

KEYW HOLDING CORP
Form 10-Q
November 09, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended: September 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-34891

The KEYW Holding Corporation
(Exact name of registrant as specified in its charter)

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

7740 Milestone Parkway, Suite 400
Hanover, Maryland 21076
(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. Yes 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 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
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 ý

The number of shares outstanding of the issuer's common stock (\$0.001 par value), as of November 2, 2015 was 39,934,665.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share and par value per share amounts)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$24,971	\$39,601
Receivables	53,520	56,961
Inventories, net	18,872	14,861
Prepaid expenses	2,994	3,139
Income tax receivable	3,984	3,951
Deferred tax asset, current	—	2,878
Total current assets	104,341	121,391
Property and equipment, net	35,915	29,341
Goodwill	312,725	295,984
Other intangibles, net	15,704	21,109
Other assets	4,074	5,208
TOTAL ASSETS	\$472,759	\$473,033
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$12,531	\$10,266
Accrued expenses	8,752	7,009
Accrued salaries and wages	15,602	11,648
Deferred revenue	2,597	4,488
Total current liabilities	39,482	33,411
Long-term liabilities:		
Convertible senior notes, net of discount	128,180	124,338
Non-current deferred tax liability	27,752	7,885
Other non-current liabilities	11,717	6,619
TOTAL LIABILITIES	207,131	172,253
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5 million shares authorized, none issued	—	—
Common stock, \$0.001 par value; 100 million shares authorized, 39,784,165 and 37,601,474 shares issued and outstanding	40	38
Additional paid-in capital	326,591	315,963
Accumulated deficit	(61,003	) (15,221
Total stockholders' equity	265,628	300,780
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$472,759	\$473,033

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

(In thousands, except share and per share amounts)

	Three months ended September 30, 2015 (Unaudited)	Three months ended September 30, 2014 (Unaudited)	Nine months ended September 30, 2015 (Unaudited)	Nine months ended September 30, 2014 (Unaudited)
Revenues				
Government Solutions	\$78,100	\$75,932	\$222,818	\$209,297
Commercial Cyber Solutions	2,998	3,037	8,301	7,708
Total	81,098	78,969	231,119	217,005
Costs of Revenues, excluding amortization				
Government Solutions	54,252	51,889	154,474	143,519
Commercial Cyber Solutions	1,189	586	3,159	1,651
Total	55,441	52,475	157,633	145,170
Gross Profit				
Government Solutions	23,848	24,043	68,344	65,778
Commercial Cyber Solutions	1,809	2,451	5,142	6,057
Total	25,657	26,494	73,486	71,835
Operating Expenses				
Operating expenses	28,258	25,167	81,087	69,825
Intangible amortization expense	2,944	3,029	9,076	9,088
Total	31,202	28,196	90,163	78,913
Operating Loss	(5,545)	(1,702)	(16,677)	(7,078)
Non-Operating Expense, net	2,562	4,241	7,655	6,296
Loss before Income Taxes	(8,107)	(5,943)	(24,332)	(13,374)
Income Tax (Benefit) Expense, net	(103)	(2,921)	21,450	(5,546)
Net Loss	\$(8,004)	\$(3,022)	\$(45,782)	\$(7,828)
Weighted Average Common Shares Outstanding				
Basic	39,144,935	37,571,677	38,339,646	37,394,789
Diluted	39,144,935	37,571,677	38,339,646	37,394,789
Loss per Share				
Basic	\$(0.20)	\$(0.08)	\$(1.19)	\$(0.21)
Diluted	\$(0.20)	\$(0.08)	\$(1.19)	\$(0.21)

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

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity (unaudited)

(In thousands except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, January 1, 2015	37,601,474	\$38	\$315,963	\$(15,221)	) \$300,780
Net loss	—	—	—	(45,782)	) (45,782)
Warrant exercise, net	1,502,456	2	4,548	—	4,550
Option exercise, net	21,770	—	73	—	73
Restricted stock issuances	467,265	—	3,202	—	3,202
Restricted stock forfeitures	(27,125)	) —	(127)	) —	(127)
Equity issued as part of an acquisition	242,250	—	1,858	—	1,858
Equity canceled related to a previous acquisition	(23,925)	) —	(240)	) —	(240)
Stock based compensation	—	—	1,314	—	1,314
Balance, September 30, 2015	39,784,165	\$40	\$326,591	\$(61,003)	) \$265,628

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

(In thousands except share amounts)

	Nine months ended September 30, 2015 (Unaudited)	Nine months ended September 30, 2014 (Unaudited)	
Net loss	\$(45,782	) \$(7,828)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Stock compensation	4,389	5,052	
Depreciation and amortization expense	15,184	14,370	
Amortization of discount on convertible debt	3,842	967	
Loss on disposal of long-lived assets	1,186	—	
Write-off of deferred financing costs	—	1,976	
Windfall tax benefit from option exercise	—	(382)
Deferred taxes	21,464	(258)
Changes in operating assets and liabilities:			
Receivables	6,171	3,257	
Inventories, net	(4,048	) (4,863)
Prepaid expenses	176	(67)
Income taxes, net	(33	) (4,251)
Accounts payable	2,265	2,943	
Accrued expenses	8,125	2,393	
Other	1,140	406	
Net cash provided by operating activities	14,079	13,715	
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(20,766	) (2,940)
Purchases of property and equipment	(12,152	) (5,329)
Capitalized software development costs	(414	) (1,170)
Net cash used in investing activities	(33,332	) (9,439)
Cash flows from financing activities:			
Proceeds from issuance of convertible debt	—	149,500	
Purchase of convertible note hedges	—	(18,403)
Issuance cost of convertible senior notes and revolving credit facility	—	(6,446)
Proceeds from revolver, net	—	(22,000)
Repayment of term note	—	(63,000)
Windfall tax benefit from option exercise	—	382	
Proceeds from option and warrant exercises, net	4,623	385	
Net cash provided by financing activities	4,623	40,418	
Net (decrease) increase in cash and cash equivalents	(14,630	) 44,694	
Cash and cash equivalents at beginning of period	39,601	2,480	
Cash and cash equivalents at end of period	\$24,971	\$47,174	
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$3,850	\$1,676	
Cash paid for taxes	\$97	\$71	

Supplemental disclosure of non-cash investing and financing activities:

In conjunction with the NetClarity acquisition in the second quarter of 2014, the Company issued 99,851 shares of KEYW common stock with an approximate value of \$1 million.

In conjunction with the Ponte Technology acquisition in the first quarter of 2015, the Company issued 242,250 shares of KEYW common stock with an approximate value of \$2 million.

During the third quarter of 2015, the Company added approximately \$6 million of leasehold improvements related to a new facility that were paid for by the landlord. 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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

We prepared our interim condensed consolidated 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, 2014, contained in our Annual Report on Form 10-K and filed with the Securities and Exchange Commission on March 9, 2015. Interim results may not be indicative of our full fiscal year performance.

Corporate Organization

The KEYW Holding Corporation ("Holdco" or "KEYW") was incorporated in Maryland in December 2009. Holdco is a holding company and conducts its operations through The KEYW Corporation ("Opco"), Hexis Cyber Solutions, Inc. ("Hexis"), and their respective wholly owned subsidiaries.

KEYW is a highly specialized provider of mission-critical cybersecurity, cyber superiority and geospatial intelligence solutions to US Government defense, intelligence and national security agencies and commercial enterprises. Our core capabilities include solutions, services and products to 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 and to assist the US government in national security priorities.

Principles of Consolidation

The consolidated financial statements include the transactions of KEYW, Opco, Hexis and their wholly owned subsidiaries 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, cost-plus-award-fee contracts and software licensing and maintenance.

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 firm-fixed-price service contracts, revenue is recognized using the proportional performance based on the estimated total costs of the project. 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 impact 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.

