KEYW HOLDING CORP
Form 10-K
March 09, 2015

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from

to

Commission file number 001-34891

THE KEYW HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

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

7740 Milestone Parkway, Suite 400, Hanover, Maryland 21076
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (443) 733-1600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
(Title of Each Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes o No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.Yes o No ý
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 ý No o
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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes o No ý
The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of June 30, 2014 was approximately $442.7 million.
As of February 23, 2015 there were 37,580,249 shares of the registrant's Common Stock, $0.001 par value per share outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
None
A list of the Exhibits and Financial Statement Schedules in this Report on Form 10-K begins on page 85.

TABLE OF CONTENTS

Table of Contents
FORM 10-K
The KEYW Holding Corporation

TABLE OF CONTENTS

PART I

INTRODUCTORY STATEMENT

The information contained in this report pertains to the registrant, The KEYW Holding Corporation (KEYW). References in this annual report to “KEYW,” the “Company,” “we,” “our” and “us” refer to The KEYW Holding Corporation and its subsidiaries.

FORWARD-LOOKING STATEMENTS

The matters discussed in this Annual 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 this Annual Report, as well as any cautionary language in this Annual 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 Annual 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.

Item 1. BUSINESS

GENERAL OVERVIEW

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, cybersecurity 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. 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 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

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;

TABLE OF CONTENTS

•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 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.

As of December 31, 2014, KEYW had 1,087 employees. For the year ended December 31, 2014, we derived 91% of our revenue from US Government customers acting as both prime contractor and subcontractor on US Government contracts. The majority of our contracts provide for a total contract period of five years, with an initial contract period of one year and the balance in one-year option periods. Historically, contract options are rarely not exercised.

For 2014, 2013 and 2012 our revenue reflected that of KEYW and our acquisitions, from the date of acquisition of $291 million, $299 million and $244 million, respectively, based on accounting principles generally accepted in the United States of America ("US GAAP"). Our 2014 revenue is derived from over 130 contracts (a combination of prime contracts and subcontracts), the ten largest of which accounted for approximately 60% of our 2014 actual revenue, with no individual contract accounting for greater than 15% of our 2014 revenue. For the year ended December 31, 2014, we derived approximately 2% of our revenue from international customers.

Our History

KEYW began operations on August 4, 2008, led by the majority of the former leadership team of Essex Corporation, which was acquired by the Northrop Grumman Corporation in January 2007. Under an agreement between KEYW and Northrop Grumman Corporation, KEYW acquired a core set of capabilities (including over 60 employees) and certain fixed assets from Northrop Grumman Corporation. Since its founding, KEYW has assembled, through a series of highly selective strategic acquisitions, a single distinct platform that provides the high quality and complementary cybersecurity, cyber superiority and intelligence capabilities, solutions and products our customers require.
In 2008, we acquired Integrated Computer Concepts, Incorporated, or ICCI and S&H Enterprises of Central Maryland, Inc., or S&H. Both companies were known for their innovations and capabilities in support of the Intelligence Community. The acquisition of ICCI brought KEYW approximately 80 employees working on key NSA programs. ICCI provided a highly regarded software engineering team that has been involved on a wide range of programs and contracts over many years. S&H provided strong program management and systems engineering capabilities on a large mission-critical program.
In 2009, we acquired certain assets of Embedded Systems Design, Inc., or ESD, Leading Edge Design & Systems, Inc., or LEDS, and the Systems Engineering and Technical Assistance team of General Dynamics Advanced Information Systems Inc., or GDAIS team, which team supports a large intelligence agency. Both Embedded Systems and LEDS have provided high performance solutions to the Intelligence Community with systems engineering, analysis, and support capabilities. The addition of ESD contributed a hardware systems engineering capability, and LEDS expanded our hardware engineering capabilities, as well as the depth of activity on a large program with our largest customer, the NSA.
In 2010, before our initial public offering, we acquired The Analysis Group, LLC, or TAGG, and Insight Information Technology, LLC, or IIT. On October 1, 2010, The KEYW Holding Corporation completed its initial public offering

(IPO) and began trading on the NASDAQ Global Market under the symbol “KEYW”. Our offering, including the overallotment, consisted of 10,465,000 shares of our common stock at a price to the public of $10.00 per share. KEYW used the proceeds from the offering to repay debt, working capital, capital expenditures and general corporate purposes, including two acquisitions.

Following our IPO, we acquired Sycamore.US, Inc., or Sycamore, in November 2010 and Everest Technology Solutions, Inc., or Everest, in December 2010. Both companies add depth of capabilities and experience with our largest customers, as well as expanded our breadth of contracts and experience with other members of the Intelligence Community (“IC”). Sycamore offers a broad range of cyber solutions and support including aerospace software engineering, cybersecurity, independent verification and validation, systems engineering, and risk management. Everest offers a broad range of cyber superiority solutions and support including geospatial intelligence systems, cybersecurity, cloud computing and mission support.

In 2011, we acquired JKA Technologies, Inc., or JKA, Forbes Analytic Software, Inc., or FASI, and Flight Landata, Inc. or FLD. JKA offers a broad range of mission critical cyber superiority solutions and support including network engineering, information assurance, and systems and software engineering. FASI offers a broad range of mission critical cyber superiority solutions and support including high-end software development, systems and software engineering and integration, and full lifecycle software support, from research and development to operations and maintenance. FLD is a highly regarded provider of agile airborne Intelligence Surveillance and Reconnaissance (ISR) solutions and Micro Terrain Intelligence to the US Defense Department and the Warfighter with significant operations in overseas theaters.

In September 2012, we completed a secondary public offering of 8,510,000 shares of our common stock, including the overallotment, at a price of $11.75 per share. These offering proceeds were used to pay off the existing debt and help finance several 2012 acquisitions. Subsequent to the secondary offering, we acquired Poole and Associates, Inc., or Poole, Sensage, Inc., or Sensage, Rsignia, Inc., or Rsignia, and Dilijent Solutions, LLC, or Dilijent. Poole provides systems engineering, software development, program management, and technical support to the intelligence community in addition to having several prime contracts. Sensage provides incident event management software as well as commercial software experience. The Rsignia and Dilijent acquisitions provide additional product related revenue streams within the intelligence customer base.

In January 2013, we acquired IDEAL Technology Corporation or IDEAL. The IDEAL acquisition provides additional product related revenue streams within the intelligence customer base.

In July 2013, we began operations of Hexis Cyber Solutions, Inc. or Hexis, a subsidiary of The KEYW Holding Corporation, which provides advanced cybersecurity solutions for commercial companies, government agencies, and the Intelligence Community (IC). Our mission is to ensure that business IT infrastructure is equipped with tools and the capability to detect, engage, and remove both external and internal cyber threats with our Hawkeye family of products. These products offer active, multi-disciplined approaches to achieve a higher standard of cybersecurity that is based on our experience supporting our nation’s cyber security and cyber warfare missions.

We are applying knowledge and techniques that we have developed and used to protect some of the most sensitive IC networks to derive a new next-generation information technology endpoint detection and response platform for the commercial market place. By drawing on the skills of our cyber experts, with years of experience in protecting the IC from continuous cyber attacks, we are deploying a platform capable of detecting and removing even the most elusive and persistent cyber threats. Development was performed under the code name Project G and was initially released to a select number of customers for beta testing (early adopters). During 2013, we branded Project G as HawkEye G, coincident with the establishment of Hexis. The general availability of HawkEye G was announced during October 2013.

Our sales strategy is to meet the needs of customers primarily through a channel sales approach via our Worldwide Security Channel Program. This program is designed to extend our security footprint while providing sales and marketing resources to reseller partners throughout the world. With this security-focused channel program, we are working with partners throughout Europe, the Middle East, Africa and the Asia-Pacific region to provide enterprise customers with access to the HawkEye family of products and services. In addition, we are increasing our channel presence in the Americas by developing new partnerships throughout North and South America.

Our Market Opportunity

Cyberspace

Our market opportunity is defined by the pervasive expanse of cyberspace and the urgent need for the United States to achieve cyber superiority and mastery over this domain. In a document entitled the National Military Strategy for

Cyberspace Operations, the Department of Defense officially defined cyberspace as “a domain characterized by the use of electronics and the electromagnetic spectrum to store, modify, and exchange data via networked systems and associated physical infrastructures.”

The national security of the United States, our economic prosperity, and the daily functioning of our government depend on a dynamic public and private information infrastructure, which includes computer and telecommunications systems and networks and the data created and used by them. The emergence of foreign military capabilities in cyber space continues. This formalization of military cyber capabilities creates another tool that foreign leaders may use to undermine critical infrastructures that were previously assumed secure. In addition to its own capabilities, the Intelligence Community is cooperating with the private sector to ensure current and evolving understanding of the dynamic cyber environment. The Intelligence Community is integrating cybersecurity with counterintelligence and improving its ability to understand, detect, attribute, and counter the full range of threats.

TABLE OF CONTENTS

The market opportunity for cyber superiority/cybersecurity has continued to evolve since Defense Secretary Gates directed the establishment of US Cyber Command, a military command focused on cybersecurity, to be based at Fort Meade, MD, which also houses the National Security Agency. The Cyber Command supports three overlapping categories of cyber operations, protection of defense computer networks, coordination of all defense computer operations and provision of full-spectrum support for all military and counterterrorism missions.

The Defense Department directive put the National Security Agency and Cyber Command, both at Fort Meade, MD and near our headquarters, at the center of US strategy for cyber superiority and cybersecurity. Modern armed forces cannot conduct high-tempo, effective operations without reliable information and communication networks and assured access to cyberspace and geospatial intelligence. KEYW's leadership and the strategic assembly of companies and capabilities involved with these customers and programs have been carefully developed as a continuing response to the ever growing threat the US faces from potential cyber attacks. The Defense Department is expected to continue to work with domestic and international allies and partners and invest in advanced capabilities to defend its networks, operational capability, and resiliency in cyberspace.

A key element of the strategy of the Director of National Intelligence (DNI), and an important element that helps define this market opportunity, is the need for agility. Agility was identified by the DNI as one of the characteristics essential to the Intelligence Community's effectiveness. The DNI defined an agile organization as "an enterprise with an adaptive, diverse, continually learning, and mission-driven intelligence workforce that embraces innovation and takes initiative." In addition, the National Intelligence Strategy identified enhancing cybersecurity as one of six mission objectives that must be accomplished by the Intelligence Community. The DNI, in his Vision 2015, document put forward a strategy for transforming the focus and operation of the Intelligence Community into cyber age operations. The strategy challenged the Intelligence Community to adopt modern business practices that will make it more effective, efficient, nimble, and accountable.

For national security reasons, there is limited detailed information published on intelligence spending or the amount of intelligence spending dedicated for cyber warfare. In October 2014, the DNI disclosed that the 2014 National Intelligence Program Budget was $50.5 billion and the Military Intelligence Budget was $17.4 billion, for a combined Intelligence Budget of $67.9 billion. According to a recent study by Market Research Ltd, US Federal Cybersecurity spending is expected to reach a cumulative market value of $65.5 billion for the period 2015 - 2020, with this market growing steadily at an estimated annual growth rate of 6.2% over the next six years. Driving this growth is the continued sharp increase in cyber threats and increased reliance on the internet, networked systems, and connectivity, which creates opportunities for cyber attackers to disrupt US Government operations, as well as US critical infrastructure and commercial entities.

As a result of these decisions and actions, our customers have clearly defined agility, cyber superiority, and cybersecurity as critical national security imperatives. We believe that we are strongly positioned, based on our capabilities, competitive strengths and strategy, to be a leader in this currently well-funded and critical market.

Geospace

Since our initial public offering, we have significantly expanded our capabilities in geospatial intelligence. These capabilities are highly complementary to our cyber superiority capabilities. Geospatial intelligence tools and technologies for managing and correlating vast amounts of data, all within a common geo-reference model, are highly relevant and applicable in cyberspace. In addition, the domains of cyberspace and geospace are rapidly converging within the intelligence and defense communities. Attribution and effective remediation of hostile actions in cyberspace frequently requires finding the perpetrators in geospace, and correlating other knowledge that is accessible using geospatial intelligence tools and data.

Cybersecurity Spending
According to an August 2014 market research report by Gartner, global cybersecurity spending in 2014 is expected to be $71.1 billion (an increase of 8% versus 2013) and is expected to grow to $76.9 billion in 2015, an estimated growth rate of 8%.

