	128	330	458
Income before Taxes	749	15	764
Tax Expense (Benefit), net	89	(90)	(1)
Net Income	$ 660	$ 105	$ 765

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 mark-to-market financial assets or liabilities at September 30, 2012.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	September 30, 2012	December 31, 2011
	(In thousands)	
Accounts Receivable		
Billed AR	$ 25,785	$ 25,717
Unbilled AR	20,107	14,913
Total AR	$ 45,892	$ 40,630

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, 2012 and December 31, 2011, 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.

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5. INVENTORIES

Inventories at September 30, 2012 and December 31, 2011 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. At September 30, 2012, and December 31, 2011, we have reserved $838,000 and $471,000, respectively, for certain inventory items where the market has not developed as expected.

During the third quarter of 2012, we capitalized $670,000 of software designed for sale or leasing.

6. PREPAID EXPENSES

Prepaids at September 30, 2012 and December 31, 2011 primarily consist of prepaid insurance, bonuses, rent, prepaid taxes and professional fees.

7. PROPERTY AND EQUIPMENT

Property and equipment are as follows:

	September 30, 2012	December 31, 2011
	(In thousands)	
Property and Equipment		
Aircraft	$ 6,983	$ 5,249
Buildings and Improvements	7,089	1,459
Manufacturing Equipment	2,178	1,839
Office Equipment	5,506	3,317
Total	$ 21,756	$ 11,864
Accumulated Depreciation	(6,297)	(3,157)
Property and Equipment, net	$ 15,459	$ 8,707

Depreciation expense charged to operations was $3,140,000 and $1,139,000 for the nine months ended September 30, 2012 and 2011, respectively. Depreciation expense charged to operations was $1,085,000 and $612,000 for the three months ended September 30, 2012 and 2011, respectively. Certain of our aircraft and equipments are operated out of overseas locations.

In conjunction with the move into a new building, during the second quarter of 2012, the Company added approximately $4.0 million of leasehold improvements that were purchased with a tenant allowance and included in deferred rent.

8. AMORTIZATION OF INTANGIBLE ASSETS

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

		September 30, 2012 (In thousands)		
Acquisition	Intangible	Gross Book Value	Accumulated Amortization	Net Book Value
S&H	Contracts – Fixed Price Level of Effort	$ 1,606	$ (1,147)	$ 459
ICCI	Contracts – Fixed Price Level of Effort	1,181	(970)	211
ICCI	Contracts – T&M and IDIQ	3,018	(2,958)	60
ESD	Contracts	1,207	(771)	436
LEDS	Contracts	1,019	(1,003)	16
Recon	Contracts	925	(888)	37
TAGG	Contracts	10,457	(9,077)	1,380
IIT	Contracts	1,615	(1,368)	247
IIT	Trade name	182	(154)	28
Sycamore	Contracts	5,898	(3,604)	2,294
Everest	Contracts	4,690	(1,720)	2,970
JKA	Contracts	2,680	(1,340)	1,340
FASI	Contracts	2,775	(983)	1,792
FLD	Customer Relationships	17,549	(8,472)	9,077
FLD	Contracts	2,234	(1,303)	931
FLD	Technology Assets	1,958	(945)	1,013
TI	Contracts	2,500	(396)	2,104
		$ 61,494	$ (37,099)	$ 24,395

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The Company recorded amortization expense of $14.6 million and $8.1 million for the nine month periods ended September 30, 2012 and 2011, respectively. The Company recorded amortization expense of $4.9 million and $3.6 million for the three month periods ended September 30, 2012 and 2011, respectively.

Estimated future intangible amortization expense by year as of September 30, 2012 (In thousands)

2012	2013	2014	2015	2016
$ 4,818	$ 14,814	$ 2,693	$ 1,591	$ 479

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 was a 3 year agreement and was 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. On September 28, 2012 the Company terminated, satisfied, and discharged all of its obligations under the Bank of America credit facility and on October 1, 2012 the Company entered into a new senior credit agreement. See Note 14 – Subsequent Events. Interest expense recognized in the first nine months of 2012 related to the Bank of America credit facility was approximately $1,286,000 and was $543,000 in the first nine months of 2011. Interest expense recognized for the three month period ended September 30, 2012 related to this agreement was approximately $418,000 and $322,000 for the three month period ended September 30, 2011.

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 2009 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.

On August 15, 2012, the shareholders approved the 2013 KEYW Holding Corporation Stock Incentive Plan. The 2013 plan, which takes effect on January 1, 2013, replaces the 2009 plan and provides for the issuance of restricted stock, stock options, and restricted stock units with a maximum of 2,000,000 shares available for issuance.

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 will begin using our own stock volatility in the fourth quarter of 2012. 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 of service with the Company, except as provided in certain circumstances under our senior executive employment agreements.

The option grants during the first nine months of 2012 consist of options issued to new hires or discretionary awards. All equity issuances have an exercise price at market value or higher 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 2012, our assumptions related to these inputs were as follows:

-Dividend yield was zero as we have no current intentions to pay any dividends

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-Risk-free interest rate ranging from 0.62% - 1.03%

-Expected volatility ranging from 28.35% - 36.35%

-Forfeitures ranging from 15% - 39%

Beginning in the fourth quarter of 2012, we will begin using our own stock's volatility for the Black-Sholes input as we will have enough trading history at that time.