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

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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.

The Company recognizes software licenses, maintenance or related professional services revenue only when there is persuasive evidence of an arrangement, delivery to the customer has occurred, the fee is fixed and determinable and collectability is reasonably assured.

Revenue from software arrangements is allocated to each element of the arrangement based on the relative fair values of the elements, such as software licenses, upgrades, enhancements, maintenance contract types and type of service delivered, installation or training. The determination of fair value is based on objective evidence that is specific to the vendor ("VSOE"). The Company determines VSOE for each element based on historical stand-alone sales to third parties for the elements contained in the initial agreement. In determining VSOE, the Company requires that a substantial majority of the selling process fall within a fairly narrow pricing range. The Company has established VSOE of fair value for maintenance and professional services. If VSOE of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until such time as VSOE of fair value exists or until all elements of the arrangement are delivered, except in those circumstances in which the residual method may be used as described below.

The Company's software products are licensed on a perpetual basis. In addition, the Company provides maintenance under a separate maintenance agreement, typically for twelve months. Maintenance includes technical support and unspecified software upgrades and enhancements if and when available. Revenue from perpetual software licenses is recognized under the residual method for arrangements in which the software is sold with maintenance and/or professional services.

Revenue from maintenance is deferred and recognized ratably over the term of each maintenance agreement. Revenue from professional services is recognized as the services are performed.

All revenue is net of intercompany adjustments.

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 or market. Our inventory consists of specialty products that we manufacture on a limited quantity basis for our customers. As of September 30, 2015 and December 31, 2014, we had inventory reserve balances of \$0.8 million and \$0.2 million respectively, 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.

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.

Provisions 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 lesser of the lives of the underlying leases or the estimated useful lives of the assets.

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Lease Incentives

As part of entering into certain building leases, the lessors have provided the Company with tenant improvement allowances. Typically, such allowances represent reimbursements to the Company for tenant improvements made to the leased space. These improvements are capitalized as property and equipment, and the allowances are classified as a deferred lease incentive liability. This incentive is considered a reduction of rental expense by the lessee over the term of the lease and is recognized on a straight-line basis over the same term.

Software Development Costs

Costs of internally developed software for resale are expensed until the technological feasibility of the software product has been established. In accordance with the pronouncement on software development costs of the Accounting Standards Codification ("ASC"), software development costs are capitalized and amortized over the product's estimated useful life. As of September 30, 2015 and December 31, 2014, we had capitalized \$6.2 million and \$5.8 million of software development costs, respectively. Capitalized software development costs are amortized using the greater of the straight-line method or as a percentage of revenue recognized from the sale of the capitalized software. During the three months ended September 30, 2015 and 2014, the Company had computer software amortization costs of \$0.3 million. During the nine months ended September 30, 2015 and 2014, the Company had computer software amortization costs of \$0.8 million and \$0.5 million.

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. The possibility of impairment exists 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 impairments 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 is recorded as goodwill. In accordance with FASB ASC Topic 350-20, Goodwill, the Company tests for impairment at least annually. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The Company operates as two reporting units. The fair value of each reporting unit is estimated using either qualitative analysis or a combination of income and market approaches. 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 evaluated goodwill during the fourth quarter of fiscal year 2014 and found no impairment to the carrying value of goodwill. No events occurred during the nine months ended September 30, 2015, that management believes require an interim impairment test.

Intangibles

Intangible assets consist of the value of customer related 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

We maintain cash balances that at times exceed the federally insured limit on a per financial institution basis. 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 total revenue is derived from contracts where the end customer is the US 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 condensed 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 amortization lives, depreciation lives, percentage of completion revenue, VSOE, inventory obsolescence reserves, income taxes and stock compensation expense. Actual results could vary from the estimates that were used.

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Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The balance sheet includes various financial instruments consisting of cash and cash equivalents, accounts receivable, and accounts payable. The fair values of these instruments approximate the carrying values due to the short maturity of these instruments. The balance sheet also includes our convertible senior note, which the fair value of is estimated using a market approach with Level 2 inputs.

Research and Development

Internally funded research and development expenses are expensed as incurred and are included in cost of operations in the accompanying consolidated statement of operations. In accordance with FASB ASC Topic 730, Research and Development, such costs consist primarily of payroll, materials, subcontractor and an allocation of overhead costs related to product development. Research and development costs totaled \$4.5 million and \$5.3 million for the three months ended September 30, 2015 and 2014, respectively, and are included as operating expenses in the condensed consolidated statement of operations. Research and development costs totaled \$14.1 million and \$13.7 million for the nine months ended September 30, 2015 and 2014, respectively, and are included as operating expenses in the condensed consolidated statement of operations.

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. In evaluating our ability to realize our deferred tax assets, we consider all available positive and negative evidence, including cumulative historic earnings, reversal of deferred tax liabilities, projected taxable income, and tax planning strategies. The assumptions utilized in evaluating both positive and negative evidence require the use of significant judgment concerning our business plans surrounding both our Government Solutions segment and our Commercial Solutions segment.

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 during the three or nine months ended September 30, 2015.

Earnings (Loss) per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) 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 (loss) if the securities were exercised.

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

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net loss	\$ (8,004)	\$ (3,022)	\$ (45,782)	\$ (7,828)
Weighted average shares – basic	39,145	37,572	38,340	37,395
Effect of dilutive potential common shares	—	—	—	—
Weighted average shares – diluted	39,145	37,572	38,340	37,395
Net loss per share – basic	\$ (0.20)	\$ (0.08)	\$ (1.19)	\$ (0.21)
Net loss per share – diluted	\$ (0.20)	\$ (0.08)	\$ (1.19)	\$ (0.21)
Outstanding options and warrants, total	5,358	7,391	5,358	7,391

Employee equity share options, restricted shares and warrants granted by the Company are treated as potential common shares outstanding in computing diluted earnings (loss) per share. Diluted shares outstanding include the dilutive effect of in-the-money options and in-the-money warrants and unvested restricted stock. 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. As we incurred a net loss for the three and nine months ended September 30, 2015 and 2014, none of the outstanding options or warrants were included in the diluted share calculation as they would have been anti-dilutive.

The Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread of our Convertible Senior Notes due 2019 (the "Notes") on diluted earnings per share, if applicable. The conversion spread will have a dilutive impact on diluted earnings per share of common stock when the average market price of our common stock for a given period exceeds the Notes' conversion price of \$14.83. For the three and nine months ended September 30, 2015, 10.1 million shares related to the Notes have been excluded from the computation of diluted earnings per share as the effect would be anti-dilutive since the conversion price of the Notes exceeded the average market price of the Company's common shares for the three and nine months ended September 30, 2015.

Stock Based Compensation

As discussed in Note 10, the shareholders approved the 2013 KEYW Holding Corporation Stock Incentive Plan in August 2012. The 2013 Stock Incentive Plan, which took effect on January 1, 2013, replaced the 2009 Stock Incentive Plan. The Company adopted the 2009 Stock Incentive Plan in December 2009. The Company had originally adopted a stock option plan in 2008. 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, to 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 individual 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 second over twelve months, the third over twenty-four months and the fourth 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 options granted.

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 US 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 Company's expected volatility is based on its historical volatility for a period that approximates the estimated life of the options.

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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. The Company operates two segments. These segments are Government Solutions and Commercial Cyber Solutions.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, an accounting pronouncement related to revenue recognition (FASB ASC Topic 606), which amends the guidance in former ASC Topic 605, Revenue Recognition, and provides a single, comprehensive revenue recognition model for all contracts with customers. This standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The FASB also approved permitting early adoption of the standard, but not before January 1, 2017. We are currently evaluating the impact of this pronouncement on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (FASB ASC Subtopic 835-30). The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. This pronouncement is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. In August 2015 the FASB issued an amendment, which addresses the presentation and subsequent measurement of debt issuance costs associated with line of credit arrangements. We are currently evaluating the impact of this pronouncement on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments (FASB ASC Topic 805). The update eliminates the current requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance is effective for annual periods beginning after December 15, 2015, with early adoption permitted. We are currently evaluating the impact of this pronouncement on our consolidated financial statements.