The main drivers of the cybersecurity market are:
•the large base of existing cyber threats in addition to increasing cyber threats from new actors and new threat vectors (the paths that attacks can take);
•a regulatory environment increasingly requiring processes and procedures to ensure robust systems are in place to protect data;
•increased vulnerability to cyber threats due to increasing dependence on technology, in particular, mobile, cloud computing and web centric technologies; and
•adversaries focused on exploiting increased dependence on technology-driven infrastructure through cyber attacks.

TABLE OF CONTENTS

This growth in the cybersecurity market is being driven by the increasing frequency and ferocity of cyber threats. According to former Deputy Secretary of Defense William Lynn, speaking at the 28th Annual International Workshop on Global Security in Paris, “The recent intrusions at the International Monetary Fund, the US defense contractor Lockheed Martin, and at Citibank join those that occurred in the oil and gas sector, at NASDAQ, and at Google as further, troubling instances of a widespread and serious phenomenon. Even some companies employing sophisticated commercial defenses have fallen victim to intrusions that have compromised services and stolen intellectual property.” General Keith Alexander, former Director of the National Security Agency and head of US Cyber Command, stated in July 2012 at the American Enterprise Institute that cyber attacks are causing the “greatest transfer of wealth in history.” General Alexander cited a report from Symantec that concludes that the theft of intellectual property inflicts significant annual costs on American companies.

Capabilities and Customer Solutions

Government Solutions

We provide our US Government customers cybersecurity, cyber superiority and intelligence solutions through services and products. Our services include a full range of technical and program management capabilities needed to conceptualize, build, integrate, and support intelligence systems and capabilities. Our products include turn-key electro-optical (EO) and LIDAR solutions, radio frequency (RF) and other intelligence gathering devices and advanced radar technology. Virtually all of our work requires high-level security clearances, and the descriptions and details of this work are classified. As a result, this work can only be described at a high level, and examples of the systems and solutions we create can only be generally described.

Our Government Solutions work includes developing strategic and system architectures for solutions finding, developing, and integrating hardware and software components to build these solutions, and testing these solutions to confirm that they meet our customers' requirements. As a result, our engineers are involved in writing software programs in a wide variety of programming languages, developing specialized hardware components, and integrating a variety of custom-developed as well as commercial-off-the-shelf components into solution platforms that support one or more elements of the Intelligence Process. Our services work includes the following activities and capabilities:

- Strategic Program and Management Support. We help customers formulate plans to improve performance, cost effectiveness, and quality of service. We assess current operations, develop targeted strategies and plans for improvement, define key priorities and accountabilities, and design enterprise architectures that capitalize on customer investments in existing systems and assist them in transitioning to new technology platforms and capabilities.

- Systems Design, Development and Integration. We provide project management, systems design, network and systems integration, data analysis and integration, security engineering, software development, hardware development and engineering, database design and development, and independent test and evaluation services to our clients. We analyze system concepts and assess data and information needs, define requirements, develop operational prototypes, and integrate complex mission-critical systems and solutions that comply with our customer's enterprise architectures and needs. Based on customer requirements, we may design custom-built systems, integrate and implement commercial-off-the-shelf solutions, or combine both approaches using agile development methodologies and other industry best practices.

- Cybersecurity, Cyber Superiority and Geospatial Intelligence. We offer a proactive, multi-disciplined approach to cybersecurity and cyber superiority based on expertise in defending, exploiting, and using cyberspace to accomplish the intelligence mission and protect our national interests. We provide geospatial intelligence solutions that span the entire intelligence process of collection, processing, analysis, and impact, bringing innovation and mobility to our intelligence and defense customers. Our suite of solutions includes security architecture, secure systems integration, cybersecurity operations, information operations, compliance, privacy, training services, data mining, cloud computing, quick response capabilities, mobility applications and solutions, and intelligence processing and analysis.

- Intelligence Operations and Analysis Support. We support strategic and tactical intelligence systems, networks and facilities in support of the Intelligence Community and Department of Defense. To support classified systems and facilities designed to collect, analyze, process and use the products of various intelligence sources, we develop and integrate collection and analysis systems and techniques. Some of our intelligence-related services also include the design, rapid development and prototyping, integration and management of real-time signal processing systems. We also provide support to the development and application of analytical techniques to counterintelligence operations and activities.

Our hardware products are typically low-volume products, typically ordered in volumes of less than 500 units, that meet specific customer needs to create intelligence insight and advantage by capturing information that help identify, locate, and monitor activity that is of interest to our intelligence agency customers. Our products are in active use in hostile environments, and are we modify them based on customer feedback to make them more effective. Our hardware products are sold at fixed prices (volume discounts are available for significant orders), along with a one year warranty.

We own and operate seven Beechcraft King Air B100's and one Metroliner turboprop aircraft for the collection of high resolution EO imagery and LIDAR data in austere environments. With these aircraft, we provide a turn-key solution for high-resolution EO and LIDAR that includes collection, processing, and synthesis of actionable intelligence and georeferenced imagery that keeps pace with an agile threat environment. We believe the value demonstrated by our high-resolution EO and LIDAR platforms in current operational theaters saves lives and should lead to more widespread deployment of them to other military areas of interest around the globe. Furthermore, we expect to continue improving and increasing the capabilities of these platforms by developing new sensor technologies and better processing capabilities, creating a truly agile “multi-INT” intelligence, surveillance, and reconnaissance platform.

We strive to be an agile developer and producer of customer solutions and products because our customers require that we develop, integrate and test our products and solutions rapidly and modify them quickly as customer requirements evolve. Solutions and products that are not agile, i.e. that are static or slow to change, do not meet the needs of our customers as they respond to a rapidly changing threat environment. We believe the cyber age operating requirements of the Intelligence Community make the traditional model of engineering and integration, which can take years to go from concept to initial deployment, outmoded. We have worked closely with our customers to replace the traditional engineering model with a model based on agile development methodologies. In this model, significant progress and milestones are expected every 90 days. Agility requires high levels of skill in both engineering and in program management.

Commercial Cyber Solutions

The majority of our legacy revenue has been generated through analytic software packages and related maintenance and services. On a go-forward basis, we believe that our revenue will be more diversified as we have added additional revenue streams from our Hawkeye products, including the flagship product Hawkeye G. The Hawkeye G product's mission is aimed at ensuring that business IT infrastructure is equipped with tools and capability to detect, engage, and remove both external and internal cyber threats. Cyber terrorists, organized crime, and foreign governments focus tremendous effort on commercial, government, and military interests as their prime target. The Hawkeye G product offers active, multi-disciplined approaches to achieve a higher standard of cybersecurity that is based on our expertise supporting our nation’s cybersecurity and cyber warfare missions to ensure that enterprises of any size and in any industry can operate at maximum potential.

US Federal Government Contracts

We derive substantially all of our revenue from US Government customers. In fiscal years 2014, 2013, and 2012, we generated approximately 91%, 93%, and 96%, respectively, of our total revenue from contracts where the end customer was the US Government, which has a highly structured and regulated competitive procurement process. Our intelligence and defense customers typically exercise independent contracting authority and do not use General Services Administration or other government-wide acquisition contracts to obtain our services or products.

Subcontracts accounted for approximately 46% of our revenue in 2014, and prime contracts accounted for the other 54%,. In 2013 subcontractors accounted for approximately 53% of our revenue and prime contracts accounted for approximately 47% of our revenue. Our prime contracts have been awarded as both sole-source and competitive awards; our subcontracts have been awarded competitively from prime contractors.

Sole-source award contracts

Under a sole-source award contract, the purchase of goods or services is made from a single source without competitive bidding. It is awarded usually, but not always, by a federal government agency after soliciting and negotiating with only one firm. These contracts can be negotiated much more quickly than a typical competitive contract provided that there is adequate demonstration of both need and the likelihood that any attempt to obtain bids would only result in one person or company being able to meet the need. Urgency is often the rationale for sole-source contracts. Sole-source contracts may be awarded on the basis of a variety of different compensation models, including firm-fixed price, time-and-materials, cost-plus-fixed-fee, or level-of-effort contracts based on negotiations, risk, and cost uncertainty.

TABLE OF CONTENTS

Single award contracts

Under single award contracts with defined statements of work, a federal government agency solicits, qualifies, and then requests proposals from interested contractors. The agency then evaluates the bids and typically awards the contract to a single contractor for a specified service or product.

Multiple award contracts

Under indefinite delivery/indefinite quantity, or ID/IQ, contracts, a federal government agency can form preferred provider relationships with one or more contractors. This category includes agency-specific ID/IQ contracts; blanket purchase agreements, or BPAs; government-wide acquisition contracts, or GWACs; and General Services Administration, or GSA, schedule contracts. These umbrella contracts, often referred to as vehicles, outline the basic terms and conditions under which federal government agencies may order services. ID/IQ contracts are typically managed by one sponsoring agency, and may be either for the use of a specific agency or available for use by any other agency of the federal government. ID/IQ contracts available for use by any agency of the federal government are commonly referred to as GWACs.

Contractors within the industry compete to be pre-selected to perform work under an ID/IQ contract. An ordering agency then issues delivery orders, commonly known as task orders, for services to be performed under the contract. If the ID/IQ contract has a single prime contractor, only that contractor may be awarded delivery orders. If the contract has multiple prime contractors, the award of each delivery order typically will be competitively determined among the pre-selected contractors.

GSA schedules are listings of services and products, along with their respective prices, offered by federal government contractors. The schedules are negotiated and maintained by the GSA for use by any federal agency or other authorized entity, including state and local governments. When an agency selects services or products under a GSA schedule contract, the competitive process is limited to qualified GSA schedule contractors.

Due to the lower contract procurement costs, reduced procurement time, and increased flexibility associated with multiple award contracts, these vehicles have been utilized frequently in the last decade. Agency-specific ID/IQs have become increasingly prevalent, particularly in the DoD. Access to the relevant vehicles is critical for contractors intending to do business with a specific agency.

Contract types

We generate revenue under various types of contracts, which include time-and-materials (T&M), fixed-price-level-of-effort, firm-fixed-price (FFP), cost reimbursable contracts, and commercial software license and related service contracts. For the years ended December 31, 2014 and December 31, 2013, we derived revenue from such contracts on an actual basis as follows:

	Year ended December 31, 2014		
Contract Type	(in millions)	(percentage)	
Time & Materials	$71.5	24.6	%
Fixed-Price-Level-of-Effort	$57.9	19.9	%
Firm-Fixed-Price	$78.6	27.1	%
Cost Reimbursement	$71.2	24.5	%

Commercial Software License & Related Service	$11.3	3.9	%

	Year ended December 31, 2013		
Contract Type	(in millions)	(percentage)	
Time & Materials	$109.4	36.6	%
Fixed-Price-Level-of-Effort	$43.2	14.5	%
Firm-Fixed-Price	$30.9	10.3	%
Cost Reimbursement	$105.4	35.3	%
Commercial Software License & Related Service	$9.8	3.3	%

TABLE OF CONTENTS

Time-and-materials contracts. Under a T&M contract, we are paid a fixed hourly rate for each direct labor hour expended and we are reimbursed for allowable material costs and out-of-pocket expenses. To the extent our actual direct labor and associated costs vary in relation to the fixed hourly billing rates among various labor categories provided in the contract, we will generate more or less profit or we could incur a loss.

Fixed-price-level-of-effort contracts. Fixed-price-level-of-effort contracts are substantially similar to T&M contracts except that they require a specified level of effort over a stated period of time.

Firm-fixed-price contracts. FFP contracts provide for a fixed price for specified products, systems and/or services. If actual costs vary from planned costs on a FFP contract, we generate more or less than the planned amount of profit and may even incur a loss. Our FFP contracts are primarily for our products.

Cost reimbursable contracts. Cost reimbursable contracts provide for reimbursement of our direct contract costs and allowable and allocable indirect costs, plus a fee.

Backlog

We define backlog to include both funded and unfunded orders for products and services under existing signed contracts, assuming the exercise of all options relating to those contracts, less the amount of revenue we have previously recognized under those contracts. We define funded backlog to be the portion of backlog for which funding currently is appropriated and obligated to us under a contract or other authorization for payment signed by an authorized purchasing authority. Unfunded backlog includes all contract options that have been priced but not funded. Unfunded backlog takes into account contract ceiling value under multiple award contracts, and includes estimates of future potential delivery orders that might be awarded under multiple award ID/IQ contract vehicles, GWACs or GSA schedule contracts.