A summary of stock option activity for the period ended September 30, 2012 is as follows:

	Number of Shares	Option Exercise Price	Weighted Average Exercise Price
Outstanding January 1, 2012	2,238,673		
Granted	650,150	$7.06 - $11.44	$ 8.10
Exercised	(52,940)	$5.00 - $11.30	$ 6.04
Cancelled	(197,773)	$5.00 - $14.57	$ 9.69
Options Outstanding September 30, 2012	2,638,110		

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, 2012 and 2011, 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, 2012 is approximately $4.1 million, which will be recognized over four years.

As of September 30, 2012, outstanding stock options were as follows:

Exercise Price

	Options Outstanding	Intrinsic Value	Options Vested	Intrinsic Value	Weighted Average Remaining Life (Years)
$5.00	116,000	$870,000	88,600	$664,500	5.99
$5.50	773,037	5,411,259	516,131	3,612,917	7.08
$6.90 - $7.66	484,011	2,458,747	29,065	146,755	9.33
$7.96 – $8.14	94,962	428,265	23,419	105,606	9.15
$9.17 - $10.98	421,425	1,188,934	222,443	657,623	8.40
$11.18 - $11.99	189,625	145,456	92,359	70,111	8.47
12.28	66,650	14,663	33,328	7,332	8.50
$12.65 - $14.57	492,400	0	246,248	0	8.27
	2,638,110	$10,517,324	1,251,593	$5,264,844	

2009 Stock Incentive Plan	
Total equity available to issue	4,099,295
Total equity outstanding or exercised	2,406,854
Total equity remaining	1,692,441

Restricted Stock Awards

During 2012, the Company has issued restricted stock for employee incentive plans and strategic hires. The Company issued 147,000 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 35,000 restricted shares to new hires and board members. The majority of these shares cliff vest in three years. 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.

As of September 30, 2012, outstanding unvested restricted stock awards were as follows:

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	Unvested Shares
Outstanding January 1, 2012	403,546
Granted	182,000
Vested	(180,013)
Cancelled	(26,150)
Outstanding September 30, 2012	379,383

11. STOCK REPURCHASE

Issuer Purchases of Equity Securities

On December 7, 2011, the Company announced that the board of directors approved the repurchase of up to two million outstanding shares of common stock over the following twelve months in open market or privately negotiated transactions, depending on prevailing market conditions and other factors. Subsequent to that date, the Company has repurchased 822,093 shares at an average price of $7.34 per share, in open market or block purchases under the Safe Harbor provisions of SEC Rule 10b-18. These shares were retired upon repurchase.

Period	Total number of shares (or units) purchased	Average price paid per share (or unit)	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
December 7 – 31, 2011	425,902	$ 7.24	425,902	1,574,098
January 1 – September 30, 2012	396,191	$ 7.44	396,191	1,177,907
Total	822,093	$ 7.34	822,093	1,177,907

12. WARRANTS

During the first nine months of 2012, warrant holders exercised 67,396 warrants with 12,500 warrants exercised at $4.00 per share. The total cash received from these exercises was approximately $50,000. Under the warrant agreements, warrants may be cashlessly exercised based on the average price of the Company's common stock for 5 days prior to exercise. Under this methodology 89,432 of the total exercised warrants were exchanged for 54,896 shares of the Company's common stock in cashless exercises.

As of September 30, 2012, outstanding warrants were as follows:

Exercise Price	Warrants Outstanding	Warrants Vested	Weighted Average Remaining Life (Years)
$ 4.00	2,023,250	2,023,250	2.89
$ 5.50	2,254,053	2,254,053	3.65
$ 9.25	210,000	210,000	4.46
	4,487,303	4,487,303	

13. SEGMENTS

The Company specifically identifies acquired goodwill and intangibles with specific segments. Fixed assets are segregated by segment with assets also being assigned to Corporate for those assets that are not specifically identified for either segment.

	As of and for the Nine Months ended September 30, 2012 (In thousands and unaudited)		
	Services	Integrated Solutions	Corporate
Goodwill	$ 155,056	$ 9,410	$ 0
Intangibles, net	13,375	11,020	0
Property and Equipment, net	2,033	6,452	6,974
Depreciation Expense	629	1,868	643
Intangible Amortization	7,715	6,892	0

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	For the Nine Months ended September 30, 2011 (In thousands and unaudited)		
	Services	Integrated Solutions	Corporate
Depreciation Expense	$ 403	$ 520	$ 216
Intangible Amortization	7,044	1,062	0

	As of December 31, 2011 (In thousands)		
	Services	Integrated Solutions	Corporate
Goodwill	$ 155,056	$ 9,410	$ 0
Intangibles, net	21,090	17,912	0
Property and Equipment, net	1,462	6,050	1,195

14. SUBSEQUENT EVENTS

In connection with the preparation of its financial statements for the nine months ended September 30, 2012, the Company has evaluated events that occurred subsequent to September 30, 2012 to determine whether any of these events required recognition or disclosure in the first nine months of 2012 financial statements. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements other than those listed below.