2. ACQUISITIONS

The Company has completed multiple 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. Most of the acquisitions resulted in the Company recording goodwill and other intangibles. The goodwill was primarily a result of the acquisitions focusing on acquiring cleared personnel to expand our presence with our main customers. The value of having that personnel generated the majority of the goodwill from the transactions and drove much of the purchase price in addition to other identified intangibles including contracts, customer relationships, contract rights and intellectual property. 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 acquisition completed since January 1, 2014 are outlined below:

2014 Acquisitions

During the second and third quarters of 2014, the Company acquired the assets of NetClarity, Inc. ("NetClarity") and certain assets of Architecture Technology Corporation ("ATC") in two separate transactions. The total consideration paid for these two purchases was \$2.9 million in cash and 99,851 shares of KEYW stock valued at \$1.1 million. Neither of these acquisitions are considered

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material to the financial results of KEYW.

2015 Acquisitions

During the first and second quarters of 2015, the Company acquired Milestone Intelligence Group, Inc. ("Milestone"), Ponte Technologies, LLC ("Ponte Tech") and certain assets of Innovative Engineering Solutions, Inc. in three separate transactions. The total consideration paid for these three acquisitions was \$21.2 million in cash and 242,250 shares of KEYW stock valued at \$1.9 million. These acquisitions are not considered material to the financial results of KEYW.

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

(The final accounting for the 2015 acquisitions are still in progress and the numbers presented below are preliminary and subject to change.)

	NetClarity /ATC	2015 Acquisitions
Cash	\$—	\$643
Current assets, net of cash acquired	63	1,498
Fixed assets	24	155
Intangibles	3,928	4,834
Goodwill	—	16,741
Total Assets Acquired	4,015	23,871
Total Liabilities Assumed	59	844
Net Assets Acquired	\$3,956	\$23,027
Net Cash Paid	\$2,890	\$20,526
Equity Issued	1,066	1,858
Actual Cash Paid	\$2,890	\$21,169

All acquisitions were accounted for using the acquisition method of accounting. Results of operations for each acquired entity were included in the consolidated financial statements from the date of each acquisition.

Pro forma income statements are not presented for the nine months ended September 30, 2015 and 2014 as there have been no material acquisitions during these periods.

3. FAIR VALUE MEASUREMENTS

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure the fair value of financial assets and liabilities on a recurring basis into three broad levels:

- Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs are unobservable for the asset or liability and rely on management's own assumptions about what market participants would use in pricing the asset or liability.

At September 30, 2015, we did not have any assets or liabilities measured at fair value on a recurring basis that would require disclosure based on the fair value hierarchy of valuation techniques.

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4. RECEIVABLES

Receivables consist of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Receivables		
Billed	\$32,787	\$35,294
Unbilled	20,733	21,667
Total Receivables	\$53,520	\$56,961

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, 2015 and December 31, 2014, retained amounts are insignificant and are expected to be collected subsequent to the balance sheet date.

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

5. INVENTORIES

Inventories at September 30, 2015 and December 31, 2014 consisted of work in process at various stages of production and finished goods. This inventory, which consists primarily of mobile communications devices, aeroptic cameras and radars are 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, 2015, and December 31, 2014, we had an inventory reserve balance of \$0.8 million and \$0.2 million respectively, for certain products where the market has not developed as expected.

6. PREPAID EXPENSES

Prepaid expenses at September 30, 2015 and December 31, 2014, primarily consist of prepaid insurance, deferred financing costs and software licenses.

7. PROPERTY AND EQUIPMENT

Property and equipment are as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Property and Equipment		
Aircraft	\$ 11,296	\$ 10,490
Leasehold Improvements	22,466	15,618
Manufacturing Equipment	5,991	4,402
Software Development Costs	6,164	5,752
Office Equipment	15,824	13,219
Total	61,741	49,481
Accumulated Depreciation	(25,826	) (20,140
Property and Equipment, net	\$35,915	\$29,341

Depreciation expense charged to operations was \$2.2 million and \$1.8 million for the three months ended September 30, 2015 and 2014, respectively. Depreciation expense charged to operations was \$6.1 million and \$5.3 million for the nine months ended September 30, 2015 and 2014, respectively.

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8. AMORTIZATION OF INTANGIBLE ASSETS

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

Acquisition	Intangible	September 30, 2015 (In thousands)		
		Gross Book Value	Accumulated Amortization	Net Book Value
Everest	Contracts	\$4,690	\$(4,534)	) \$156
Poole	Contracts	20,914	(12,550)	) 8,364
Milestone	Contracts	2,170	(512)	) 1,658
Innovative Engineering Solutions	Contracts	1,000	(153)	) 847
Ponte Tech	Customer Relationships	1,664	(300)	) 1,364
Dilijent	Intellectual Property	1,000	(944)	) 56
Sensage	Customer Relationships	3,682	(2,209)	) 1,473
Rsignia	Intellectual Property	5,001	(4,723)	) 278
ATC	Intellectual Property	2,360	(852)	) 1,508
		\$42,481	\$(26,777)	) \$15,704

The Company recorded amortization expense of \$2.9 million and \$3.0 million for the three months ended September 30, 2015 and 2014, respectively. The Company recorded amortization expense of \$9.1 million for the nine months ended September 30, 2015, and 2014.

Estimated future intangible amortization expense by year as of September 30, 2015 (In thousands):

Remainder of 2015	2016	2017	2018
\$2,319	\$7,317	\$5,825	\$243

9. DEBT

2.5% Convertible Senior Notes

In July 2014, the Company initially issued \$130.0 million aggregate principal amount of Notes in an underwritten public offering. The Company granted an option to the underwriters to purchase up to an additional \$19.5 million aggregate principal amount of Notes, which was subsequently exercised in full in August 2014, resulting in a total issuance of \$149.5 million aggregate principal amount of Notes. The Notes bear interest at a rate of 2.50% per annum on the principal amount, payable semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2015, to holders of record at the close of business on the preceding January 1 and July 1, respectively. The Notes mature on July 15, 2019, unless earlier repurchased or converted. The Company may not redeem the Notes prior to their stated maturity date.

Holders of the Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending September 30, 2014, if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the Notes on each applicable trading day; (ii) during the five business day period immediately after any five consecutive trading day period in which the trading price per \$1,000 principal amount of Notes for each trading day of that period was less than 98% of the product of the last reported sale price of Company's common stock and the conversion rate for the Notes for each such trading day; (iii) upon the occurrence of specified corporate events; or (iv) following the Company's delivery of a notice of the spin-off of its subsidiary, Hexis Cyber

Solutions, Inc. On and after January 15, 2019, holders may convert their Notes at any time, regardless of the foregoing circumstances.

Upon conversion, the Company will settle the Notes in cash, shares of Company common stock or a combination of cash and shares of Company common stock, at the Company's election. The Notes have an initial conversion rate of 67.41 shares of common shares per \$1,000 principal amount of the Notes, which is equal to an initial conversion price of approximately \$14.83 per common share. The conversion price is subject to adjustments upon the occurrence of certain specified events, including the initial public offering of the Company's subsidiary, Hexis Cyber Solutions, Inc., as set forth in the Note Indenture (the "Indenture").

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In addition, upon the occurrence of a fundamental change (as defined in the Indenture), holders of the Notes may require the Company to repurchase the Notes at a purchase price of 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date.

The Company incurred approximately \$5.7 million of debt issuance costs during the third quarter of 2014 as a result of issuing the Notes. Of the approximately \$5.7 million incurred, the Company recorded \$4.6 million and \$1.1 million to deferred financing costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the Notes as discussed below. The Company is amortizing the deferred financing costs over the contractual term of the Notes using the effective interest method.