As of January 1, 2015, our total backlog was $506 million, of which $120 million was funded and $386 million was unfunded. As of January 1, 2014, our total backlog was $509 million, of which $132 million was funded and $377 million was unfunded.

Total backlog may fluctuate from period to period depending on our success rate in winning contracts and the timing of contract awards, renewals, modifications and cancellations. We expect to recognize a substantial portion of our funded backlog as revenue within the next 12 months. However, the US Government may terminate any contract at any time.

Customers

We derive substantially all of our revenue from contracts for US Government agencies involved with national security missions. In 2014, 48% of our revenue was derived from contracts for the NSA, 22% of our revenue was derived from contracts for the DoD, 21% of revenue was derived from work for other major intelligence agencies and other intelligence, defense, homeland security and law enforcement organizations, and 9% was derived from commercial customers.

Our intelligence and defense customers typically exercise independent contracting authority. We serve customers in either a prime or a subcontractor capacity. Our customers include many of the 16 federal agencies listed below that comprise the Intelligence Community.

- The Central Intelligence Agency (CIA)

- The United States Department of Defense (DoD)
  - Air Force Intelligence Surveillance and Reconnaissance Agency (AFISRA)
  - Army Military Intelligence (MI)
  - Defense Intelligence Agency (DIA)
  - Marine Corps Intelligence Agency (MCIA)
  - National Geospatial-Intelligence Agency (NGA)
  - National Reconnaissance Office (NRO)
  - National Security Agency (NSA)
  - Office of Naval Intelligence (ONI)
- United States Department of Energy
  - Office of Intelligence and Counterintelligence (OICI)
- United States of Homeland Security
  - Office of Intelligence and Analysis (I&A)
  - Coast Guard Intelligence (CGI)
- United States Department of Justice

TABLE OF CONTENTS

- Federal Bureau of Investigation (FBI)
- Drug Enforcement Administration (DEA)
- United States Department of State
- Bureau of Intelligence and Research (INR)
- United States Department of the Treasury
- Office of Terrorism and Financial Intelligence (TFI)

Long-term relationships between intelligence customers and contractors develop because of the high level of security clearances required to work on projects and unique technical requirements of intelligence customers. For example, some members of our management have been working closely with the NSA for over 25 years, during which time they have completed numerous projects and we have several projects currently on-going with the NSA.

Our Competitive Strengths

We believe the following competitive strengths will allow us to take advantage of the trends in our industry:

Cyber superiority, geospatial intelligence and intelligence focused. We focus on delivering cyber superiority, geospatial intelligence and intelligence support for our customers. We deliver a full range of cyber engineering services and solutions, geospatial intelligence services and solutions, and cyber intelligence products. Mastering cyberspace and thereby attaining cyber superiority is a core mission of the Intelligence Community. We are building a platform of capabilities, culture, and technologies that is tailored to meeting this mission. This focus gives our customers faster and more innovative solutions than those offered by our competitors.

Agile intelligence, cybersecurity and cyber age operations expertise. We have significant experience in building signal and information processing solutions, cybersecurity, cyber superiority and geospatial intelligence solutions, using agile methodologies for the Intelligence Community to support mission critical activities and complex national security problems. Our team has established a strong reputation for responding quickly to customer requirements, and for working as a partner with our customers to identify and define these requirements. The changes in the threat environment that have occurred since 2001 have put enormous pressure on the Intelligence Community to respond more quickly and in a more integrated way than ever before. We have a culture of innovation and agility that allows us to respond more quickly and with greater impact than other organizations.

Management's Intelligence Community experience and relationships. Our management has significant expertise in the Intelligence Community and a lengthy track record with many members of the Intelligence Community. Our insight into the Intelligence Community's needs and our mission focus allow us to articulate and support our customers' needs as they emerge, placing us at the forefront of solutions being offered. The senior members of our leadership and technology teams have a record of supporting the Intelligence Community's programs for the past 20 - 30 years. Our long-term relationships establish the basis of trust required to understand and support mission-critical requirements. During this period, our executives have gained access to the highest levels of the Intelligence Community allowing them to provide thought leadership in the transformation of the intelligence process to respond to challenges of cyber age operations and a rapidly changing asymmetrical global threat environment.

Expansion into commercial sector provides new opportunity for growth. Launched during July 2013, Hexis offers an innovative ‘purpose built’ solution enabling enterprises to protect themselves from the next generation of cyber attacks. This next generation of cyber attacks on organizations represents a significant escalation in the scale and complexity of malware created by criminal organizations and nation-states. We have utilized our experience in protecting the US government's most secure networks to build a cyber security platform. Such attacks are able to work around and through traditional defenses and deliver malware through multiple entry points of an enterprise network. Our solution represents a new approach to detecting and eliminating these cyber attacks in real time. In light of the ever changing landscape of cyber attacks, we believe organizations need to invest in this new approach to security in order to protect their critical assets.

History of successfully acquiring and integrating businesses. KEYW began operations on August 4, 2008, led by the majority of the former leadership team of Essex Corporation, which was acquired by Northrop Grumman Corporation in January 2007. Since our founding, we have assembled, through a series of highly selective strategic acquisitions, a single distinct platform that provides the high quality and complementary cybersecurity, cyber superiority and geospatial intelligence capabilities, solutions and products our customers require.

Skilled employees with high-level security clearances. As of December 31, 2014, 77% of our employees have US Government security clearances, with 72% of our employees holding Top Secret or higher clearance. This concentration of highly-skilled and cleared personnel allows us to respond quickly to customer requirements and gives us on-going insight into our customers' toughest national security problems. The requirement for these clearances and the time and process required to attain them are significant barriers to entering this market.

Intelligence Surveillance and Reconnaissance (ISR) sensor development, rapid deployment and sustainment of airborne collection platforms. Leveraging our broad technical expertise, we match aircraft to mission requirements and modify these aircraft with integrated airborne sensor systems for onboard, geospatially referenced digital image collection and processing. Our integrated airborne collection solutions are complemented by complete flight services and ongoing sustainment and logistics support of the collection platforms. We rapidly deploy our tailored solutions in direct response to the defense community's most urgent requirements for ISR imagery in support of tactical missions and rapid mapping of large areas in some of the world's most challenging locations, thus placing us at the center of the trend towards actionable intelligence.

Our Strategy

Our objective is to continue to grow our business as a provider of advanced solutions, including services, products, and fully integrated platforms, to provide cyber and geospatial intelligence to US Government customers and to leverage our capabilities and innovations in this field to government intelligence, defense, civilian customers and the commercial market. Key elements of our strategy to accomplish our continued growth objective include:

Leveraging our distinct culture, which we describe as “Agile DNA,” products and solutions to expand our US Government business. We intend to leverage our high technology capabilities and services, products and solutions to further penetrate the intelligence and defense communities and to expand our participation in other cyber and geospatial intelligence growth areas of the US Government in the homeland security and civilian sectors. We believe this will allow us to apply powerful cyber superiority solutions to the .gov community in a manner that is transparent and respectful of privacy in the civilian and commercial environments.

Pursuing strategic, capability-enhancing acquisitions. We will continue to pursue selective strategic acquisitions that expand our cyber intelligence platform of capabilities and solutions. This will include companies that are leaders in supporting the US intelligence and defense community, as well as technologies and solutions in cybersecurity and other areas of innovation that are critical to (1) the transformation of the Intelligence Community into cyber age operations and (2) improving the overall cybersecurity posture of the Intelligence Community and commercial critical infrastructure enterprises.

Building and leveraging our research and development efforts. We intend to continue utilizing company and customer funded research and development to develop technologies, products and solutions that have significant potential for near-term, as well as long-term value in both the US Government and commercial markets. We will continue to use intellectual property that we create internally or license from other companies in the areas of network traffic intelligence, cybersecurity, cyber intelligence and geospatial intelligence to build products and solutions to further penetrate the intelligence and defense market for cyber superiority.

Leverage Intelligence Community experience to address new growth markets. We are applying knowledge and techniques that we have developed and used to protect some of the most sensitive IC networks to derive a new Cyber Awareness and Response Platform for the commercial market place, with an initial focus on US critical infrastructure industries. By drawing on the excellent skills of our cyber experts, with years of experience in protecting the IC from continuous cyber attacks, we are deploying a platform capable of finding, fixing, and finishing even the most elusive and persistent cyber threats.

Competition

We sell our services and products primarily to the intelligence and defense communities. The level of security clearances required for this work limits the range of competitors against whom we compete for customers in both communities. In addition, the number of competitors is limited even further by the level of technical expertise required to deliver products and services to our government customers. We compete either as prime contractor or as a subcontractor, depending on the requirements and scope of the project.

In our government market, our competitors include both large competitors that offer a broad range of services and capabilities and smaller boutique organizations that are highly focused on particular capabilities, solutions, and customers. Our larger competitors include divisions of large defense contractors such as Lockheed Martin Corporation, The Boeing Company and Northrop Grumman Corporation. We also face competition from a number of large, well-established government contractors such as Science Applications International Corporation, CACI International, Inc. and others. The smaller competitors are generally privately held corporations with strong capabilities in delivering specific elements of a solution for a narrow range of customers. See “Risk Factors” for a description of the various risks we may face from our competitors.

In the commercial software market we are competing with larger multi-national companies such as Cisco, Symantec, and FireEye as well as new start-ups with innovative solutions. While Hexis has an established market presence, its market share is relatively small compared to the large companies it competes with for business. As our Hawkeye G product is a new market entrant, the competitive landscape and our product's acceptance is still evolving.

TABLE OF CONTENTS

Manufacturing

Our manufacturing capabilities support modest volume product manufacturing consistent with our customers' needs for products that evolve rapidly and on a regular basis. We use a combination of in-house resources and contract manufacturing support provided by third parties. We believe that this approach to our manufacturing needs allows us to carefully manage capital investment while maintaining our ability to meet surges in the volume of customer requirements.

Research and Development

Innovation is an important part of our business model. We look for opportunities to create long-term growth opportunities, on a sole-source basis, by leveraging our in-depth knowledge of our customers' missions and needs, our Agile DNA and our ability to use internal research and development (IR&D). Our product and solutions business has evolved through a combination of customer development and IR&D. We frequently develop a core capability or technology and then customize this capability or technology to meet specific customer requirements.

Our research and development, or R&D, consists of IR&D that is an allowable expense under US Government contracts and research and development that is performed at our expense. Spending on R&D activities may vary, depending on the opportunities that we see and customer requirements. In 2014, we spent approximately $18.6 million, or 6.4% of revenue on R&D. For 2015 we are budgeting 7.0% – 8.0% of revenue for R&D. R&D spending increased in 2014 and we expect it to increase slightly in 2015 as we continue to expand our capabilities within the intelligence community and with the commercial software market. Looking forward to 2015, we have established innovation teams in each of our major business areas to broaden our efforts to strategically leverage our technologies and ideas into new program opportunities with our customers.

Our software business will require additional investment to enhance our products and to stay relevant in the marketplace.

Intellectual Property

We own ten patents and have six pending patent applications. We have sixteen federally registered trademarks, two pending federal trademark registration applications, and five registered copyrights. As we develop intellectual property, we make a determination, with the support of outside patent counsel, of the best manner in which to protect it whether through patent or copyright, or as trade secret. When we acquire companies that have developed intellectual property and have patents pending, we make a determination, with the support of outside patent counsel, of whether we need to continue pursuing the pending patent applications. In conjunction with several of our products, we have developed intellectual property that we are protecting as trade secrets. We have made this determination based on the costs and risks involved, as well as on the pace at which changes are being made to the products. As we build our solutions and products, we also make use of third-party intellectual property for which we purchase licenses, as necessary. We integrate technology, including hardware and software, based on designs and architectures that we develop with our customers.

Regulatory Matters

We must comply with laws and regulations relating to the formation, administration, and performance of US Government contracts. The Federal Acquisition Regulation, or FAR, which mandates uniform policies and procedures for US Government acquisitions and purchased services, governs the majority of our contracts. Individual agencies also have acquisition regulations that provide implementing language for the FAR or that supplement the FAR.

Other federal regulations require certification and disclosure of cost or pricing data in connection with contract negotiations for certain types of contracts, define allowable and unallowable costs, govern reimbursement rights under cost-based contracts, and restrict the use, dissemination and exportation of products and information classified for national security purposes.

Our federal government business is also subject to laws, regulations, and executive orders restricting the use and dissemination of classified information and, under US export control laws, the export of certain products and technical data.