On October 1, 2012, the Company entered into a senior credit agreement, (the "Credit Agreement"), by and among itself, the KEYW Corporation, as the borrower (the "Borrower"), the domestic direct and indirect subsidiary guarantors of KEYW (the "Subsidiary Guarantors"), the lenders and Royal Bank of Canada, as administrative agent. Under the Credit Agreement, the Company provided a guaranty of all of the obligations of the Borrower. The Credit Agreement provides the Borrower a $60 million term loan and a $40 million revolving credit facility, (the "Revolver"). The Revolver includes a $10 million swing line and a $15 million letter of credit sub-facility. The Credit Agreement includes an uncommitted accordion facility, permitting the Borrower to obtain up to an additional $35 million, subject to certain conditions. The five year Credit Agreement bears cash interest at either selected LIBOR plus a specified margin based on the Company's then existing Senior Leverage Ratio (as defined in the Credit Agreement) or an alternative base rate plus a specified margin. The Term Loan and the Revolver are secured by a security interest and lien on substantially all of KEYW's, the Borrower's and the Subsidiary Guarantor's assets including a pledge of one hundred percent of the equity securities of the Borrower and the Subsidiary Guarantors.

On October 1, 2012, the Company, through a wholly-owned subsidiary, acquired all of the outstanding shares of capital stock of Poole for $116 million in cash and 794,913 shares of the Company's common stock. $16 million of the cash portion of the purchase price will be held in escrow until the 18-month anniversary of the closing date as partial security for the indemnification obligations of the sellers. The purchase price is subject to post-closing adjustments, including working capital and other adjustments, as of the closing date.

On October 12, 2012, an indirect wholly-owned subsidiary of the Company merged with and into Sensage, with Sensage surviving as an indirect wholly-owned subsidiary of the Company. The equity holders of Sensage received $15 million in cash and 713,151 shares of the Company's common stock. The equity holders of Sensage may receive up to $3 million of additional cash consideration and up to 594,295 additional shares of the Company's common stock, contingent upon Sensage meeting certain revenue targets for the second half of 2012. The purchase price is subject to post-closing adjustments, including working capital and other adjustments, as of the closing date.

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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, 2011, filed with the Securities and Exchange Commission on March 15, 2012.

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 contain 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, 2011, filed with the Securities and Exchange Commission on March 15, 2012, 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, cyber superiority and geospatial intelligence 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 domains of cyberspace and geospace. Our solutions are designed to respond to meet the critical needs for agile intelligence in the cyber age.

Although our heritage is in the signals intelligence (SIGINT) domain, through a combination of organic growth and acquisitions, we have expanded our footprint within the intelligence agency market to become a true “multi-INT” company (signals intelligence, geospatial intelligence, etc.), and we currently have active contracts with 11 of the 16 intelligence agencies. We believe our innovative solutions, understanding of intelligence and national security missions, management’s long-standing and successful customer relationships and significant management and operational capabilities position us to continue our growth.

KEYW’s primary areas of expertise include:

- providing engineering services and solutions that help our customers solve discreet and complex cybersecurity, cyber superiority, cloud computing, geospatial intelligence, and counter terrorism challenges;
- providing specialized training and test and evaluation services in domains such as cyber network operations;
- developing, testing, and deploying new sensor technologies and data processing capabilities for a range of sensor types including signals intelligence, high resolution electro-optical, long-wave infrared, multi-band synthetic aperture radar, and others;
- developing and fielding innovative applications for mobile devices to support law enforcement, military, and intelligence customer needs; and
- developing, integrating, rapidly deploying and sustaining of agile airborne intelligence, surveillance, and reconnaissance collection platforms to austere environments.

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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, 2011. 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 Annual Report on Form 10-K for year ended December 31, 2011.

Comparison of Three Months Ended SEPTEMBER 30, 2012 and SEPTEMBER 30, 2011

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, 2012 and September 30, 2011 set forth below.

Consolidated Overview (000's)

(In thousands)	Three Months Ended September 30, 2012	% of Revenue		Three Months Ended September 30, 2011	% of Revenue	
Revenue	$ 57,353	100.0	%	$ 53,957	100.0	%
Gross Margin	19,487	34.0	%	15,149	28.1	%
Cost of Operations	13,914	24.3	%	11,231	20.8	%
Intangible Amortization	4,869	8.5	%	3,573	6.6	%
Non-operating Expense, net	376	0.7	%	330	0.6	%

Revenue for the three months ended September 30, 2012, increased on a year-over-year basis by $3.4 million, or 6.3%, as compared to the three months ended September 30, 2011. The main driver for this increase was the FLD acquisition that occurred in August 2011 which caused our Integrated Solutions revenue to increase by $4.5 million between the two periods, partially offset by lower services revenue. See additional detail in the segment discussion below.

Gross margin increased as a percentage of revenue for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 as a result of the increase in the higher margin Integrated Solutions revenue as a percentage of total revenue (increase was from 24.4% to 30.8% of revenue) and increased margins within the Integrated Solution Segment. Our Integrated Solutions margins are significantly higher than our Services margins.

Our cost of operations increased $2.7 million from the third quarter of 2011 to the third quarter of 2012, primarily due to increases from overall corporate growth that includes facilities, increased research and development, overhead personnel to support the larger organization, compensation accruals consistent with the increase in staffing, and increased bid and proposal costs. Our research and development costs increased by $0.8 million in the third quarter of 2012 as compared to the same quarter in 2011. This increase is driven by investments in our intelligence community class commercial software product, synthetic aperture radar work and continued evolution of our electro-optical products. Our headcount and facilities have expanded both through acquisition and organic growth. The cost of operations as a percentage of revenue is higher than the third quarter of 2011 and we expect overhead costs to increase in the fourth quarter of 2012, as compared to the third quarter of 2012, due to the acquisitions of Poole and Sensage in October 2012 partially offset by lower fringe costs and certain other expenses incurred early in the year which are not expected to recur in the fourth quarter.