The Company used the net proceeds from the Notes to repay the outstanding balances under the credit facility the Company entered into in 2012, (the "2012 Credit Agreement"). Net proceeds also will be used for working capital, capital expenditures and other general corporate purposes, including potential acquisitions.

The Company allocated the \$149.5 million proceeds from the issuance of the Notes between long-term debt, the liability component, and additional paid-in-capital, the equity component, in the amounts of \$122.1 million and \$27.4 million, respectively. The initial value of liability component was measured using the nonconvertible debt interest rate. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Notes. Since the Company must still settle the Notes at face value at or prior to maturity, the Company will accrete the liability component to its face value resulting in additional non-cash interest expense being recognized in the Company's consolidated statements of operations while the Notes remain outstanding. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

As of September 30, 2015, the outstanding principal of the Notes was \$149.5 million, the unamortized debt discount was \$21.3 million, and the carrying amount of the liability component was \$128.2 million, which was recorded as long-term debt within the Company's condensed consolidated balance sheet. As of September 30, 2015, the fair value of the liability component relating to the Notes, based on a market approach, was approximately \$128.7 million and represents a Level 2 valuation.

During the three months ended September 30, 2015, the Company recognized \$2.5 million of interest expense related to the Notes, which included \$1.3 million for noncash interest expense relating to the debt discount and \$0.2 million relating to amortization of deferred financing costs. During the nine months ended September 30, 2015, the Company recognized \$7.4 million of interest expense relating to the Notes, which included \$3.8 million for noncash interest expense relating to the debt discount and \$0.7 million relating to amortization of deferred financing costs. During the three and nine months ended September 30, 2014, the Company recognized \$1.9 million of interest expense related to the Notes, which included \$1.0 million for noncash interest expense relating to the debt discount and \$0.2 million relating to amortization of deferred financing costs.

Capped Call

During the third quarter of 2014 in conjunction with the issuance of the Notes, the Company paid approximately \$18.4 million to enter into capped call transactions with respect to its common shares, (the "Capped Call Transactions"), with certain financial institutions. The Capped Call Transactions generally are expected to reduce the potential dilution to the Company's common stock upon conversion of the Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of any converted Notes, as the case may be, in the event that the market price of the common stock is greater than the strike price of the Capped Call Transactions, initially set at \$14.83, with such reduction of potential dilution subject to a cap based on the cap price, which is initially set at \$19.38. The strike price and cap price are subject to anti-dilution adjustments under the terms of the Capped Call

Transactions. As a result of the Capped Call Transactions, the Company reduced additional paid-in capital by \$18.4 million during the third quarter of 2014.

2014 Revolving Credit Facility

In July 2014, the Company, as guarantor and certain of the Company's subsidiaries, entered into a senior secured credit agreement, (the "2014 Credit Agreement") with certain financial institutions. The 2014 Credit Agreement provides the Company a \$42.5 million revolving credit facility (the "2014 Revolver"). The 2014 Revolver includes a swing line loan commitment of up to \$10 million and a letter of credit facility of up to \$15 million. The Company has not drawn on the 2014 Credit Agreement.

Borrowings under the 2014 Credit Agreement bear interest at a rate equal to an applicable rate plus, at the Company's option, either (a) adjusted LIBOR or (b) a base rate. The Company is required to pay a facility fee to the Lenders for any unused commitments and customary letter of credit fees.

The 2014 Revolver will mature on the earlier to occur of (i) the fifth anniversary of the closing of the 2014 Credit Agreement, and (ii) the date that is 180 days prior to the maturity date of the Notes unless the Notes are converted into equity, repaid, refinanced

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or otherwise satisfied on terms permitted under the 2014 Credit Agreement. The Company may voluntarily repay outstanding loans under the 2014 Revolver at any time without premium or penalty, subject to customary fees in the case of prepayment of LIBOR based loans.

In November 2015, the Company amended the 2014 Credit Agreement by adjusting the minimum cash interest coverage ratio covenant effective for the quarter ended September 30, 2015, and increasing the applicable interest rates with respect to the Credit Agreement's consolidated senior secured leverage ratio pricing tiers. Solely with respect to the period beginning on the date of the amendment through March 31, 2016, the amendment decreases the amount available under the revolver to \$20.0 million. At September 30, 2015, we were in compliance with all of our debt covenants under the 2014 Credit Agreement.

2012 Credit Facility

In the fourth quarter of 2012, the Company entered into the 2012 Credit Agreement, which included a \$70 million term loan, a \$50 million revolver and an accordion feature allowing for an additional \$35 million in borrowing. The 2012 Credit Agreement was a five year, multi-bank agreement with the Royal Bank of Canada, as administrative agent. In connection with the issuance of the 2012 Credit Facility the Company incurred \$3.2 million in financing costs. These financing costs were being amortized using the effective interest rate method over a five year period, the expected life of the related debt. In July of 2014 in connection with issuing the Notes, the Company terminated, satisfied, and discharged all of its obligations under the 2012 Credit Agreement. Interest expense recorded under the credit facilities was \$2.4 million and \$4.5 million during the three and nine months ended September 30, 2014, respectively. The Company recognized \$0.2 million and \$0.5 million in amortization expense relating to deferred financing costs for the three and nine months ended September 30, 2014, respectively, which was included as part of interest expense. In July 2014 as a result of the termination of the 2012 Credit Agreement, the Company wrote off \$2.0 million of unamortized deferred financing costs, which were included as part of interest expense.

10. STOCK - BASED COMPENSATION

On August 15, 2012, the shareholders approved the 2013 KEYW Holding Corporation Stock Incentive Plan. The 2013 plan, which took effect on January 1, 2013, replaced the 2009 plan and provides for the issuance of additional restricted stock, stock options, and restricted stock units. Pursuant to an amendment approved by the Company's shareholders on August 12, 2015, the number of shares available for issuance under the 2013 Plan was increased by 700,000 shares to a maximum of 2,700,000 shares.

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. 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.

No stock options were issued during the nine months ended September 30, 2015. Historically 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 inputs related to dividend yield, risk-free interest rate, expected volatility and forfeitures in order to price the option values.

A summary of stock option activity for the period ended September 30, 2015 is as follows:

	Number of Shares	Option Exercise Price	Weighted Average Exercise Price
Options Outstanding January 1, 2015	2,948,874		

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Granted	—	—	—
Exercised	(21,770) \$5.00 - \$10.00	\$ 6.51
Cancelled	(121,492) \$5.50 - \$17.11	\$ 12.37
Options Outstanding September 30, 2015	2,805,612		

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As of September 30, 2015, outstanding stock options were as follows:

Exercise Price	Options Outstanding	Intrinsic Value	Options Vested	Intrinsic Value	Weighted Average Remaining Life (Years)
\$5.00 – \$5.50	463,450	\$340,568	463,450	\$340,568	3.28
\$6.90 – \$7.66	272,073	—	272,073	—	6.33
\$7.96 – \$8.14	70,250	—	70,250	—	6.12
\$9.17 – \$10.98	242,138	—	242,138	—	4.03
\$11.18 - \$11.99	325,062	—	283,613	—	5.12
\$12.28 - \$12.97	398,572	—	305,560	—	7.03
\$13.00 - \$13.48	164,936	—	117,532	—	7.39
\$14.03 - \$14.88	324,861	—	318,779	—	4.14
\$16.08 - \$17.71	544,270	—	310,829	—	7.22
	2,805,612	\$340,568	2,384,224	\$340,568	

2013 Stock Incentive Plan

Total equity available to issue	2,700,000
Total equity outstanding or exercised	1,866,485
Total equity remaining for future grants	833,515

Restricted Stock Awards

During the first nine months of 2015, the Company issued 467,265 shares of restricted stock for employee incentive plans and new hires. The Company issued 344,415 shares of restricted common stock to existing employees under the long-term incentive plan and an additional 48,000 shares of restricted common stock to board members. The Company also issued 47,000 shares of restricted common stock to new employees. An additional 27,850 shares were issued to existing employees as discretionary awards. 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 of the above shares cliff vest in three years. All restricted stock awards have no exercise price.