Additionally, federal government contracts, by their terms, generally can be terminated at any time by the federal government, without cause, for the convenience of the federal government. If a federal government contract is so terminated, we would be entitled to receive compensation for the services provided and costs incurred through the time of termination, plus settlement expenses and a negotiated amount of profit. Federal government contractors who fail to comply with applicable US Government procurement-related statutes and regulations may be subject to potential contract termination, suspension and debarment from contracting with the US Government, or other remedies. See “Risk Factors” for a description of the various risks we may face regarding laws and regulations relating to US Government Contracts.

Corporate Information

11

TABLE OF CONTENTS

We are a holding company and conduct our operations through The KEYW Corporation and Hexis Cyber Solutions, Inc. and their subsidiaries. We were incorporated in Maryland in December 2009. The KEYW Corporation was incorporated in Maryland in May 2008 and became our wholly-owned subsidiary in December 2009 as part of a corporate restructuring.

The address of our principal executive office is 7740 Milestone Parkway, Suite 400, Hanover, Maryland 21076 and our general telephone number is (443) 773-1600. Our web site address is www.keywcorp.com. We make available free of charge on or through our Internet website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information on, or accessed through, our web site is not part of this or any other report we file with or furnish to the SEC.

Item 1A. RISK FACTORS

You should carefully consider the following risks and all other information contained in this annual report, including our financial statements and the related notes, before investing in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks materialize, our business, financial condition and results of operations could be materially harmed. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.

Investing in our common stock involves a high degree of risk. Before investing in our common stock, you should carefully consider the following risks as well as all other information contained in this Annual Report.

Risks Relating to Our Business

We currently rely on sales to the US Government for substantially all of our revenue. If our relationships with US Government agencies were harmed, our business, future revenue and growth prospects would be adversely affected.

We derive substantially all of our revenue from our US Government customers. For the fiscal years ended December 31, 2014, 2013, and 2012, we generated 91%, 93% and 96%, respectively, of our total revenue from contracts with the US Government, either as a prime contractor or a subcontractor. We expect that US Government contracts will continue to be the primary source of our revenue for the foreseeable future. Our reputation and relationship with the US Government, and in particular with the agencies of the US Intelligence Community and the Department of Defense (DoD), are key factors in maintaining and growing our revenue. For example, in 2014, on a GAAP basis, 48% of our revenue was derived from contracts with the NSA, 22% of our revenue was derived from contracts with the DoD, 21% of revenue was derived from other major intelligence agencies and other intelligence, defense, homeland security and law enforcement organizations, and 9% was derived from commercial customers. Our business, prospects, financial condition and/or operating results would be materially harmed if:

- we were to lose, or there were to occur a significant reduction in, US Government funding of one or more programs for which we are the prime contractor or in which we participate;
- we were suspended or debarred from contracting with the US Government; or
- our reputation, relationships, or the reputations or relationships of our senior managers with the US Government agencies with which we currently do business or seek to do business is impaired.

TABLE OF CONTENTS

A decline in US Government spending and mission priorities may adversely affect our future revenue and limit our growth prospects.

Continued US Government expenditures on intelligence, defense and other programs for which we provide support are critically important for our business. While spending authorizations for intelligence and defense-related programs by the government have increased in recent years due to greater homeland security and foreign military commitments, and to a general outsourcing trend, these spending levels may not be sustainable and could significantly decline. Future levels of expenditures, authorizations, and appropriations for programs we support may decrease or shift to programs in areas where we do not currently provide services, or contract opportunities may be in-sourced to be performed by US Government employees. Changes in spending authorizations, appropriations, and budgetary priorities could also occur due to a shift in the number, and intensity, of potential and ongoing conflicts, including the current conflicts in Iraq and Afghanistan, the rapid growth of the federal budget deficit, increasing political pressure to reduce overall levels of government spending, shifts in spending priorities from intelligence and defense-related programs as a result of competing demands for federal funds, or other factors. Our business prospects, financial condition or operating results could be materially harmed among other causes by the following:

- budgetary constraints affecting US Government spending generally, or specific departments or agencies in particular, and changes in available funding (such as the recent federal government sequestration (automatic spending cuts) that affected a number of our customers);
- changes in US Government programs or requirements; and
- US Government shutdown (such as that which occurred during the government's 2014 fiscal year) and other potential delays in the appropriations process.

These or other factors could cause US Government agencies and departments to reduce their purchases under contracts, exercise their right to terminate contracts, or not exercise options to renew contracts, any of which could cause us to lose revenue. A significant decline in overall US Government spending, or a shift in expenditures away from agencies or programs that we support, could cause a material decline in our revenue.

We depend on US Government contract awards that are only partially funded and which depend upon annual budget appropriations. A delay in the completion of the US Government’s budget process or the impact of sequestration, (automatic spending cuts), could delay procurement of the services and solutions we provide and have an adverse effect on our future revenue.

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

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

The US Government may modify, curtail or terminate our contracts at any time prior to their completion and, if we do not replace them, we may be unable to sustain our revenue growth and may suffer a decline in revenue.

Many of the US Government programs in which we participate as a contractor or subcontractor may extend for several years. These programs are normally funded on an incremental basis. Under our contracts, the US Government generally has the right not to exercise options to extend or expand our contracts and may modify, curtail or terminate the contracts and subcontracts at its convenience.

If the US Government terminates a contract for convenience, we may recover only our reasonably incurred or committed allowable costs, settlement expenses and profit on work completed prior to the termination. We cannot recover anticipated future profits on terminated work. If the US Government terminates a contract for default, we may not recover each of those types of costs, and

TABLE OF CONTENTS

instead may be liable for excess costs incurred by the US Government in procuring undelivered items and services from another source.

Any decision by the US Government not to exercise contract options or to modify, curtail or terminate our major programs or contracts would adversely affect our revenue and revenue growth. We may not realize the full amounts of revenue reflected in our backlog, which could adversely affect our future revenue and growth prospects.

We may not realize as revenue the full amounts reflected in our backlog, which could adversely affect our future revenue and growth prospects.

As of December 31, 2014, our total backlog was $506 million, which included $386 million in unfunded backlog. As of December 31, 2013, our total backlog was $509 million, which included $377 million in unfunded backlog. The US Government's ability not to exercise contract options or to modify, curtail or terminate our major programs or contracts makes the calculation of backlog subject to numerous uncertainties. Due to the uncertain nature of our contracts with the US Government, we may never realize revenue from some of the engagements that are included in our backlog. Our unfunded backlog, in particular, contains amounts that we may never realize as revenue because the maximum contract value specified under a US Government contract or task order awarded to us is not necessarily indicative of the revenue that we will realize under that contract. If we fail to realize revenue amounts included in our backlog, our future revenue and growth prospects may be adversely affected. For additional information on our backlog, see "Business — US Federal Government Contracts — Backlog."

If we fail to comply with complex procurement laws and regulations, we could lose business and be liable for various penalties or sanctions.

We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts. These laws and regulations affect how we conduct business with our federal government customers. In complying with these laws and regulations, we may incur significant costs, and the US Government may impose additional fines and penalties, including contractual damages, in the event of our non-compliance. Among the more significant laws and regulations affecting our business are the following:

- the Federal Acquisition Regulation, which comprehensively regulates the formation, administration and performance of federal government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with cost-type contracts;
- the Cost Accounting Standards and Cost Principles, which impose accounting requirements that govern our right to reimbursement under certain cost-based federal government contracts; and
- laws, regulations and executive orders restricting the use and dissemination of classified information and, under US export control laws, the export of certain products and technical data.

Our contracting agency customers periodically review our performance under and compliance with the terms of our federal government contracts. If we fail to comply with these laws and regulations or if a government review or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions, including:

- termination of contracts;
- forfeiture of profits;
- cost associated with triggering of price reduction clauses;
- suspension of payments;
- fines; and
- suspension or debarment from doing business with the US Government.

Additionally, the False Claims Act provides for potentially substantial civil and criminal penalties where, for example, a contractor presents a false or fraudulent claim to the US Government for payment or approval. Actions under the False Claims Act may be brought by the US Government or by other persons on behalf of the US Government (who may then share a portion of any recovery).

Because the majority of all of our revenue is dependent on our selection, performance and payment under our US Government contracts, the loss of one or more large contracts or any suspension or debarment from doing business with US Government

14

TABLE OF CONTENTS

agencies would result in a loss of anticipated future revenue from US Government contracts and a reduction in cash flows and would have a material adverse effect on our operating results.

US Government contracts contain other provisions that may be unfavorable to contractors.

Beyond the right to terminate a contract for convenience or decline to exercise an option to renew, US Government contracts contain provisions and are subject to laws and regulations that give the US Government rights and remedies not typically found in commercial contracts. These provisions, laws and regulations permit the US Government to do (among other things) the following:

- reduce or modify contracts or subcontracts;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- claim certain rights (including, under certain circumstances, certain intellectual property rights) in products and systems produced by us; and
- suspend or debar us from doing business with the US Government.

If the US Government exercises its rights under any of these provisions, our ability to operate or our competitive advantage could be hindered, and our revenue and net income could decline and our operating results could be materially adversely affected.

Further, US Government contracts and certain laws and regulations, including without limitation, the International Traffic in Arms regulations and laws and contract restrictions relating to classified information, contain provisions that may restrict our ability to provide our products and services to third parties. These restrictions may prevent us from leveraging our products, services, intellectual property, know-how or other revenue-generating aspects of our business or our acquisitions to the fullest extent in the commercial sector.

The US Government may revise its procurement or other practices in a manner adverse to us.

The US Government may revise its procurement practices or adopt new contracting rules and regulations, such as cost accounting standards. It could also adopt new contracting methods relating to General Services Administration (GSA) contracts, or other government-wide acquisition contracts (GWACs), or adopt new standards for contract awards intended to achieve certain social or other policy objectives. In addition, the US Government may face restrictions from new legislation or regulations, as well as pressure from US Government employees and their unions, on the nature and amount of services the US Government may obtain from private contractors. These changes could impair our ability to obtain new contracts or to continue to retain contracts under which we currently perform when and if those contracts are put up for renewed competitive bidding. Any new contracting methods could be costly or administratively difficult for us to implement, and, as a result, could harm our operating results.

Audits by US Government agencies could result in unfavorable audit results that could subject us to a variety of penalties and sanctions, and could harm our reputation and relationships with our customers.

US Government agencies, including the Defense Contract Audit Agency (DCAA) and others, routinely audit and review contractors' performance on contracts, cost structure, pricing practices and compliance with applicable laws, regulations and standards. They also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's accounting, billing, cost, purchasing, property, estimating, compensation, management information system and other systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. Adverse findings in a DCAA audit could materially affect our competitive position and result in a substantial adjustment to our revenue and net income.

If a US Government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of net income, suspension of payments, fines and suspension or debarment from doing business with US Government agencies. In addition, we could suffer serious harm to our reputation and competitive position if allegations of impropriety were made against us, whether true or not. If our reputation or relationship with US Government agencies were impaired, or if the US Government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our revenue and net income would decline and our operating results could be materially adversely affected.

A significant portion of our revenue and net income is derived from a few key programs. The loss of any one or more of these programs could cause a material decline in our operating results.

TABLE OF CONTENTS

For the year ended December 31, 2014, and the year ended December 31, 2013, our 10 largest programs accounted for a total of $174 million and $160 million, respectively, or 60% and 54% of our total revenue, respectively. Although we have been successful in continuing work on most of our large programs in the past, there is no assurance that we will be able to do so in the future. The revenue stream from one or more of these programs could end for a number of reasons, including the completion of the customer’s requirements, the completion or early termination of our current program, the consolidation of our work into another program where we are not a contractor under that program, or the loss of a competitive bid for the follow-on work related to our current program. If any of these events were to occur, we could experience an unexpected, significant reduction in revenue and net income.

We derive significant revenue from contracts awarded through a competitive bidding process involving substantial costs and risks. Due to this competitive pressure, we may be unable to sustain our revenue growth and profitability.

We expect a significant portion of the business that we will seek in the foreseeable future will be awarded through competitive bidding. The competitive bidding process involves substantial costs and a number of risks, including the significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us and our failure to accurately estimate the resources and costs that will be required to fulfill any contract we win. In addition, following a contract award, we may encounter significant expense, delay or contract modifications as a result of our competitors protesting or challenging contracts awarded to us in competitive bidding. In addition, multi-award contracts require that we make sustained post-award efforts to obtain task orders under the contract. We may not be able to obtain task orders or recognize revenue under these multi-award contracts. Our failure to compete effectively in this procurement environment would adversely affect our revenue and/or profitability.