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Intangible amortization expense has increased as a result of the four acquisitions completed in 2011, including JKA, FASI, FLD and TI. The net impact of these acquisitions was $1.3 million of additional amortization expense in the third quarter of 2012 as compared with the third quarter of 2011. We expect fourth quarter 2012 amortization expense to increase from the third quarter 2012 expense due to the acquisitions of Poole and Sensage in October 2012.

Non-operating expense increased nominally in the third quarter of 2012 as compared with the third quarter of 2011 primarily due to increased interest expense.

SERVICES SEGMENT RESULTS (In thousands)	Three Months Ended September 30, 2012	% of Revenue		Three Months Ended September 30, 2011	% of Revenue	
Revenue	$ 39,665	100.0	%	$ 40,793	100.0	%
Gross Margin	11,031	27.8	%	10,613	26.0	%
Intangible Amortization	2,572	6.5	%	2,511	6.2	%

Revenue for the three months ended September 30, 2012, decreased on a year-over-year basis by $1.1 million, or 2.8%, as compared to the three months ended September 30, 2011. The main drivers for this decrease were reductions in our Air Force services work, the reassignment of a low margin contract, and an increased use of billable staff on non-billable activities. Those decreases were partially offset by increased staffing. During the third quarter of 2011, our Air Force services work comprised approximately 7% of our services revenue as compared with approximately 3% of our third quarter 2012 revenue. While we have seen a leveling out of our Air Force services revenue, we still have negative comparisons to prior years. We had staffed a significant portion of a prime contract with a subcontractor in 2011. Late in 2011, that subcontractor was moved to a direct prime contract vehicle at the direction of the government, reducing third quarter 2012 revenue as compared with third quarter 2011 by $1.6 million. We also increased our spending on research and development, bid and proposal, and intelligence community class commercial software product by approximately $1.2 million in the third quarter of 2012 as compared with the third quarter of 2011. Most of this effort is staffed by otherwise billable Services staff that would have been generating revenue during this time.

Gross margins increased as a percentage of revenue for the quarter ended September 30, 2012 as compared to the quarter ended September 30, 2011 as a result of the low margin contract reassignment and expansion into new contracts with higher rates. We expect margins to decline in the fourth quarter of 2012 with the acquisition of Poole and the large amount of associated subcontract revenue.

INTEGRATED SOLUTIONS SEGMENT RESULTS (In thousands)	Three Months Ended September 30, 2012	% of Revenue		Three Months Ended September 30, 2011	% of Revenue	
Revenue	$ 17,688	100.0	%	$ 13,164	100.0	%
Gross Margin	8,456	47.8	%	4,536	34.5	%
Intangible Amortization	2,297	13.0	%	1,062	8.1	%

Revenue for the three months ended September 30, 2012, increased on a year-over-year basis by $4.5 million, or 34%, as compared to the three months ended September 30, 2011. The main driver for this increase was the acquisition of FLD in August 2011 that contributed approximately $8.0 million of additional revenue in the third quarter of 2012 as compared with the third quarter of 2011. Our overall revenue, outside of FLD, decreased by $3.4 million due primarily to the completion of a large production contract that shipped in the third quarter of 2011. We received approximately $5.0 million in revenue on this contract in the third quarter of 2011.

Gross margins increased as a percentage of revenue for the quarter ended September 30, 2012 as compared to the quarter ended September 30, 2011 as result of the FLD acquisition in 2011 and the maturity of the products sold in 2012. The large shipment in the third quarter of 2011 was a new product with lower profit margin than our more mature products.

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Comparison of NINE Months Ended September 30, 2012 and September 30, 2011

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, 2012 and September 30, 2011 set forth below.

Consolidated Overview (000's)

(In thousands)	Nine Months Ended September 30, 2012	% of Revenue		Nine Months Ended September 30, 2011	% of Revenue	
Revenue	$ 169,284	100.0	%	$ 140,516	100.0	%
Gross Margin	57,349	33.9	%	40,427	28.8	%
Cost of Operations	40,415	23.9	%	31,561	22.5	%
Intangible Amortization	14,607	8.6	%	8,106	5.8	%
Non-operating Expense, net	1,239	0.7	%	557	0.4	%

Revenue for the nine months ended September 30, 2012, increased on a year-over-year basis by $29 million, or 20%, as compared to the nine months ended September 30, 2011. The main drivers for this increase were the acquisitions that occurred in 2011, including JKA, FASI and FLD, offset in part by decreases in our Services segment revenue of $9 million. These acquisitions accounted for approximately $38 million of the 2012 revenue increase. Our Integrated Solutions revenue increased by $32 million between the two periods due to the acquisition of FLD and the growth of our product related sales and services. See additional detail in the segment discussions below.

Gross margin increased as a percentage of revenue for the first nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 as a result of the higher margin Integrated Solutions revenue increasing as a percentage of total revenue (increase was from 13% to 30% of revenue) and higher gross margins in the Integrated Solutions segment, partially offset by lower Services gross margins. Our Integrated Solutions margins are significantly higher than our Services margins.