As of September 30, 2015, outstanding unvested restricted stock awards were as follows:

Outstanding January 1, 2015	Unvested Shares	687,005
Granted		467,265
Vested		(246,487)
Cancelled		(27,125)
Outstanding September 30, 2015		880,658

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. For the periods ended September 30, 2015 and 2014, share-based compensation expense is based on awards ultimately expected to vest and has been reduced for estimated forfeitures. The Company recorded total stock compensation expense of \$1.1 million and \$1.8 million for the three months ended September 30, 2015 and 2014, respectively. The Company recorded total stock compensation expense of \$4.4 million and \$5.1 million for the nine months ended September 30, 2015 and 2014, respectively. The total unrecognized stock compensation expense at September 30, 2015, is approximately \$6.7 million, which will be recognized over three years.

As a result of the June 2015 death of Len Moodispaw, our former Chairman and CEO, and in accordance with his equity grant agreements, all of his unvested equity grants immediately vested. As such the corresponding unrecognized stock compensation expense of \$0.9 million, was recorded during the second quarter of 2015.

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11. WARRANTS

During the nine months ended September 30, 2015, warrant holders exercised 1,746,250 warrants, with 1,137,500 exercised for cash and 608,750 exercised cashlessly. The 1,137,500 warrants exercised for cash were exercised at \$4.00 per shares. The total cash received from these exercises was \$4,550,000. Under our warrant agreements, warrants may also be exercised cashlessly based on the average price of the Company's common stock for the 5 days prior to exercise. Under this methodology the warrants that were exercised cashlessly were exchanged for 364,956 shares of the Company's common stock.

As of September 30, 2015, outstanding warrants were as follows:

Exercise Price	Warrants Outstanding	Warrants Vested	Weighted Average Remaining Life (Years)
\$5.50	2,184,495	2,184,495	0.64
\$9.25	210,000	210,000	1.46
\$12.65	158,116	158,116	4.16
	2,552,611	2,552,611	

12. 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, 2015
(In thousands and unaudited)

	Government Solutions	Commercial Cyber Solutions	Corporate
Goodwill	\$297,258	\$15,467	\$—
Intangibles, net	12,446	3,258	—
Property and Equipment, net	20,829	6,261	8,825
Depreciation Expense	2,494	1,843	1,771
Intangible Amortization	5,373	3,703	—

For the nine months ended September 30, 2014
(In thousands and unaudited)

	Government Solutions	Commercial Cyber Solutions	Corporate
Depreciation Expense	\$2,335	\$1,275	\$1,672
Intangible Amortization	5,943	3,145	—

As of December 31, 2014 (In thousands)

	Government Solutions	Commercial Cyber Solutions	Corporate
Goodwill	\$280,517	\$15,467	\$—
Intangibles, net	12,985	8,124	—
Property and Equipment, net	12,133	7,393	9,815

13. INCOME TAXES

The Company's quarterly provision for income taxes is measured using an estimated annual effective tax rate adjusted for discrete items that occur within the quarter. The provision for income taxes in the quarters ended September 30, 2015 and 2014, was a \$(0.1) million benefit and a \$(2.9) million benefit, respectively. For the nine months ended September 30, 2015 and 2014, the provision for income taxes was a \$21.5 million expense and a \$(5.5) million benefit, respectively.

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During the quarter ended September 30, 2015, the Company identified and corrected an error related to recording a deferred tax liability and the related impact on additional paid in capital in connection with its 2.5% Convertible Senior Notes issued in the third quarter of 2014.

At September 30, 2015 and December 31, 2014, the Company increased deferred tax liabilities and reduced additional paid in capital by \$3.6 million, respectively. This deferred tax liability will be amortized over the life of the debt, and for the three and six months ended June 30, 2015, the Company would have amortized \$0.2 million and \$0.4 million, respectively. As a result of not recording the additional deferred tax liability, the Company overstated its income tax expense when it recorded a valuation allowance for the three and six months ended June 30, 2015, by \$3.6 million. The Company expects to record a valuation allowance for the foreseeable future based upon management concluding it is more likely than not it will not realize its deferred tax assets.

The Company evaluated this error and determined that the impact was not material to its financial position, results of operations or cash flows of previously issued financial statements. The financial information for all affected prior periods presented have retrospectively been revised to reflect this correction.

The provision for income tax expense for the nine months ended September 30, 2015 included a discrete item to establish the valuation allowance of \$19.6 million. The discrete item creates an effective tax rate for the nine months ended September 30, 2015, that is significantly different than the Company's statutory rate.

A full valuation allowance was established during the second quarter 2015 due to the uncertainty of the utilization of deferred tax assets in future periods. In evaluating the Company's ability to realize the deferred tax assets we considered all available positive and negative evidence, including cumulative historic earnings, reversal of temporary difference, projected taxable income and tax planning strategies. The Company's negative evidence, largely related to the Company's historical net losses, currently outweighs its positive evidence, therefore it is more-likely-than-not that we will not realize a significant portion of our deferred tax assets. The amount of the deferred tax asset to be realized in the future could however be adjusted if objective negative evidence is no longer present.

14. SUBSEQUENT EVENTS

In connection with the preparation of its financial statements for the nine months ended September 30, 2015, the Company has evaluated events that occurred subsequent to September 30, 2015, to determine whether any of these events required recognition or disclosure in the first nine months of the 2015 financial statements. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

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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 condensed consolidated financial statements and accompanying notes as well as our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on March 9, 2015.

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, 2014, filed with the Securities and Exchange Commission on March 9, 2015, as well as any other 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

KEYW is a highly specialized provider of mission-critical cybersecurity, cyber superiority and geospatial intelligence solutions to US Government defense, intelligence and national security agencies and commercial enterprises. Our core capabilities include solutions, services and products to support the collection, processing, analysis, use of intelligence data and information in the domains of cyberspace and geospace, and the protection of networks and related infrastructure. Our solutions are designed to respond to meet the critical needs for agile intelligence in the cyber age and to assist the US Government in national security priorities.

We provide a full range of engineering services, cyber security and analytic products, and fully integrated platforms that support the entire intelligence process, including collection, processing, analysis and impact. Our platforms include a number of modified commercial turboprop aircraft for imagery and light detection and ranging (LIDAR), collection, products that we manufacture, as well as hardware and software that we integrate using the engineering services of our highly skilled and security-cleared workforce.

KEYW's Government solutions are focused on Intelligence Community customers including the National Security Agency (NSA), the National Reconnaissance Office (NRO), the National Geospatial Intelligence Agency (NGA), the Army Geospatial Center (AGC) and various other agencies within the Intelligence Community and Department of Defense (DoD). In addition, we provide our products and services to US federal, state and local law enforcement agencies and commercial enterprises. Our innovative solutions, understanding of intelligence and national security missions, management's long-standing and successful customer relationships and operational capabilities, and

best-in-class employee base position us to continue our growth as we continue to expand into the cybersecurity market. We are highly focused on assisting our customers in achieving their mission of cyber superiority both defensively and offensively within the entire domain of cyberspace and doing so in time to observe, respond to and where possible prevent threat events, actions and agents from inflicting harm. Our solutions also encompass a broad spectrum of geospatial intelligence or GEOINT, capabilities. We believe today's complex, geographically distributed cyber threat environment is driving a convergence of cyber intelligence and geospatial intelligence.