Our overseas operations involve considerable risks and hazards. An accident or incident involving our employees or third parties could harm our reputation, affect our ability to compete for business, and if not adequately insured or indemnified, could adversely affect our results of operations and financial condition.

We are exposed to liabilities that arise from some of the services we provide. Such liabilities may relate to an accident or incident involving our employees or third parties, particularly where we are deployed on-site at active military installations in locations experiencing political or civil unrest, or they may relate to an accident or incident involving aircraft or other equipment we have serviced or used in the course of our business. Any of these types of accidents or incidents could involve significant potential claims of injured employees and other third parties and claims relating to loss or of damage to government or third-party property.

We maintain insurance policies that mitigate risk and potential liabilities related to our operations. Our insurance coverage may not be adequate to cover those claims or liabilities, and we may be forced to bear substantial costs from an accident or incident. Substantial claims in excess of our related insurance coverage could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

Furthermore, any accident or incident for which we are liable, even if fully insured, may result in negative publicity which could adversely affect our reputation among our customers, including our US Government customers, and the public, which could result in the loss of existing and future contracts or make it more difficult to compete effectively for future contracts. This could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

We face intense competition from many competitors that, among other things, have greater resources than we do.

We operate in highly competitive markets and generally encounter intense competition to win contracts and task orders. We compete with many other firms, ranging from small, specialized firms to mid-tier technology firms and large, diversified firms, many of which have substantially greater financial, management and marketing resources than we do. Significant competitors include divisions of large defense contractors such as Lockheed Martin Corporation, The Boeing Company and Northrop Grumman Corporation. We also face competition from a number of large, well-established US Government contractors such as Leidos, Inc., CACI International Inc. and others. Our competitors may be able to provide our customers with different or greater capabilities or benefits than we can in areas such as technical qualifications, past contract performance, geographic presence, price and the availability of qualified professional personnel. Our failure to compete effectively because of any of these or other factors could cause our revenue and operating profits to decline. In addition, our competitors also have established or may establish relationships among themselves or with third parties to increase their ability to address our customers' needs. Accordingly, it is possible that new competitors or alliances among competitors may emerge that would compete with us more effectively than they do currently.

Our earnings and profitability may vary based on the mix of our contracts and may be adversely affected by our failure to accurately estimate and manage costs, time and resources.

We generate revenue under various types of contracts, which include time and materials (T&M), fixed-price-level-of-effort, firm-fixed-price (FFP), cost reimbursable contracts, and commercial software license and related service contracts. For the years ended December 31, 2014 and December 31, 2013, we derived revenue from such contracts on an actual basis as follows:

TABLE OF CONTENTS

	Year ended December 31, 2014		
Contract Type	(in millions)	(percentage)	
Time & Materials	$71.5	24.6	%
Fixed-Price-Level-of-Effort	$57.9	19.9	%
Firm-Fixed-Price	$78.6	27.1	%
Cost Reimbursement	$71.2	24.5	%
Commercial Software License & Related Service	$11.3	3.9	%

	Year ended December 31, 2013		
Contract Type	(in millions)	(percentage)	
Time & Materials	$109.4	36.6	%
Fixed-Price-Level-of-Effort	$43.2	14.5	%
Firm-Fixed-Price	$30.9	10.3	%
Cost Reimbursement	$105.4	35.3	%
Commercial Software License & Related Service	$9.8	3.3	%

Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenue derived from each type of contract, the nature of services or products provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined. Cost reimbursement and T&M contracts generally have lower profitability than FFP contracts. Our operating results in any period may be affected, positively or negatively, by variable purchasing patterns by our customers of our more profitable border, port and mobile security products.

To varying degrees, there is a risk that we could underestimate the costs and resources necessary to fulfill each of our contract types. While FFP contracts allow us to benefit from cost savings, these contracts also increase our exposure to the risk of cost overruns. When making proposals on these types of contracts, we rely heavily on our estimates of costs and timing for completing the associated projects, as well as on assumptions regarding technical issues. In each case, our failure to accurately estimate costs or the resources and technology needed to perform our contracts or to effectively manage and control our costs during the performance of our work could result, and in some instances has resulted, in reduced profits or in losses. More generally, any increased or unexpected costs or unanticipated delays in connection with the performance of our contracts, including costs and delays caused by contractual disputes or other factors outside of our control, could make our contracts less profitable or unprofitable.

We have a limited operating history, which may not provide an adequate basis for projection of our future prospects and results of operations.

Our limited operating history and method of initial growth may not provide a meaningful basis on which to evaluate our business. Since our founding in 2008, we have undertaken multiple acquisitions that have provided the basis of our business and revenue. Although our revenues have grown significantly since our formation, we may not be able to maintain our profitability and may incur net losses in the future. The lack of long term historical financial results as an operating entity may make it difficult to project our revenues and profitability. Further, we are subject to the risks inherent in the ownership and operation of a company with a limited operating history, such as setbacks and delays in integration of acquired companies, fluctuations in expenses, and competition from competitors that have a more extensive operating history and track record. Any failure to address these risks could seriously harm our business and prospects. We will continue to encounter risks and challenges frequently experienced by companies at a similar stage of development, including:

- the ability to implement our business strategies and to adapt and modify them as needed;
- our efforts to develop and protect our reputation and customer loyalty within the sectors in which we compete for contracts;

- the management of our acquired subsidiaries and integrated operations, including the integration of any future acquisitions;
- maintaining adequate control of our expenses; and
- anticipating and adapting to future government proposals and the impact of any changes in government regulation.

TABLE OF CONTENTS

Acquisitions have formed a significant part of our growth strategy in the past and we expect to continue this strategy in the future. If we are unable to identify suitable acquisition candidates, integrate the businesses we acquire or realize the intended benefits, this aspect of our growth strategy may not succeed. Acquisitions involve numerous risks, including risks related to integration and undisclosed or underestimated liabilities.
Historically, part of our growth strategy has relied on acquisitions. We expect to derive a portion of our growth by acquiring businesses and integrating those businesses into our existing operations. We intend to seek acquisition opportunities both to expand into new markets and to enhance our position in our existing markets. However, our ability to do so will depend on a number of steps, including our ability to:

- identify suitable acquisition candidates;
- negotiate appropriate acquisition terms;
- obtain debt or equity financing that we may need to complete proposed acquisitions;
- complete the proposed acquisitions; and
- integrate the acquired business into our existing operations.

If we fail to achieve any of these steps, our growth strategy may not be successful.
In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations accounting systems, technologies, services and products of the acquired company, the potential loss of key employees of the acquired company and the diversion of our management's attention from other business concerns. This is the case particularly in the fiscal quarters immediately following the completion of an acquisition to the extent the operations of the acquired business are integrated into the acquiring businesses' operations during this period. We cannot be sure that we will accurately anticipate all of the changing demands that any future acquisition may impose on our management, our operational and management information systems, and our financial systems.
We may underestimate or fail to discover liabilities relating to a future acquisition during due diligence and we, as the successor owner, might be responsible for any such liabilities. Although we seek to minimize the impact of underestimated or potential undiscovered liabilities by structuring acquisitions to minimize liabilities and obtaining indemnities and warranties from the selling party, these methods may not fully protect us from the impact of undiscovered liabilities. Indemnities or warranties are often limited in scope, amount or duration, and may not fully cover the liabilities for which they were intended. The liabilities that are not covered by the limited indemnities or warranties could have a material adverse effect on our business and financial condition. In addition, acquisitions can raise potential Organizational Conflict of Interest (OCI) issues that can impact the nature and timing of the acquisition or the acquiring entity's ability to compete for future contracts where the acquired entity may have been involved.
We have a substantial investment in recorded goodwill as a result of our acquisitions, and changes in future business conditions could cause these investments to become impaired, requiring substantial write-downs that could reduce our net income or increase our net loss.
As of December 31, 2014, goodwill accounted for $296 million, or 63% of our recorded total assets on an actual basis. We review our goodwill for impairment annually and when events or changes in circumstances indicate the carrying value may not be recoverable. We evaluate our goodwill at the segment level. The annual impairment test is based on several factors requiring judgment. Principally, a decrease in expected cash flows or changes in market conditions may indicate potential impairment of recorded goodwill. If goodwill became impaired, we could record a significant charge to earnings in our financial statements during the period in which impairment of our goodwill is determined, which would significantly reduce or eliminate our net income.
Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.
Our ability to pay interest on or to refinance our indebtedness, including our convertible notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our

financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

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

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

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

If we are unable to manage our growth, our business could be adversely affected.

Achieving our plans for growth will place significant demands on our management, as well as on our administrative, operational, and financial resources. For us to successfully manage our growth, we must continue to improve our operational, financial and management information systems and expand, motivate and manage our workforce. If we are unable to successfully manage our growth without compromising the quality of our services and products, our business, prospects, financial condition or operating results could be adversely affected.

We are dependent on the continued services and performance of our senior management, the loss of any of whom could adversely affect our business, operating results and financial condition.

We believe that our future performance depends on the continued services and continuing contributions of our senior management to execute our business plan, and to identify and pursue new opportunities successfully. In addition, the relationships and reputation that many members of our senior management team have established and maintain with federal government personnel contribute to our ability to maintain strong customer relationships. Therefore, the loss of services of senior management could significantly delay or prevent the achievement of our development and strategic objectives.

Our failure to attract, train and retain skilled employees with (or who can obtain) appropriate security clearances would adversely affect our ability to execute our strategy.

Our business involves the development of tailored solutions for our customers, a process that relies heavily upon the expertise and services of our employees. Our continued success depends on our ability to recruit and retain sufficient numbers of highly qualified individuals who have advanced engineering and information technology skills, specialized knowledge of customer missions and appropriate security clearances, and who work well with our US Government customers. Due to our growth and increased competition for experienced personnel, particularly in highly specialized areas, it has become more difficult for us to meet our needs for these employees in a timely manner and this may affect our growth in the current fiscal year and in future years. Although we intend to continue to devote significant resources to recruit, train and retain qualified employees, we may not be able to attract and retain these employees. Any failure to do so could impair our ability to perform our contractual obligations efficiently and timely meet our customers' needs and win new business, which could adversely affect our future results. Our overall employee attrition rate for the years ended December 31, 2014 and 2013, on an actual basis, was 17% for both years.

In addition, the relationships and reputation that many members of our senior management team have established and maintain with US Government personnel contribute to our ability to maintain good customer relationships and to identify new business opportunities. The loss of key personnel may impair our ability to obtain new US Government awards or adequately perform under our current US Government contracts. We also rely on the skills and expertise of our senior technical development personnel, the loss of any of whom could prevent us from completing current development projects and restrict new development projects. We currently do not maintain “key person” insurance on any of our executives or key employees.

Our business depends upon obtaining and maintaining required security clearances.

Many of our federal government contracts require our employees to maintain various levels of security clearances, and we are required to maintain certain facility security clearances complying with Department of Defense and Intelligence Community requirements. Obtaining and maintaining security clearances for employees involves lengthy processes, and it is difficult to identify,

TABLE OF CONTENTS

recruit and retain employees who already hold security clearances. If our employees are unable to obtain or retain security clearances or if our employees who hold security clearances terminate employment with us and we are unable to find replacements with equivalent security clearances, we may be unable to perform our obligations to customers whose work requires cleared employees, or such customers could terminate their contracts or decide not to renew them upon their expiration. In addition, we expect that many of the contracts on which we will bid will require us to demonstrate our ability to obtain facility security clearances and perform work with employees who hold specified types of security clearances. To the extent we are not able to obtain or retain facility security clearances or engage employees with the required security clearances for a particular contract, we may not be able to bid on or win new contracts, maintain existing contracts or effectively re-bid on expiring contracts.

Employee misconduct, including security breaches, could cause us to lose customers or our ability to contract with the US Government.

Misconduct, fraud or other improper activities by our employees could have a significant adverse impact on our business and reputation, particularly because we are a US Government contractor. Such misconduct could include the failure to comply with US Government procurement regulations, regulations regarding the protection of classified information, legislation regarding the pricing of labor and other costs in US Government contracts, and any other applicable laws or regulations. Employee or former employee misconduct involving data security lapses or breaches of confidentiality resulting in the compromise of our or our customer's sensitive or classified information could result in remediation costs, in regulatory sanctions against us and in serious harm to our reputation. The precautions we take to prevent and detect these activities may not be effective, and we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or misconduct by any of our employees could subject us to fines and penalties, loss of security clearances and suspension or debarment from contracting with the US Government, any of which would adversely affect our business and reputation.