Our cost of operations increased by $9 million from the first nine months of 2011 to the first nine months of 2012, primarily due to increases from overall corporate growth that includes facilities, overhead personnel to support the larger organization, compensation accruals consistent with the increases in staffing and revenue, and increased research and development and bid and proposal costs. Our headcount and facilities have expanded both through acquisition and organic growth. The 2011 acquisitions contributed $4 million of the increased costs. The combination of research and development and bid and proposal costs increased by $3.3 million from the first nine months of 2011 to the first nine months of 2012. This increase is driven by investments in our intelligence community class commercial software product, synthetic aperture radar work and continued evolution of our electro-optical products. In 2012, we have had several large proposal efforts where we did not have similar activity in 2011. The cost of operations as a percentage of revenue for the first nine months of 2012 is slightly higher than the first nine months of 2011 due to those reasons discussed above.

Intangible amortization expense has increased as a result of the four acquisitions completed in 2011, including JKA, FASI, FLD and TI. The net impact of these acquisitions was $6.5 million of additional amortization expense in the first nine months of 2012 as compared with the first nine months of 2011. We expect amortization expense to increase in the fourth quarter of 2012 due to the Poole and Sensage acquisitions that were completed in October 2012.

Non-operating expense increased by $700,000 in the first nine months of 2012 as compared with the first nine months of 2011 primarily due to increased interest expense.

SERVICES SEGMENT RESULTS (In thousands)	Nine Months Ended September 30, 2012	% of Revenue		Nine Months Ended September 30, 2011	% of Revenue	
Revenue	$ 118,596	100.0	%	$ 121,978	100.0	%
Gross Margin	32,973	27.8	%	34,162	28.0	%
Intangible Amortization	7,715	6.5	%	7,044	5.8	%

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Revenue for the nine months ended September 30, 2012 decreased on a year-over-year basis by $3.4 million, or 3%, as compared to the nine months ended September 30, 2011. The main drivers for this decrease were the reduction in Air Force services revenue, the reassignment of a low margin contract, and the use of billable staff for research and development and bid and proposal activities. Offsetting the decreases were significant headcount additions since mid-2011 and the JKA and FASI acquisitions which increased revenue by $8 million. During the first nine months of 2011, our Air Force services work comprised approximately 10% of our services revenue as compared with approximately 6% of our first nine months of 2012 revenue. While we have seen a leveling out of our Air Force services revenue, we still have negative comparisons to the prior year. We had staffed a significant portion of a prime contract with a subcontractor in 2011. Late in 2011, that subcontractor was moved to a direct prime contract vehicle at the direction of the government, reducing 2012 revenue as compared with 2011 by $5.1 million.

Gross margins remained consistent as a percentage of revenue for the first nine months ended September 30, 2012 as compared to the first nine months ended September 30, 2011. We expect full-year Services 2012 margins to decline from the first nine months of 2012 margins with the acquisition of Poole in October 2012.

INTEGRATED SOLUTIONS SEGMENT RESULTS (In thousands)	Nine Months Ended September 30, 2012	% of Revenue		Nine Months Ended September 30, 2011	% of Revenue	
Revenue	$ 50,688	100.0	%	$ 18,538	100.0	%
Gross Margin	24,376	48.1	%	6,265	33.8	%
Intangible Amortization	6,892	13.6	%	1,062	5.7	%

Revenue for the nine months ended September 30, 2012, increased on a year-over-year basis by $32 million, or 173%, as compared to the nine months ended September 30, 2011. The main driver for this increase was the acquisition of FLD in August 2011 that contributed approximately $34 million of revenue in the first nine months of 2012. Our product sales were lower in the first nine months of 2012 due to the $6.0 million of product shipped in 2011 under a specific production contract but that decrease was offset by an increase in our radar work.

Gross margins increased as a percentage of revenue for the first nine months ended September 30, 2012 as compared to the first nine months ended September 30, 2011 as result of the FLD acquisition in 2011, the maturity of the products sold in 2012 and the release of unused accrued warranty expense during the first nine months of 2012. We typically take a warranty reserve on products for one year post-sale to address any product related issues. We incurred significantly less warranty expense than we expected and have adjusted our reserves accordingly.

Liquidity and Capital Resources

Cash and cash equivalents totaled approximately $52.2 million at September 30, 2012. Our working capital, defined as current assets minus current liabilities, was $85.3 million at September 30, 2012. This represents an improvement of $101.7 million from December 31, 2011 primarily from the secondary offering we completed in September 2012. We used some of the proceeds from our secondary offering to pay off our prior credit facility with Bank of America. Absent the offering proceeds of $94.4 million, working capital increased by $7.1 million.

We believe that our cash from operations and borrowings under our new credit facility with Royal Bank of Canada will be sufficient to fund our operations as we continue to grow. Continued expansion of our FLD flight operations may require the acquisition of additional aircraft assets, as has occurred in 2012. At September 30, 2012, we did not have an established credit facility. Our existing facility was terminated and paid in full on September 28, 2012. On October 1, 2012, we entered into a new $100 million credit facility of which $60 million is a term loan and $40 million is a revolver. The new credit facility also has an uncommitted $35 million accordion. Also on October 1, 2012 we purchased Poole for $116 million in cash and 794,913 shares of Company's common stock. To complete this transaction we fully drew down the term debt facility and $12 million of the revolver. On October 12, 2012, we purchased Sensage for $15 million in cash and 713,151 shares of the Company's common stock. See Note 14 – Subsequent Events.