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

KEYW's primary areas of expertise include:

- providing sophisticated engineering services and solutions that help our customers solve discreet and complex cybersecurity, cyber superiority, and geospatial and other intelligence challenges;
 - using multiple intelligence collection techniques to collect data and information in cyberspace, encompassing the entire electromagnetic spectrum;
 - processing data and information from cyberspace to make it accessible to a wide range of analytical needs and resources;
 - analyzing data and information that have been collected, processed, correlated, and made easily accessible to transform them into usable information for our customers;
 - developing next generation cyber defense and security incident response platforms designed to detect, investigate, and remove advanced cyber threats from enterprise information technology networks;
 - developing data warehousing and business intelligence solutions to address the most advanced use cases in Security Information and Event Management, log management, and Call Detail Record (CDR) retention and retrieval;
 - providing specialized training, field support, and test and evaluation services;
 - development, integration, rapid deployment and sustainment of agile airborne intelligence, surveillance, and reconnaissance collection platforms to austere environments; and
- responding quickly and decisively to demanding and emergent customer requirements, with agile processes and methods that enable us to satisfy requirements that are constantly changing to meet an agile, aggressive and ever-changing threat environment.

In July 2013, we began operations of Hexis Cyber Solutions, Inc., a wholly-owned subsidiary of The KEYW Holding Corporation, and introduced the HawkEye family of products and services. Hexis Cyber Solutions comprises KEYW's "Project G" organization and Sensage, Inc., which was acquired by KEYW in October 2012. On October 8, 2013, KEYW and Hexis announced commercial availability of HawkEye G, our flagship product designed to quickly detect advanced cyber threats and take automatic action to apply countermeasures and remove the threats from the network. Hexis also markets HawkEye AP, a high performance event data warehouse and analytics platform for applications including log management, call detail record/internet protocol data record management, and risk and compliance applications.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our condensed 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, 2014. 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, 2014.

COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2015 AND SEPTEMBER 30, 2014

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements (and notes thereto) and other financial information of the Company appearing elsewhere in this

report.

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CONSOLIDATED OVERVIEW (In thousands)	Three months ended September 30, 2015	% of Revenue		Three months ended September 30, 2014	% of Revenue	
Revenue	\$81,098	100.0	%	\$78,969	100.0	%
Gross Margin	25,657	31.6	%	26,494	33.5	%
Operating Expenses	28,258	34.8	%	25,167	31.9	%
Intangible Amortization	2,944	3.6	%	3,029	3.8	%
Non-operating Expense, net	2,562	3.2	%	4,241	5.4	%
Income Tax Benefit, net	(103	) (0.1	)%	(2,921	) (3.7)%

Revenue increased by \$2.1 million, or 2.7%, for the three months ended September 30, 2015, as compared to the three months ended September 30, 2014. The largest drivers of the increase were related to increased government product sales and the 2015 acquisitions, which were partially offset by lower revenue on certain services contracts.

Gross margin decreased by \$0.9 million, and decreased as a percentage of revenue for the quarter ended September 30, 2015, as compared to the quarter ended September 30, 2014. The decrease in gross margin dollars and as a percentage of revenue relates to certain services contract rate reductions, lower sales of higher margin government products on a year-over-year basis and increased costs for Hawkeye G product sales and delivery, including materials and personnel.

Our cost of operations for the three months ended September 30, 2015 increased by \$3.1 million compared to the same period ended September 30, 2014. The increase is due primarily to the impact of the 2015 acquisitions and the new Milestone facility, which we moved into during the third quarter of 2015.

Intangible amortization expense was \$2.9 million for the three months ended September 30, 2015 and 2014.

Amortization was basically flat because the decreases related to certain intangibles from prior acquisitions becoming fully amortized were offset by the amortization of intangible assets associated with our 2015 acquisitions and the full period amortization of intangible assets related to our 2014 acquisitions.

Non-operating expense consists primarily of interest expense. The decrease is primarily due to the write off of \$3.5 million of deferred financing costs during the third quarter of 2014 related to the termination of 2012 Credit Agreement.

The effective tax rate was 1.3% and 49.2% for the three months ended September 30, 2015 and 2014, respectively.

The provision for income tax for the quarter ended September 30, 2015 includes a valuation allowance due to the uncertainty of the utilization of deferred tax assets in future periods.

GOVERNMENT SOLUTIONS SEGMENT RESULTS (In thousands)	Three months ended September 30, 2015	% of Revenue		Three months ended September 30, 2014	% of Revenue	
Revenue	\$78,100	100.0	%	\$75,932	100.0	%
Gross Margin	23,848	30.5	%	24,043	31.7	%
Operating Expense	17,962	23.0	%	14,879	19.6	%
Intangible Amortization	1,766	2.3	%	1,881	2.5	%

Revenue for the three months ended September 30, 2015, increased on a year-over-year basis by \$2.2 million, or 2.9%, as compared to the three months ended September 30, 2014. The largest drivers of the increase were related to increased government product sales and the 2015 acquisitions, which were partially offset by lower revenue on certain services contracts.

Gross margin decreased slightly in dollars and as a percentage of revenue for the quarter ended September 30, 2015, as compared to the quarter ended September 30, 2014. The slight decrease in margin in dollars and as a percentage of revenue relates to certain services contract rate reductions and lower sales of higher margin products on a year-over-year basis.

Operating expenses increased by \$3.1 million and increased as a percentage of revenue for the three months ended September 30, 2015, as compared to the three months ended September 30, 2014. The increase is due primarily to the impact of the 2015 acquisitions and the new Milestone facility, which we moved into during the third quarter of 2015. Intangible amortization expense decreased slightly primarily as a result of certain intangibles from prior acquisitions becoming fully amortized, which was partially offset by the amortization of intangible assets associated with our 2015 acquisitions.

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COMMERCIAL CYBER SOLUTIONS SEGMENT RESULTS (In thousands)	Three months ended September 30, 2015	% of Revenue	Three months ended September 30, 2014	% of Revenue
Revenue	\$2,998	100.0 %	\$3,037	100.0 %
Gross Margin	1,809	60.3 %	2,451	80.7 %
Operating Expense	10,296	343.4 %	10,288	338.8 %
Intangible Amortization	1,178	39.3 %	1,148	37.8 %

Revenue for the three months ended September 30, 2015, was basically flat, as compared to the three months ended September 30, 2014. Revenue is derived primarily from Hawkeye AP and Hawkeye G related sales. Hawkeye AP sales accounted for 69% or \$2.1 million of total Commercial Cyber Solutions revenue and Hawkeye G sales accounted for \$0.9 million or 31%.

Gross margin decreased \$0.6 million and as a percentage of revenue for the three months ended September 30, 2015, as compared to the same period for 2014. The decrease in gross margin relates to increased costs for Hawkeye G product sales and delivery including materials and personnel.

Operating expense was basically flat for the three months ended September 30, 2015, as compared to the three months ended September 30, 2014.

Intangible amortization increased slightly as a result of the 2014 acquisitions, which were mostly offset by the amortization certain intangibles from prior acquisitions becoming fully amortized.

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 2015 AND SEPTEMBER 30, 2014

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.

CONSOLIDATED OVERVIEW (In thousands)	Nine months ended September 30, 2015	% of Revenue	Nine months ended September 30, 2014	% of Revenue
Revenue	\$231,119	100.0 %	\$217,005	100.0 %
Gross Margin	73,486	31.8 %	71,835	33.1 %
Operating Expenses	81,087	35.1 %	69,825	32.2 %
Intangible Amortization	9,076	3.9 %	9,088	4.2 %
Non-operating Expense, net	7,655	3.3 %	6,296	2.9 %
Income Tax Expense (Benefit), net	21,450	9.3 %	(5,546)	(2.6)%

Revenue increased by \$14.1 million, or 6.5%, for the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2014. The largest drivers of the increase were related to increased government product sales, the 2015 acquisitions and the continued expansion of our government cyber training initiatives, which were partially offset by lower revenue on certain services contracts.