Our quarterly operating results are likely to vary significantly and be unpredictable, which could cause the trading price of our stock to decline.

Our operating results have historically varied from period to period, and we expect that they will continue to do so as a result of a number of factors, many of which are outside of our control, including:

- the level of demand for our products and services;
- the budgeting cycles and purchasing practices of our customers;
- acquisitions of other businesses;
- the sales cycle for our commercial products;
- failure to accurately estimate or control costs under FFP contracts;
- commencement, completion or termination of projects during any particular quarter; and
- changes in senior US Government officials that affect the timing of technology procurement.

Any one of the factors above or the cumulative effect of some of the factors referred to above may result in significant fluctuations in our quarterly operating results. This variability and unpredictability could result in our failing to meet our revenue or operating results expectations or those of securities analysts or investors for any period. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our shares could fall substantially.

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

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

We have only a limited ability to protect and enforce our intellectual property rights, which we consider important to our success. Failure to adequately protect or enforce our intellectual property rights could adversely affect our competitive position and cause us to incur significant expense.

We believe that our success depends, in part, upon our ability to protect our proprietary information and other intellectual property. We rely principally on trade secrets to protect much of our intellectual property where we do not believe that patent protection is appropriate or obtainable. However, trade secrets are difficult to protect and to enforce against third parties. Although we believe that we have adopted reasonable practices to ensure that our employees are subject to appropriate confidentiality obligations and to ensure that we obtain appropriate ownership rights in intellectual property developed by our employees (or by the employees of companies that we have acquired), our practices in this regard may be insufficient, which could result in the misappropriation or disclosure of our confidential information or disputes regarding (or the loss of rights to) certain of our intellectual property. In addition, we may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to obtain or maintain trade secret protection could adversely affect our competitive business position. The protections that we receive for our trade secrets and other intellectual property rights may not be sufficient to prevent our competitors from copying, infringing, or misappropriating our products and services. Similarly, there is no guarantee that when we do apply for intellectual property protection, the applications will result in registrations sufficient to protect our rights. In addition, we cannot be certain that others will not independently develop, design around or otherwise acquire equivalent or superior technology or intellectual property rights.

From time to time, we may seek to enforce our intellectual property rights against third parties. The fact that we have intellectual property rights may not guarantee success in our attempts to enforce these rights against third parties. If we are unable to prevent third parties from infringing or misappropriating our trade secrets or other intellectual property rights, our competitive position could be adversely affected. Our ability and potential success in enforcing our rights is also subject to general litigation risks, as well as uncertainty as to the enforceability of our intellectual property rights. When we seek to enforce our rights, we may be subject to claims that our intellectual property rights are invalid, otherwise unenforceable, or are licensed to the party against whom we are asserting the claim. In addition, our assertions of intellectual property rights may result in the other party seeking to assert various claims against us, including its own alleged intellectual property rights, claims of unfair competition, or others. In the course of conducting our business, we may also inadvertently infringe the intellectual property rights of others, resulting in claims against us or our customers. Our contracts generally indemnify our customers for third-party claims for intellectual property infringement by the services and products we provide. The expense of defending these claims may adversely affect our financial results.

Our acquisitions frequently include the hiring of employees from the acquired entity. These employees may be subject to confidentiality provisions that are not related to the acquisition and may have been exposed to third party confidential information and intellectual property that we do not have the rights to use. During the course of their employment in our business, there is always a risk that employees may inadvertently breach confidentiality obligations or inadvertently infringe third party intellectual property rights based on their prior employment, which could adversely affect our business.

In addition, we conduct research and development under projects with the US Government. In general, our rights to technologies we develop under those projects are subject to the US Government's non-exclusive, non-royalty bearing, world-wide license to use those technologies. Under certain circumstances, the US Government could also claim rights in our intellectual property that could make it difficult to prevent disclosure to, licensing to, or use by third parties, which could adversely affect our competitive position and business.

We may become involved in intellectual property disputes, which could subject us to significant liability, divert the time and attention of our management and prevent us from selling our products.

We, or our customers, may be a party to litigation in the future to protect our intellectual property or be required to respond to allegations that we infringe on others' intellectual property. If any parties assert that our products infringe upon their proprietary rights, we would be forced to defend ourselves, and possibly our customers, against the alleged infringement, or to negotiate and possibly enter into settlement agreements that could adversely affect our intellectual property rights or the operation of our business. If we are unsuccessful in any intellectual property litigation or enter into any dispute-related settlement, we could be subject to significant liability and loss of our proprietary rights. Intellectual property litigation, regardless of its success, would likely be time consuming and expensive to resolve and would divert management’s time and attention. In addition, we could be forced to do one or more of the following:

- stop selling, incorporating or using our products that include the challenged intellectual property;

21

TABLE OF CONTENTS

- obtain from the owner of any infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all, or may require us to extend a cross-license to rights under our intellectual property;
- pay substantial damages; and/or
- re-design those products that use the technology.

If we are forced to take any of these actions, our business could be harmed.

We rely on the availability of third-party licenses.

Certain of our products include software or other intellectual property licensed from third parties. It may be necessary in the future to renew licenses relating to various aspects of these products or to seek new licenses for existing or new products. There can be no assurance that the necessary licenses would be available on equivalent terms to those currently available, on other terms acceptable to us, or at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could result in delays in product releases until equivalent technology can be identified, licensed or developed, if at all, and integrated into our products and may have a material adverse effect on our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis could limit our ability to differentiate our products from those of our competitors.

Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, require state-of-the-art manufacturing expertise or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect our profitability and future prospects.

We design, develop and manufacture technologically advanced and innovative products and services applied by our customers in a variety of environments. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions or materials and components could prevent us from achieving contractual requirements.

In addition, our products cannot be tested and proven in all situations and are otherwise subject to unforeseen problems. Examples of unforeseen problems that could negatively affect revenue and profitability include premature failure of products that cannot be accessed for repair or replacement, problems with quality, country of origin, delivery of subcontractor components or services and unplanned degradation of product performance. Among the factors that may affect revenue and profits could be unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management focus in responding to unforeseen problems, loss of follow-on work, and, in the case of certain contracts, repayment to the US Government customer of contract cost and fee payments we previously received.

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

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

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

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

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

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

- failure to predict market demand accurately in terms of functionality and to supply products that meet demand in a timely fashion;
- defects, errors or failures;
- negative publicity about their performance or effectiveness;
- delays in releasing our new products or enhancements to the market;
- introduction or anticipated introduction of competing products by our competitors; and
- poor business conditions for our end-customers, causing them to delay purchases.

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

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

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

Developing our products and related enhancements is expensive. For the year ended December 31, 2014, our research and development costs totaled $18.6 million, a 248% increase over our total research and development costs for the year ended December 31, 2013. Our investments in research and development may not result in significant design improvements, marketable products or features or may result in products that are more expensive than anticipated. Additionally, we may not receive significant revenue from these investments in the near future, if at all, or these investments may not yield expected benefits, either of which could adversely affect our business and operating results. Nevertheless, we believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. As a result, our future plans include significant investments in research and development and related product opportunities. In particular, we have incurred significant research and development costs in connection with Hawkeye G, which largely accounts for the increase described above. If Hawkeye G does not garner widespread market adoption and implementation, our financial results and competitive position could suffer.

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

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

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

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

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

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

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

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

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

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

- expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate, or work-around errors or defects or to address and eliminate vulnerabilities;
- loss of existing or potential customers;
- delayed or lost revenue;
- delay or failure to attain market acceptance; and
- litigation, regulatory inquiries, or investigations that may be costly and harm our reputation.

24

TABLE OF CONTENTS

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

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

Risks Relating to Our Common Stock

The price of our common stock may be subject to wide fluctuations.

The market price of our common stock is subject to significant fluctuations. Among the factors that could affect our common stock price are the risks described in this “Risk Factors” section and other factors, including:

- quarterly variations in our operating results compared to market expectations;
- changes in expectations as to our future financial performance, including financial estimates or reports by securities analysts;
- changes in market valuations of similar companies;
- liquidity and activity in the market for our common stock;
- actual or expected sales of our common stock by our stockholders, including any of our significant stockholders;
- strategic moves by us or our competitors, such as acquisitions or restructurings;
- general market conditions;
- future sales of our common stock; and
- domestic and international economic, legal and regulatory factors unrelated to our performance.

As a result of the existence of one or more of these factors, the price of our common stock may be subject to wide fluctuations.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If we do not maintain adequate research coverage or if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Provisions in our organizational documents and in Maryland law may inhibit potential acquisition bids that our stockholders may consider favorable, and the market price of our common stock may be lower as a result.

Our charter and bylaws contain provisions that may have an anti-takeover effect and inhibit a change in our board of directors and management. These provisions include the following:

- Our charter permits our board of directors to issue preferred stock with terms that may discourage a third party from acquiring us. Our charter permits our board of directors to issue up to 5 million shares of preferred stock, having preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications or terms or conditions of redemption as determined by our board of directors. Our board of directors could authorize the issuance of preferred stock with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of our shares might receive a premium for their shares over the then-prevailing market price; and

TABLE OF CONTENTS

- Our charter and bylaws contain other possible anti-takeover provisions. Our charter and bylaws contain other provisions that may have the effect of delaying, deferring or preventing a change-of-control or the removal of existing directors and, as a result, could prevent our stockholders from being paid a premium for their common stock over the then-prevailing market price. These provisions include the advance notice requirements for stockholder proposals and director nominations.

In addition, Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to:

- accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation;
- authorize the corporation to redeem any rights under, or modify or render inapplicable, any stockholder rights plan;
- make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act; or
- act or fail to act solely because of the effect that the act or failure to act might have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition.

Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

Any one or more of these provisions, singularly or together, may have an anti-takeover effect that discourages potential acquisition bids that our stockholders may consider favorable.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test our internal control over financial reporting and also requires our independent registered public accounting firm to report on the operating effectiveness of these controls. Any delays or difficulty in satisfying these requirements could adversely affect our future results of operations and our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test the effectiveness of our internal control over financial reporting in accordance with an established internal control framework and to report on our conclusions as to the effectiveness of our internal controls. It also requires our independent registered public accounting firm to test our internal control over financial reporting and report on the effectiveness of such controls. In addition, we are required under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, to maintain disclosure controls and procedures and internal control over financial reporting.

We may, in the future, discover areas of our internal controls that need improvement, particularly with respect to businesses that we may acquire. If so, we cannot be certain that any remedial measures we take will ensure that we have adequate internal controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could harm our operating results or cause us to fail to meet our reporting obligations. If we are unable to conclude that we have effective internal control over financial reporting, or if our independent registered public accounting firm is unable to provide us with an unqualified report regarding the effectiveness of our internal control over financial reporting in future periods, investors could lose confidence in the reliability of our financial statements. This could result in a decrease in the value of our common stock. Failure to comply with Section 404 could potentially subject us to sanctions or investigations by the SEC, the NASDAQ Global Select Market or other regulatory authorities.

Operational risks such as material weaknesses and other deficiencies in internal control over financial reporting could result in errors, potentially requiring restatements of our historical financial data, leading investors to lose confidence in our reported results.

There are a number of factors that may impede our efforts to establish and maintain effective internal controls and a sound accounting infrastructure, including our recent history of acquisitions (including acquisitions of companies audited by auditors other than our own), our own change of auditors, our rapid pace of growth, and general uncertainty regarding the operating effectiveness and sustainability of controls. Controls and procedures, no matter how well designed and operated, provide only reasonable assurance that material errors in our financial statements will be prevented or detected on a timely basis. Any failure to establish and maintain effective internal controls over financial reporting increases the risk of material error and/or delay in our financial reporting. Depending on the nature of a failure and any required remediation, ineffective controls could have a material adverse effect on our business and potentially result in restatements of our historical financial results. Financial restatements or other issues arising from ineffective controls could also cause investors to lose confidence in our reported financial information, which would have an adverse effect on the trading price of our securities. Delays in meeting our financial reporting obligations could affect our ability

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to maintain the listing of our securities. Although we seek to reduce these risks though active efforts relating to properly documented processes, adequate systems, risk culture, compliance with regulations, corporate governance and other factors supporting internal controls, such procedures may not be effective in limiting each of the operational risks.