We intend to continue to acquire companies where there is a strategic fit. We believe that cash from operations and borrowings from our credit facility will be sufficient to fund our operations and additional acquisitions for the foreseeable future; however, significant acquisitions or a series of acquisitions in a short period may require additional sources of capital. After the Poole and Sensage acquisitions, we have utilized approximately $85 million of our $100 million debt facility.

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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, 2012, we had no outstanding balance under credit facilities. 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 believe that a 10 percent 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.

ITEML. CONTROLS AND PROCEDURES

Evaluation of Disclosure 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.

Changes in Internal Control over Financial Reporting

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 quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEMI. LEGAL PROCEEDINGS

As of September 30, 2012 and the date of this filing, the Company is not party to any on-going legal proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011, except as set forth below.

The following risk factors under the subheading “Risks Relating to Our Business” are amended and restated in their entirety as follows:

We depend on U.S. Government contract awards that are only partially funded and which depend upon annual budget appropriations. A delay in the completion of the U.S. Government’s budget process could delay procurement of the services and solutions we provide and have an adverse effect on our future revenue.

Budget decisions made by the U.S. Government are outside of our control and have significant consequences for our business. Funding for U.S. Government contract awards is subject to congressional appropriations. Although multi-year awards may be planned or authorized in connection with major procurements, Congress generally appropriates funds on a fiscal year basis even though a program may be expected to continue for several years. Consequently, awards often initially receive only partial funding, and additional funds are committed only incrementally, as Congress makes further appropriations. In some circumstances, we may elect to continue working on a contract that is awaiting additional incremental funding, because we expect the funding to be forthcoming soon, but this may place us at risk of not being paid if additional funding is not subsequently added to the contract. The termination of funding for any of our U.S. Government prime contracts or subcontracts could result in a loss of anticipated future revenue attributable to that program and a reduction in our cash flows and could have an adverse impact on our operating results.

In years when the U.S. Government does not complete its budget process before the end of its fiscal year on September 30, U.S. Government operations are typically funded pursuant to a “continuing resolution” that authorizes agencies of the U.S. Government to continue to operate, but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in the procurement of the services and solutions that we provide. When supplemental budgets are required to operate the U.S. Government and passage of legislation needed to approve any supplemental budget is delayed, the overall funding environment for our business could be adversely affected.

Budget issues have been magnified by the 2011 Budget Control Act which requires that approximately $110 billion be automatically cut from the fiscal year 2013 defense and non-defense agency funding levels on January 2, 2013. If automatic spending cuts are applied to any of our current or future contracts or programs, our business could be adversely affected.

We may require additional capital to finance our growth. If the terms on which the additional capital is available are unsatisfactory, if the additional capital is not available at all or we are not able to fully access our new senior secured credit facility, we may not be able to pursue our growth strategy.

Our growth strategy may require additional capital investment to complete acquisitions, integrate any completed acquisitions into our existing operations, and to expand into new markets.

To the extent that we do not generate sufficient cash internally to provide the capital we require to fund our growth strategy and future operations, we will require additional debt or equity financing. We cannot be sure that this additional financing will be available or, if available, will be on terms acceptable to us. Further, high volatility in the equity markets may make it difficult for us to access the equity markets for additional capital at attractive prices, if at all. If we are unable to obtain sufficient additional capital in the future, it will limit our ability to implement our business strategy. Continued issues resulting from the current global financial crisis and economic downturn involving liquidity and capital adequacy affecting lenders could affect our ability to fully access our existing credit facilities. In addition, even if future debt financing is available, it may result in (1) increased interest expense, (2) increased term loan payments, (3) increased leverage, and (4) decreased income available to fund further acquisitions and expansion. It may also limit our ability to withstand competitive pressures and make us more vulnerable to economic downturns. If future equity financing is available, it may dilute the equity interests of our existing stockholders.

Our new senior secured credit facility contains financial and operating covenants that limit our operations and could lead to adverse consequences if we fail to comply.

Our new senior secured credit facility contains financial and operating covenants that, among other things, require us to maintain or satisfy specified financial ratios (including debt to adjusted "EBITDA", or "earnings before interest, taxes, depreciation, amortization, stock compensation and acquisition costs" ratios and fixed charge coverage ratios, which limit our ability to incur indebtedness, pay dividends or engage in certain significant business transactions, and require us to comply with a number of other affirmative and negative operating covenants. Failure to meet these financial and operating covenants could result from, among other things, changes in our results of operations, our incurrence of debt or changes in general economic conditions. These covenants may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders, which could harm our business and operations. In addition, our new senior secured credit facility contains several other material covenants, including a lien against our assets (including receivables), limitations on additional debt, limitations on permitted acquisitions, restrictions on the payment of dividends, and restrictions on the sale, lease, or disposal of any substantial part of our assets, other than, in certain cases, in the normal course of business.

Business disruptions could reduce our expected revenue, increase our expenses, and damage our reputation.