Gross margin increased \$1.7 million and decreased as a percentage of revenue for the nine months ended September 30, 2015, as compared to the same period ended September 30, 2014. The increase in gross margin dollars was predominately due to the increase in revenue discussed above. The decrease in margin as a percentage of revenue relates to certain services contract rate reductions, increased costs for Hawkeye G product delivery and incremental costs associated with our aviation services deployments.

Our cost of operations for the nine months ended September 30, 2015, increased by \$11.3 million and increased as a percentage of revenue as compared to the nine months ended September 30, 2014. This was due to increased infrastructure within the Commercial Cyber segment, acquisition related costs associated with the 2015 acquisitions, the loss on disposal of certain long-lived assets and increased stock-based compensation related to the accelerated vesting of equity grants held by Len Moodispaw (our former Chairman and CEO) due to his passing.

Intangible amortization expense was basically flat for the nine months ended September 30, 2015 and 2014.

Amortization was basically flat because the decreases related to certain intangibles from prior acquisitions becoming

fully amortized were offset by the amortization of intangible assets associated with our 2015 acquisitions and the full period amortization of intangible assets related to our 2014 acquisitions.

Non-operating expense consists primarily of interest expense. The \$1.4 million increase from the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2015, was primarily due to additional interest expense because of

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the higher outstanding debt balances during 2015 related to our 2.5% Convertible Notes, which was partially offset by the write off of \$3.5 million of deferred financing costs during the third quarter of 2014 related to the termination of 2012 Credit Agreement.

The effective tax rate was (88.2%) and 41.5% for the nine months ended September 30, 2015 and 2014, respectively. The provision for income tax for the nine months ended September 30, 2015 includes the recording of a net valuation allowance of \$19.6 million as a discrete item. The valuation allowance was established due to the uncertainty of the utilization of deferred tax assets in future periods. In evaluating the Company's ability to realize the deferred tax assets we considered all available positive and negative evidence. The Company's negative evidence currently outweighs its positive evidence therefore it is more-likely-than-not that we will not realize a significant portion of our deferred tax assets. The amount of the deferred tax asset to be realized in the future could however be adjusted if objective negative evidence is no longer present.

GOVERNMENT SOLUTIONS SEGMENT RESULTS (In thousands)	Nine months ended September 30, 2015	% of Revenue		Nine months ended September 30, 2014	% of Revenue	
Revenue	\$222,818	100.0	%	\$209,297	100.0	%
Gross Margin	68,344	30.7	%	65,778	31.4	%
Operating Expense	48,597	21.8	%	41,694	19.9	%
Intangible Amortization	5,373	2.4	%	5,943	2.8	%

Revenue for the nine months ended September 30, 2015, increased on a year-over-year basis by \$13.5 million, or 6.5%, as compared to the nine months ended September 30, 2014. The largest drivers of the increase were related to increased government product sales, the 2015 acquisitions and the continued expansion of our government cyber training initiatives, which were partially offset by lower revenue on certain services contracts.

Gross margin increased by \$2.6 million and decreased slightly as a percentage of revenue for the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2014. The increase in dollars was predominately due to the increase in revenue discussed above.

Operating expense increased \$6.9 million for the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2014. This was primarily due to acquisition related costs associated with the 2015 acquisitions, increased stock-based compensation related to the accelerated vesting of Mr. Moodispaw's equity grants due to his passing and the new Milestone facility, which we moved into during the third quarter of 2015.

Intangible amortization expense decreased primarily as a result of certain intangibles from prior acquisitions becoming fully amortized, which was partially offset by the amortization of intangible assets associated with our 2015 acquisitions.

COMMERCIAL CYBER SOLUTIONS SEGMENT RESULTS (In thousands)	Nine months ended September 30, 2015	% of Revenue		Nine months ended September 30, 2014	% of Revenue	
Revenue	\$8,301	100.0	%	\$7,708	100.0	%
Gross Margin	5,142	61.9	%	6,057	78.6	%
Operating Expense	32,490	391.4	%	28,131	365.0	%
Intangible Amortization	3,703	44.6	%	3,145	40.8	%

Revenue for the nine months ended September 30, 2015, increased by \$0.6 million, or 7.7%, as compared to the nine months ended September 30, 2014. Revenue is derived primarily from Hawkeye AP and Hawkeye G related sales. Hawkeye AP sales accounted for 81.5% or \$6.8 million, of total Commercial Cyber Solutions revenue and Hawkeye G sales accounted for \$1.5 million or 17.7%. The main drivers for the increase in total revenue were additional license sales of Hawkeye G and Hawkeye AP in 2015.

Gross margin decreased in dollars and as a percentage of revenue for the nine months ended September 30, 2015, as compared to the same period for 2014. The decrease in gross margin relates to increased costs for Hawkeye G product delivery including materials and personnel.

Operating expense increased \$4.4 million during the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2014. The main drivers for the increase was the loss on disposal of certain long-lived assets and additional investment in infrastructure related to our new software platform. We increased our sales team, built a more robust customer delivery infrastructure and continued to build out our technical team.

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Intangible amortization increased as a result of the 2014 acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled approximately \$25.0 million at September 30, 2015. Our working capital, defined as current assets minus current liabilities, was \$64.9 million, which represents a decrease of approximately \$23.1 million from December 31, 2014. The decrease in working capital is primarily due to the acquisitions of Milestone, Ponte Tech and Innovative Engineering Solutions and cash used to fund our Commercial Cyber Solutions segment's operations. At September 30, 2015, we were in compliance with all of our debt covenants under our senior credit agreement.

We believe that cash from operations, cash and cash equivalents on hand, and the additional funds available under the Revolver will be sufficient to fund our operations as we continue to grow. We may also use our 2014 Revolver (defined below) to fund acquisitions and to provide liquidity in the event of federal government budgetary issues, including the failure or delay by Congress and the President in approving federal budgets in the future. We may also use the 2014 Revolver as we continue to invest in our emerging commercial software product. We may also raise additional capital through future debt or equity financing.

Convertible Notes

During the third quarter of 2014, we issued \$149.5 million aggregate principal amount of the Company's 2.50% Convertible Senior Notes due July 15, 2019 (the "Notes") pursuant to an underwriting agreement, dated July 16, 2014. The Notes bear interest at a rate of 2.50% per annum on the principal amount, payable semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2015, to holders of record at the close of business on the preceding January 1 and July 1, respectively. The Notes mature on July 15, 2019, unless earlier repurchased or converted. The Company may not redeem the Notes prior to their stated maturity date.

The Notes are senior unsecured obligations of the Company and will rank equal in right of payment to all of the Company's existing and future senior unsecured indebtedness. The Notes will be senior in right of payment to any existing or future indebtedness which is subordinated by its terms. The Notes are structurally subordinated to all liabilities of the Company's subsidiaries and are effectively junior to the secured indebtedness of the Company to the extent of the value of the assets securing such indebtedness.

Holders may convert their Notes under the following conditions at any time prior to the close of business on the business day immediately preceding January 15, 2019, in multiples of \$1,000 principal amount, under the following circumstances:

- during any calendar quarter (and only during such calendar quarter) commencing after the calendar quarter ending September 30, 2014, if the last reported sale price of the Company's common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the Notes on each applicable trading day;
- during the five business day period immediately after any five consecutive trading day period in which the trading price per \$1,000 principal amount of Notes for each trading day of that period was less than 98% of the product of the last reported sale price of Company common stock and the conversion rate for the Notes for each such trading day;
- upon the occurrence of specified corporate events as described in the Indenture; or
- following the Company's delivery of a notice of the spin-off of its subsidiary, Hexis Cyber Solutions, Inc. (the "Hexis spin-off").