Risks Relating to Our Convertible Notes

We may not have the ability to raise the funds necessary to settle conversions of the notes or to repurchase the notes upon a fundamental change, and our revolving credit facility contains limitations on our ability to pay cash upon conversion or repurchase of the notes.

The terms of our convertible notes require us to repurchase convertible notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any. Upon conversion, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of convertible notes surrendered therefor or being converted. In addition, our ability to repurchase convertible notes or to pay cash upon conversion may be limited by law, by regulatory authority or by agreements governing our future indebtedness, including our revolving credit facility. Our failure to repurchase convertible notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness, including our revolving credit facility. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the convertible notes or make cash payments upon conversions thereof.

Our senior secured credit facility limits our ability to pay any cash amount upon the conversion of the notes.

Our senior secured credit facility prohibits us from making any cash payments on the conversion of the notes if a default or an event of default exists under that facility or if, after giving effect to such cash payment (and any additional indebtedness incurred to make such payments), we would not be in pro forma compliance with our financial covenants. Any new credit facility that we may enter into may have similar restrictions.

The notes are not protected by restrictive covenants.

The indenture governing the convertible notes does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture contains no covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change or other corporate transaction involving us except in limited circumstances.

The capped call transactions may affect the value of the notes and our common stock.

In connection with the pricing of the notes, we entered into capped call transactions with the option counterparties. The capped call transactions are expected to reduce the potential dilution and/or offset any cash payments due in excess of the principal amount of converted notes, as the case may be, upon any conversion of the notes, with such reduction and/or offset subject to a cap. In connection with establishing their initial hedge of the capped call transactions, the option counterparties and/or their respective affiliates entered into various derivative transactions with respect to our common stock. This activity or any reduction in such continued activity could affect the market price of our common stock or the convertible notes.

In addition, the option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the convertible notes. This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the convertible notes, which could affect our ability to convert the notes and, to the extent the activity occurs during any observation period related to a conversion of notes, it could affect the number of shares issuable upon conversion of the notes.

The notes are effectively subordinated to our secured debt and any liabilities of our subsidiaries.

The convertible notes rank:

- senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the notes;
- equal in right of payment to any of our liabilities that are not so subordinated;

TABLE OF CONTENTS

- effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and
- structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure debt ranking senior in right of payment to the convertible notes will be available to pay obligations on the notes only after the secured debt has been repaid in full from these assets. There may not be sufficient assets remaining to pay amounts due on any or all of the notes then outstanding. The indenture governing the notes does not prohibit us from incurring additional senior debt or secured debt, nor does it prohibit any of our subsidiaries from incurring additional liabilities. As of December 31, 2014, our total consolidated indebtedness was $149.5 million, all of which was secured indebtedness of our subsidiary, The KEYW Corporation, to which the convertible notes are structurally subordinated.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

TABLE OF CONTENTS

Item 2. PROPERTIES

We lease locations listed in the table below. We believe that our facilities are adequate for our current business needs; however we will continue to seek additional space as needed in accordance with our growth or to improve the efficiency and effectiveness of operations.

Location	Square Feet	Lease Expiration Date	Segment
2800 Campus Drive, Suite 150 San Mateo, CA 94403	10,020	7/31/2016	Commercial Cyber Solutions
700 Brooker Creek Blvd. Suite 1400 Oldsmar, Florida 34677	12,800	9/30/2020	Government Solutions
12633 Challenger Parkway, Suite 270 Orlando, FL 23826	5,557	9/30/2019	Government Solutions
7740 Milestone Parkway, Suites 200-500* Hanover, Maryland 21076	122,312	5/31/2022	Government Solutions and Commercial Cyber Solutions
7763 Old Telegraph Road Severn, Maryland 21144	34,429	4/30/2017	Government Solutions
7767 Old Telegraph Road Suites 1-10 Severn, Maryland 21144	44,956	4/30/2018	Government Solutions
1334 Ashton Road, Suite A Hanover, Maryland 21076	22,561	5/31/2016	Government Solutions
7471 Candlewood Road, Suites 104-107 Hanover, Maryland 21076	10,998	1/31/2018	Government Solutions
7471 Candlewood Road, Suites 108-112 Hanover, Maryland 21076	23,865	1/31/2016	Government Solutions
9693 Gerwig Lane Columbia, Maryland 21046	8,000	5/31/2017	Commercial Cyber Solutions
685 Mosser Road McHenry, Maryland 21541	669	9/1/2015	Government Solutions
250 Clarke Street North Andover, Massachusetts 01845	19,280	3/31/2023	Government Solutions
Hangar, 91 Perimeter Road Nashua, New Hampshire 03063	n/a	3/31/2015	Government Solutions
2900 Fairview Park Drive, Suite 300 Falls Church, Virginia 22042	18,051	12/15/2018	Government Solutions
15036 Conference Center Dr., Suite 401 Chantilly, Virginia 20151	2,378	3/31/2015	Government Solutions

*Headquarters

Item 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings as of March 9, 2015.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

TABLE OF CONTENTS

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Market Information

On October 1, 2010, the Company's common stock began trading on the Nasdaq Global Market under the symbol "KEYW". The following table sets forth the range of high and low intra-day sales prices of KEYW's common stock for the periods indicated.

	High	Low
Year Ended December 31, 2014:		
First Quarter	$23.09	$13.26
Second Quarter	$19.71	$9.71
Third Quarter	$14.41	$10.44
Fourth Quarter	$11.85	$8.70
Year Ended December 31, 2013:		
First Quarter	$16.45	$10.88
Second Quarter	$16.22	$12.74
Third Quarter	$13.86	$10.82
Fourth Quarter	$13.70	$11.00

On February 23, 2015, the last reported sale price for our common stock on the Nasdaq Global Select Market was $8.43 per share.

Holders

As of February 23, 2015, there were approximately 336 registered holders of record of our common stock. The number of holders of record does not reflect the number of beneficial holders whose shares are held by depositories, brokers or nominees.

Dividends

We have never declared or paid any cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. In addition, our credit facility limits our ability to pay dividends in most circumstances.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2014 with respect to compensation plans under which equity securities of the Company are authorized for issuance.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance (Excluding Column (a)) (c)[1]
Equity compensation plans approved by security holders	2,948,874	$11.55	555,593
Equity compensation plans not approved by security holders)	—		—
TOTAL	2,948,874		555,593

(1) The 2013 Stock Incentive Plan, which took effect on January 1, 2013, replaced the 2009 plan, and provides for the issuance of a maximum of 2,000,000 shares.

30

TABLE OF CONTENTS

Performance Graph

The following graph illustrates a comparison of the total cumulative stockholder return on our common stock (traded under the symbol “KEYW”) from October 1, 2010 through December 31, 2014, to two indices: the Russell 2000 Index and the NASDAQ Composite Index. In addition, the graph illustrates the performance of a peer group consisting of NCI Inc. (NCIT), ICF International, Inc. (ICFI), Mercury Computer Systems, Inc. (MRCY) and Kratos Defense & Security Solutions, Inc. (KTOS). These peers, while not direct competitors, were selected because they are comparable in such factors as annual revenue, market capitalization and number of employees. We believe that the stock performance of the selected peer group is a relevant comparison for investors. The graph assumes an initial investment of $100 on October 1, 2010 in The KEYW Holding Corporation common stock, each of the two indices and the peer group, each assuming dividend reinvestment. The comparisons in the graph are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our common stock.

Item 6. SELECTED FINANCIAL DATA

The following tables contain selected historical financial data for us for the years ended December 31, 2014, 2013, 2012, 2011 and 2010.

The selected consolidated financial data presented should be read together with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes included in Item 15 of this Annual Report.

TABLE OF CONTENTS

	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012	Year ended Dec. 31, 2011	Year ended Dec. 31, 2010
	(In thousands, except per share data)				
Revenue	$290,530	$298,732	$243,520	$190,587	$107,988
Gross Profit	95,129	99,512	83,793	56,637	31,544
Net Operating (Loss) Income	(12,188)	(9,847)	3,193	1,828	(2,160)
Net (Loss) Income	(12,864)	(10,634)	1,015	535	10,906
(Loss) Earnings per Share of Common Stock-basic	(0.34)	(0.29)	0.04	0.02	0.62
(Loss) Earnings per Share of Common Stock-diluted	(0.34)	(0.29)	0.03	0.02	0.51
Adjusted EBITDA	$14,083	$27,180	$32,978	$20,569	$9,031

Adjusted EBITDA is a financial measure that is not calculated in accordance with accounting principles generally accepted in the United States of America, or US GAAP. The Adjusted EBITDA Reconciliation tables above provide reconciliations of this non-US GAAP financial measure to net income (loss), the most directly comparable financial measure calculated and presented in accordance with US GAAP. Adjusted EBITDA should not be considered as an alternative to net income, operating income or any other measure of financial performance calculated and presented in accordance with US GAAP. Our adjusted EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate adjusted EBITDA or similarly titled measures in the same manner as we do. We prepare adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. We encourage you to evaluate these adjustments and the reasons we consider them appropriate.

We believe adjusted EBITDA is useful to investors in evaluating our operating performance for the following reasons:

- we have various non-recurring transactions and expenses that directly impact our net income. Adjusted EBITDA is intended to approximate the net cash provided by operations by adjusting for non-recurring, non-operational items; and
- securities analysts use adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies.

Our board of directors and management use adjusted EBITDA:

- as a measure of operating performance;
- to determine a significant portion of management’s incentive compensation;
- for planning purposes, including the preparation of our annual operating budget; and
- to evaluate the effectiveness of our business strategies.

Although adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results of operations as reported under US GAAP. Some of these limitations are:

- adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or other contractual commitments;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not reflect interest expense or interest income;
- adjusted EBITDA does not reflect cash requirements for income taxes;
- adjusted EBITDA does not include non-cash expenses related to stock compensation;
- although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for these replacements; and

32

TABLE OF CONTENTS

- other companies in our industry may calculate adjusted EBITDA or similarly titled measures differently than we do, limiting its usefulness as a comparative measure.

	As of Dec. 31, 2014	As of Dec. 31, 2013	As of Dec. 31, 2012	As of Dec. 31, 2011	As of Dec. 31, 2010
	(In thousands)				
Cash and Cash Equivalents	$39,601	$2,480	$5,639	$1,294	$5,795
Working Capital (Deficit)(1)	87,980	16,433	17,951	(16,344)	26,705
Total Assets(2)	473,033	428,949	447,638	264,090	200,914
Long-Term Obligations(2)	135,251	71,387	86,505	15,383	8,222
Total Stockholders' Equity	$304,371	$300,237	$301,028	$180,659	$175,111

(1) Working Capital balances for the years 2013 and 2012 were revised due to an immaterial error related to an acquisition we completed in 2012. The unbilled receivables, related to the acquisition were understated, which led to a corresponding overstatement of goodwill. As a result, December 31, 2013 and 2012 unbilled accounts receivable were increased and goodwill was reduced by $1.5 million, respectively. The financial information for all prior periods presented has retrospectively been revised to reflect this correction, for further information, see "Note 2: Acquisitions" in Part IV, Item 15 of this Form 10-K.
(2) Total Assets and Long Term Obligations for prior years were revised to conform with our current presentation of netting current deferred tax assets and liabilities and netting long-term deferred tax assets and liabilities.

Adjusted EBITDA Reconciliation

	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	Year Ended Dec. 31, 2010
	(In thousands)				
Net (Loss) Income	$(12,864)	$(10,634)	$1,015	$535	$10,906
Depreciation	7,195	6,009	4,369	2,082	760
Intangible Amortization	12,162	24,658	21,411	13,410	6,440
Stock Based Compensation	6,421	5,731	3,024	2,829	1,920
Interest Expense, net	8,934	3,508	2,307	907	1,661
Tax (Benefit) Expense	(8,128)	(9,005)	(86)	218	7,814
Public Offering, Acquisition and Other Nonrecurring Costs (Benefits)(1)	363	6,913	938	588	(20,470)
Adjusted EBITDA	$14,083	$27,180	$32,978	$20,569	$9,031

(1) The other non-recurring items include the following: for 2013 a legal settlement and for 2010 a gain recognized from the reversal of the TAGG earnout that was not achieved.
The following tables contain selected historical financial data by quarter for the years ended December 31, 2014 and December 31, 2013.