We rely to a large extent upon sophisticated technology systems and infrastructure. We take reasonable steps to protect them, including the implementation and use of certain security precautions. However they are potentially vulnerable to breakdown, malicious intrusion, natural disaster, and random attack. A disruption to our systems or infrastructure could damage our reputation and cause us to lose customers and revenue. This could require us to expend significant efforts and resources or incur significant expense to eliminate these problems and address related security concerns.

In addition, as a defense contractor, we face various security threats, including cybersecurity threats to gain unauthorized access to sensitive information; threats to the safety of our directors, officers, and employees; threats to the security of our facilities and infrastructure; and threats from terrorist acts. Although we utilize various procedures and controls to monitor and mitigate these threats, there can be no assurance that these procedures and controls will be sufficient to prevent security threats from materializing. If any of these events were to materialize, they could lead to losses of sensitive information or capabilities, harm to personnel or infrastructure, or damage to our reputation, and could have a material adverse effect on our financial position, results of operations, or cash flows.

The following risk factors are added under the subheading "Risks Relating to Our Business":

Failure to successfully integrate Poole and Sensage could adversely impact our stock price and future business and operations.

In October 2012, we acquired Poole and Sensage, respectively. The integration of these businesses into our operations may be a complex and time-consuming process that may not be successful. Even if we successfully integrate these businesses into our operations, there can be no assurance that we will realize the anticipated benefits. Due to these acquisitions we have consolidated indebtedness that is greater than our indebtedness prior to the acquisitions. The increased indebtedness may have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions and increasing borrowing costs. The failure to successfully integrate Poole and/or Sensage could adversely impact our stock price and future business and operations.

If our new products, including Project G, do not achieve sufficient market acceptance, our financial results and competitive position may suffer.

We spend substantial amounts of time and money to research and develop new products and enhanced versions of our existing products to incorporate additional features, improve functionality or incorporate other enhancements in order to meet our customers' rapidly evolving demands. When we develop a new product or an enhanced version of an existing product, we typically incur expenses and expend resources upfront to market, promote and sell the new offering. Therefore, when we develop and introduce new or enhanced products, they must achieve high levels of market acceptance in order to justify the amount of our investment in developing and bringing them to market.

Our new products or enhancements could fail to attain sufficient market acceptance for many reasons, including:

· failure to predict market demand accurately in terms of functionality and to supply products that meet demand in a timely fashion;

· defects, errors or failures;

· negative publicity about their performance or effectiveness;

· delays in releasing our new products or enhancements to the market;

· introduction or anticipated introduction of competing products by our competitors; and

· poor business conditions for our end-customers, causing them to delay purchases.

Implementation of Project G, in particular, is in its early stages and it is difficult to predict customer adoption, customer demand, the size and growth rate of this market, and the entry of competitive products.

If our new products or enhancements (particularly Project G) do not achieve adequate acceptance in the market, our competitive position may be impaired, and our financial results may suffer. The adverse effect on our financial results will be directly related to the significant research, development, marketing, sales and other expenses we will have incurred in connection with the new products or enhancements.

Our current research and development efforts may not produce successful products or features that result in significant revenue in the near future, if at all.

Developing our products and related enhancements is expensive. For the nine months ended September 30, 2012, our research and development costs totaled $4.2 million, a 138% increase over our total research and development costs for the nine months ended September 30, 2011. Our investments in research and development may not result in significant design improvements, marketable products or features or may result in products that are more expensive than anticipated. Additionally, we may not receive significant revenue from these investments in the near future, if at all, or these investments may not yield expected benefits, either of which could adversely affect our business and operating results. Nevertheless, we believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. As a result, our future plans include significant investments in research and development and related product opportunities. In particular, the Company has incurred significant research and development costs in connection with Project G, which largely accounts for the increase described above. If Project G does not garner widespread market adoption and implementation, our financial results and competitive position could suffer.

If we do not accurately predict, prepare for, and respond promptly to the rapidly evolving technological and market developments and changing end-customer needs in the cybersecurity market, our competitive position and prospects will be harmed.

The cybersecurity market is expected to continue to evolve rapidly. Many of our end-customers operate in markets characterized by rapidly changing technologies and business needs, incorporating a variety of hardware, software applications, operating systems, and networking protocols. However, some of our new products and enhancements may require us to develop new architectures that involve complex, expensive, and time consuming research and development processes. The technology in our products is especially complex because it needs to effectively identify and respond to new and increasingly sophisticated methods of attack, and quickly respond to and eliminate negative impacts on network performance. As a result, although the market expects rapid introduction of new products or product enhancements to respond to new threats, the development of these products is difficult and the timetable for commercial release and availability is uncertain as there can be long time periods between releases and availability of new products. We may experience unanticipated delays in the availability of new products and fail to meet customer expectations for such availability. If we do not quickly respond to the rapidly changing and rigorous needs of our end-customers by developing, releasing, and making available on a timely basis new products or enhancements that can respond adequately to new security threats, our competitive position and business prospects will be harmed.

Additionally, the process of developing new technology is complex and uncertain, and if we fail to accurately predict end-customers' changing needs and emerging technological trends, our business could be harmed. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products, or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive.

If functionality similar to that offered by our products is incorporated into existing network infrastructure products, organizations may decide against adding our products to their systems, which would have an adverse effect on our business.