In addition, holders may convert their Notes at their option at any time on or after January 15, 2019 until the close of business on the second scheduled trading day immediately preceding the stated maturity date of the Notes, without regard to the foregoing circumstances.

Upon conversion, the Company will settle the Notes in cash, shares of Company common stock or a combination of cash and shares of Company common stock, at the Company's election. The Notes have an initial conversion rate of

67.41 shares of common shares per \$1,000 principal amount of the Convertible Notes, which is equal to an initial conversion price of approximately \$14.83 per common share. The conversion price is subject to adjustments upon the occurrence of certain specified events, including the initial public offering of the Company's subsidiary, Hexis Cyber Solutions, Inc., as set forth in the Indenture.

In addition, upon the occurrence of a fundamental change (as defined in the Indenture), holders of the Notes may require the Company to repurchase the Notes at a purchase price of 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date.

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Capped Call Transactions

During the third quarter of 2014 in conjunction with the issuance of the Notes, the Company paid approximately \$18.4 million to enter into capped call transactions with respect to its common shares, (the "Capped Call Transactions"), with certain financial institutions. The Capped Call Transactions generally are expected to reduce the potential dilution to the Company's common stock upon conversion of the Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of any converted Notes, as the case may be, in the event that the market price of the common stock is greater than the strike price of the Capped Call Transactions, initially set at \$14.83, with such reduction of potential dilution subject to a cap based on the cap price, which is initially set at \$19.38. The strike price and cap price are subject to anti-dilution adjustments under the terms of the Capped Call Transactions.

The Capped Call Transactions are separate transactions entered into by and between the Company and the Counterparties and are not part of the terms of the Notes. Holders of the Notes will not have any rights with respect to Capped Call Transactions.

2014 Revolving Credit Facility

In July 2014, the Company, as guarantor and certain of the Company's subsidiaries, entered into a senior secured credit agreement, (the "2014 Credit Agreement") with certain financial institutions. The 2014 Credit Agreement provides the Company a \$42.5 million revolving credit facility (the "2014 Revolver"). The 2014 Revolver includes a swing line loan commitment of up to \$10 million and a letter of credit facility of up to \$15 million.

Borrowings under the 2014 Credit Agreement bear interest at a rate equal to an applicable rate plus, at the Company's option, either (a) adjusted LIBOR or (b) a base rate. The Company is required to pay a facility fee to the Lenders for any unused commitments and customary letter of credit fees.

The 2014 Revolver will mature on the earlier to occur of (i) the fifth anniversary of the closing of the 2014 Credit Agreement, and (ii) the date that is 180 days prior to the maturity date of the Notes unless the Notes are converted into equity, repaid, refinanced or otherwise satisfied on terms permitted under the 2014 Credit Agreement. The Company may voluntarily repay outstanding loans under the 2014 Revolver at any time without premium or penalty, subject to customary fees in the case of prepayment of LIBOR based loans.

The Credit Agreement contains a number of negative covenants that will, among other things, restrict, subject to certain exceptions, the Company and its subsidiaries' ability to: incur additional indebtedness; incur additional liens; sell all or substantially all of the Company's assets; consummate certain fundamental changes; change the Company's lines of business or make certain restricted payments (including cash payments upon conversion of the Notes if a default or event of default exists under the facility or if, after giving effect to such payments and any debt incurred to make such payments, the Company is not in pro forma compliance with the financial covenants and other financial tests under the facility, or cash payments to pay the purchase price of the Notes). The Credit Agreement also contains certain customary affirmative covenants and events of default.

The Credit Agreement requires the Company to maintain a maximum consolidated senior secured leverage ratio and a minimum cash interest coverage ratio. The consolidated senior secured leverage ratio test measures the ratio of the Company's consolidated funded indebtedness (other than consolidated funded indebtedness that is unsecured) to trailing four quarter Consolidated EBITDA (as defined in the Credit Agreement). This ratio is permitted to be no greater than 2.25 to 1.00 as of the end of any fiscal quarter during the applicable period. The cash interest coverage ratio test measures the ratio of trailing four quarter Consolidated EBITDA minus taxes paid in such period to consolidated interest expense paid in such period in cash. This ratio is permitted to be no less than 3.50 to 1.00.

The Revolver is secured by a security interest and lien on substantially all of the Company's, the Borrower's and the Subsidiary Guarantors' assets including a pledge of one hundred percent of the equity securities of the Borrower and

the Subsidiary Guarantors.

In November 2015, the Company amended the 2014 Credit Agreement by adjusting the cash interest coverage ratio effective for the quarter ended September 30, 2015, to a minimum of 1.60 to 1.00, increasing the applicable interest rates with respect to the Credit Agreement's consolidated senior secured leverage ratio pricing tiers. Solely with respect to the period beginning on the date of the amendment through March 31, 2016, the amendment decreases the amount available under the revolver to \$20.0 million.

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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, 2015, we had \$149.5 million aggregate principal amount of 2.5% convertible senior notes due 2019 (the "Notes"). As the Notes are fixed rate instruments, as of September 30, 2015, our results of operations are not subject to fluctuations in interest rates.

Foreign Exchange Risk

We currently do not have any material foreign currency risk, and accordingly estimate that an immediate 10 percent change in foreign exchange rates would not have a material impact on our reported net income. We do not currently utilize any derivative financial instruments to hedge foreign currency risks.

ITEM 4. CONTROLS AND PROCEDURES

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, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of September 30, 2015, and the date of this filing, the Company is not party to any material 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, 2014.

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: November 9, 2015

By: /s/ William J. Weber
William J. Weber
President and Chief Executive Officer

Date: November 9, 2015

By: /s/ Philip L. Calamia
Philip L. Calamia
Executive Vice President and Chief Financial Officer

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Exhibit No.	Exhibit Description	
3.1	Amended and Restated Articles of Incorporation of the Company, as filed on October 6, 2010	(1)
3.2	Certificate of Correction of Articles of Amendment and Restatement	(2)
3.3	Amended and Restated Bylaws of the Company, effective as of August 13, 2014	(3)
4.1	Specimen of Common Stock Certificate	(4)
4.2	Indenture, dated July 21, 2014, between the Company and Wilmington Trust, National Association, as trustee.	(5)
4.3	First Supplemental Indenture, dated July 21, 2014, between the Company and Wilmington Trust, National Association, as trustee.	(5)
4.4	Form of 2.50% Convertible Senior Note due 2019 (incorporated by reference to Exhibit 4.2 hereto).	(5)
10.1	The KEYW Holding Corporation Amended and Restated 2013 Stock Incentive Plan	(6)
10.2	Employment Agreement, effective as of August 25, 2015, by and between The KEYW Corporation and William J. Weber	(7)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)	x
31.2	Certification of the Chief Financial Officer pursuant to 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

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x Filed herewith.

- (1) Filed as Exhibit 3.1 to the Registrant's Form 10-K filed March 29, 2011, File No. 001-34891.
- (2) Filed as Exhibit 3.1 to the Registrant's Form 8-K filed July 15, 2014, File No. 001-34891.
- (3) Filed as Exhibit 3.1 to the Registrant's Form 8-K reporting under Items 5.02, 5.03, 5.07, filed August 15, 2014, File No. 001-34891.
- (4) Filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-1, as amended, File No. 333-167608. Filed as Exhibits 4.1, 4.2, and 4.3, respectively to the Registrant's Current Report on Form 8-K filed July 21, 2014, File No. 001-38491.
- (5)
- (6) Filed as Annex A to the Registrant's definitive proxy statement with respect to its 2015 Annual Meeting of Stockholders, filed May 7, 2015.
- (7) Filed as Exhibit 10.1 to the Registrant's Form 8-K filed August 31, 2015.

* This exhibit is being "furnished" with this periodic report and are not deemed "filed" with the Securities and Exchange Commission and are 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.