Large, well-established providers of networking equipment offer, and may continue to introduce, network security features that compete with our products, either in stand-alone security products or as additional features in their network infrastructure products. The inclusion of, or the announcement of an intent to include, functionality perceived to be similar to that offered by our security solutions in networking products that are already generally accepted as necessary components of network architecture may have an adverse effect on our ability to market and sell our products. Furthermore, even if the functionality offered by network infrastructure providers is more limited than our products, a significant number of end-customers may elect to accept such limited functionality in lieu of adding platforms from an additional vendor such as us. Many organizations have invested substantial personnel and financial resources to design and operate their networks and have established deep relationships with other providers of networking products, which may make them reluctant to add new components to their networks, particularly from other vendors such as us. In addition, an organization's existing vendors or new vendors with a broad product offering may be able to offer concessions that we are not able to match because we currently offer only network security products and have fewer resources than many of our competitors. If organizations are reluctant to add additional network infrastructure from new vendors or otherwise decide to work with their existing vendors, our ability to increase our market share and improve our financial condition and operating results will be adversely affected.

If our products do not interoperate with our end-customers' infrastructure, sales of our products could be negatively affected, which would harm our business.

Our products must interoperate with our end-customers' existing infrastructure, which often have different specifications, utilize multiple protocol standards, deploy products from multiple vendors, and contain multiple generations of products that have been added over time. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems. Any delays in identifying the sources of problems or in providing necessary modifications to our software or hardware could have a negative impact on our reputation and our end-customers' satisfaction with our products, and our ability to sell products could be adversely affected. In addition, U.S. Government and other end-customers may require our products to comply with certain security or other certifications and standards. If our products are late in achieving or fail to achieve compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our products to such end-customers, or at a competitive disadvantage, which would harm our business, operating results, and financial condition.

Defects, errors, or vulnerabilities in our products or the failure of our products to block a virus or prevent a security breach could harm our reputation and adversely impact our results of operations.

Our products may experience technical failures and downtime, we may fail to distribute appropriate updates, or we may fail to meet the increased requirements of a growing end-customer base, any of which could temporarily or permanently expose our end-customers' networks, leaving their networks unprotected against the latest security threats. Because our products are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by our end-customers. Additionally, defects may cause our products to be vulnerable to security attacks, cause them to fail to help secure networks or temporarily interrupt end-customers' networking traffic. Moreover, because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques and provide a solution in time to protect our end-customers' networks. Furthermore, our products could be targeted by attacks specifically designed to disrupt our business and harm our reputation.

Any defects, errors or vulnerabilities in our products could result in:

· expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate, or work-around errors or defects or to address and eliminate vulnerabilities;

· loss of existing or potential customers;

· delayed or lost revenue;

· delay or failure to attain market acceptance; and

· litigation, regulatory inquiries, or investigations that may be costly and harm our reputation.

False detection of applications, viruses, spyware, vulnerability exploits, data patterns or URL categories could adversely affect our business.

Our classifications of application type, virus, spyware, vulnerability exploits, data or URL categories may falsely detect applications, content or threats that do not actually exist. This risk is heightened by the inclusion of a "heuristics" feature in our products, which attempts to identify applications and other threats not based on any known signatures but based on characteristics or anomalies which indicate that a particular item may be a threat. These false positives, while typical in our industry, may impair the perceived reliability of our products and may therefore adversely impact market acceptance of our products. If our products restrict important files or applications based on falsely identifying them as malware or some other item that should be restricted, this could adversely affect end-customers' systems and cause material system failures. Any such false identification of important files or applications could result in damage to our reputation, negative publicity, loss of end-customers and sales, increased costs to remedy any problem, and costly litigation.

ITEM 6. EXHIBITS

Exhibits – See Exhibit Index

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	the KEYW Holding COrporation
Date: October 31, 2012	By: /s/ Leonard E. Moodispaw Leonard E. Moodispaw President and Chief Executive Officer
Date: October 31, 2012	By: /s/ John E. Krobath John E. Krobath Chief Financial Officer

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Exhibit No.	Exhibit Description	
2.1	Stock Purchase Agreement, dated September 10, 2012, by and among The KEYW Corporation. The KEYW Holding Corporation, Poole & Associates, Inc., the stockholders of Poole & Associates, Inc. and the Representative of the Sellers.	(1)
2.2	Agreement and Plan of Merger, dated September 13, 2012, by and among Sensage, Inc., The KEYW Corporation, The KEYW Holding Corporation, SSI Acquisition Corporation, and Fortis Advisors LLC as Representatives of Sensage, Inc.'s shareholders.	(2)
31.1	Certification of the Chief Executive Officer pursuant to R Rule 13a-14(a)/15d-14(a)	x
31.2	Certification of the Chief Financial Officer pursuant to R Rule 13a-14(a)/15d-14(a)	x
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	x
101.INS**	XBRL Instance Document	x
101.SCH**	XBRL Taxonomy Extension Schema Document	x
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document	x
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document	x
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document	x
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document	x

x Filed herewith.

* 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.

** 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.

(1) Filed as Exhibits 2.1 to the Registrant's Current Report on Form 8-K filed September 12, 2012, (File No. 001-34891).

(2) Filed as Exhibits 2.1 to the Registrant's Current Report on Form 8-K filed September 19, 2012, (File No. 001-34891).