TABLE OF CONTENTS

	2014 Three Months Ended March 31	Three Months Ended June 30	Three Months Ended Sept. 30	Three Months Ended Dec. 31	2013 Three Months Ended March 31	Three Months Ended June 30	Three Months Ended Sept. 30	Three Months Ended Dec. 31
	(Unaudited and in thousands, except per share data)							
Revenue	$63,807	$74,229	$78,969	$73,525	$77,873	$78,258	$73,773	$68,828
Gross Profit	21,492	23,849	26,494	23,294	24,063	25,600	24,427	25,422
Net Operating Loss	(3,888)	(1,487)	(1,702)	(5,111)	(3,092)	(2,992)	(2,226)	(1,537)
Net Loss	(3,076)	(1,730)	(3,022)	(5,036)	(2,262)	(2,360)	(5,502)	(510)
Loss per Share of Common Stock-basic	(0.08)	(0.05)	(0.08)	(0.13)	(0.06)	(0.07)	(0.15)	(0.01)
(Loss) Earnings per Share of Common Stock-diluted	(0.08)	(0.05)	(0.08)	(0.13)	(0.06)	(0.07)	(0.15)	(0.01)
Adjusted EBITDA	$2,418	$5,092	$5,048	$1,525	$6,959	$6,451	$6,757	$7,013

Adjusted EBITDA Reconciliation

	2014 Three Months Ended March 31	Three Months Ended June 30	Three Months Ended Sept. 30	Three Months Ended Dec. 31	2013 Three Months Ended March 31	Three Months Ended June 30	Three Months Ended Sept. 30	Three Months Ended Dec. 31
	(Unaudited and in thousands)							
Net Loss	$(3,076)	$(1,730)	$(3,022)	$(5,036)	$(2,262)	$(2,360)	$(5,502)	$(510)
Depreciation	1,554	1,916	1,812	1,913	1,345	1,494	1,471	1,699
Intangible Amortization	3,125	2,934	3,029	3,074	6,920	6,091	5,984	5,663
Stock Compensation Amortization	1,624	1,678	1,751	1,368	1,286	1,533	1,494	1,418
Interest Expense	858	1,220	4,348	2,508	914	913	849	832
Tax Benefit	(1,669)	(955)	(2,921)	(2,583)	(1,535)	(1,500)	(4,045)	(1,925)
Acquisition and Other Nonrecurring Costs (Benefits)(1)	2	29	51	281	291	280	6,506	(164)
Adjusted EBITDA	$2,418	$5,092	$5,048	$1,525	$6,959	$6,451	$6,757	$7,013

(1) The other non-recurring items include the 2013 legal settlement.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

- Executive Level Overview. Discussion of our business and overall analysis of financial and other highlights affecting our company in order to provide context for the remainder of MD&A and our overall strategy.
- Critical Accounting Policies. Accounting estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.

- Results of Operations. An analysis of our segmented financial results comparing 2014 to 2013 and comparing 2013 to 2012.

34

TABLE OF CONTENTS

- Liquidity and Capital Resources. An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition and sources of and needs for liquidity.
- Contractual Obligations and Commitments; Off-Balance-Sheet Arrangements. Overview of contractual obligations, contingent liabilities, commitments, and off-balance-sheet arrangements outstanding as of December 31, 2014.

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "continues," "endeavors," "strives," "may," variations of such similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, as well as under "Part I, Item 1A. Risk Factors," and elsewhere in this Annual Report on Form 10-K. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report. We undertake no obligation to revise or update any forward-looking statements for any reason.

Executive Level Overview

We provide 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. See "Item 1 - Business" for a detailed description of our business.

During 2014, we continued to establish the Company as a viable and competitive entity within our target markets. We grew our prime contract base and further expanded our footprint into the commercial technology sector. Sequestration and the federal government shutdown affected our growth for 2014 (particularly the first quarter of 2014). With the passage of the 2015 fiscal year federal budget, we expect 2015 to return to a more normal government contracting environment. At the end of 2014, we have active contracts to provide services and solutions to 11 of the 16 US intelligence agencies in addition to several hundred commercial enterprises. We intend to continue our acquisition strategy as we find the right complementary companies at the right price.

Our 2015 focuses are: (1) re-accelerating our organic growth rate, (2) winning new business, and (3) investing in internal technology research and development initiatives to position the company for continued growth in the longer term. Key elements of our 2015 strategy include (a) establishing KEYW as a thought and technology leader in the realm of information technology endpoint detection and removal for both commercial and government entities through our developed software platforms, (b) leveraging our multi-INT platform capabilities to further our penetration into the geospatial intelligence (GEOINT), signals intelligence (SIGINT) and airborne intelligence, surveillance and reconnaissance (airborne ISR) markets with our unique, agile approach, and (c) continuing to look for opportunities to acquire capabilities that further enhance our overall positioning in the markets we serve.

Critical Accounting Policies

The following are the critical accounting policies that require us to make sensitive estimates and assumptions, or that regard matters where further detail will assist the reader in better understanding our business and the results of our operations. We have additional accounting policies included in our audited financial statements contained in Item 15 of this Form 10-K.

The policies that we have included below include:

- Revenue Recognition
- Inventories
- Long-Lived Assets (Excluding Goodwill)
- Goodwill
- Intangibles

TABLE OF CONTENTS

- Income Taxes
- Share-Based Compensation

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 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”). 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, and the Company has established VSOE of fair value for maintenance and 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.

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. We manufacture at quantity levels that are projected to be sold in the six month period following production. As of December 31, 2014 and 2013, we had inventory reserve balances of $0.2 million and zero respectively, for certain products where the market has not developed as expected.

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 are 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. As of the measurement date of October 1, 2014, the Company operated 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 years 2014, 2013 and 2012 and found no impairment to the carrying value of goodwill.
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. The company periodically tests for impairment through a review of triggering events and as of December 31, 2014, there was no impairment to the carrying value of the intangible assets.
Income Taxes
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enacted date. We will establish a valuation allowance if we determine that it is more likely than not that a deferred tax asset will not be realized.
For a tax position that meets the more-likely-than-not recognition threshold, the Company initially and subsequently measures the tax liability or benefit as the largest amount that it judges to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax obligations or benefits and subsequent adjustments as considered appropriate by management. The Company's policy is to record interest and penalties as an increase in the liability for uncertain tax obligations or benefits and a corresponding increase to the income tax provision. No material adjustments were recorded as of December 31, 2014, 2013, or 2012.
Share-Based Compensation
As discussed in Note 10, to our audited financial statements included in this Annual Report, 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 in conjunction with the corporate reorganization. The Company applies the fair

value method that requires all share-based payments to employees and non-employee directors, including grants of employee stock options, 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 individually vesting piece of a grant. Our typical grant vests 25% at issuance and 25% per year over the next three years. We expense the initial 25% vesting at issuance, all of the first year vesting in the first twelve months, the third vesting would be expensed over twenty-four months and the fourth tranche would be expensed over thirty-six months. The calculated expense is required to be based upon awards that ultimately vest and we have accordingly reduced the expense by estimated forfeitures.

The following assumptions were used for option grants during the periods ended December 31, 2014, 2013, and 2012.

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.

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.

Results of Operations

OVERALL RESULTS (In thousands)	Year ended December 31, 2014			Year ended December 31, 2013			Year ended December 31, 2012		
Revenue	$290,530	100	%	$298,732	100	%	$243,520	100	%
Gross Margin	$95,129	33	%	$99,512	33	%	$83,793	34	%
Operating Expenses	$95,155	33	%	$84,701	28	%	$59,189	24	%
Intangible Amortization	$12,162	4	%	$24,658	8	%	$21,411	9	%
Non-Operating Expense	$8,804	3	%	$9,792	3	%	$2,264	1	%

Revenue

Revenue decreased by $8.2 million or 3%, for 2014 as compared to 2013. The decrease in revenue in 2014 from 2013 was a result of Government Solutions segment revenue decreasing by $9.7 million which was partially offset by a $1.5 million increase in our Commercial Cyber Solutions segment revenue. The main drivers of the reduction in Government Solutions revenue were the reduction in pricing associated with the new contract for our airborne collection services, residual sequestration-related reductions to the certain programs especially during the first half of 2014 and lower run rates on certain government professional services contracts. With the passage of the fiscal 2015 federal budget we expect 2015 to return to a more normal government contracting environment.

Revenue increased by $55 million or 23%, in 2013 from 2012, as a result of the full year impact of the 2012 acquisitions and organic growth. We had fully integrated the acquisitions from 2012 and 2013 into our current operating structure and therefore are unable to provide an exact division of 2013 organic and acquisition revenue within the Government Solutions segment. However, in 2013 we had no new contracts specifically related to the 2012 acquisitions, thus 2013 pro forma growth of 2% was reflective of the entire business. This growth rate was somewhat negatively impacted by sequestration and the federal government shutdown as well as the delayed introduction of our Commercial Cyber Security Solutions software product.

Gross Margin

Gross margin decreased in total dollars by $4.4 million and remained flat as a percentage of revenue from 2013 to 2014. The decrease in gross margin total dollars related to the decrease in revenue in 2014 from 2013.

Gross margin increased in total dollars by $15.7 million, but decreased slightly as a percentage of revenue from 2012 to 2013. The increase in dollars related to the increase in revenue in 2013 from 2012. The decrease gross margin as a percentage of revenue was predominately due to a larger proportion of subcontract revenue from the full year effect of the Poole acquisition completed in the fourth quarter of 2012.

38

TABLE OF CONTENTS

Operating Expenses

Our cost of operations for 2014 increased by $10.5 million and increased as a percentage of revenue as compared to 2013. This was due to increased infrastructure within the Commercial Cyber Solutions segment, partially offset by cost reductions in our Government Solutions segment.

Cost of operations increased as a percentage of revenue in 2013 from 2012 due to increased infrastructure within the Commercial Cyber Solutions segment and the full year impact of the Poole and Sensage acquisitions made in the fourth quarter of 2012.We initiated cost reduction measures in the middle of 2013 to address the financial impacts of sequestration and our related infrastructure.

Intangible Amortization

Intangible amortization expense has decreased by $12.5 million in 2014 as compared to 2013. The decrease was primarily a result of certain intangibles from prior acquisitions becoming fully amortized during the end of 2013 and throughout 2014, partially offset by the 2014 acquisitions.

Intangible amortization increased in 2013 by $3.2 million as compared to 2012. The increase was primarily a result of the full-year impact of Poole and the other 2012 acquisitions.

Non-Operating Income (Expense)

2014 non-operating expense consists primarily of interest expense. The decrease from 2013 is primarily due to the 2013 legal settlement costs, partially offset by $5.4 million of additional interest expense during 2014, due to the write off of deferred financing costs related to the termination of the 2012 Credit Agreement and increased borrowing levels.

The majority of the 2013 non-operating expense is interest expense associated with borrowings related to our acquisitions and the impact of the legal settlement in the fourth quarter of 2013. Interest expense totaled $3.5 million in 2013. The increase in interest expense from 2012 was due to the larger amounts of debt outstanding in 2013 due to our acquisitions in late 2012.

GOVERNMENT SOLUTIONS SEGMENT RESULTS (In thousands)	Year ended December 31, 2014			Year ended December 31, 2013			Year ended December 31, 2012		
Revenue	$279,250	100	%	$288,909	100	%	$240,245	100	%
Gross Margin	$86,342	31	%	$91,529	32	%	$81,065	34	%
Operating Expenses	$55,844	20	%	$65,308	23	%	$57,199	24	%
Intangible Amortization	$7,737	3	%	$20,533	7	%	$20,658	9	%

Revenue

Revenue decreased by $9.7 million in 2014 as compared to 2013. The main drivers of the reduction in Government Solutions revenue were due to the reduction in pricing associated with the new contract for our airborne collection services, residual sequestration-related reductions to the certain programs, especially during the first half of 2014, and lower run rates on certain government professional services contracts. With the passage of the fiscal year 2015 federal budget we expect 2015 to return to a more normal government contracting environment.

Revenue increased by approximately $49 million in 2013 from 2012 due to a combination of the full year impact of our 2012 acquisitions, primarily the Poole acquisition, and internal growth. This segment was directly impacted by both sequestration and the federal government shutdown. We lost a significant amount of revenue as a result of sequestration reductions - a combination of staffing reductions and deferred contracting actions.

Gross Margin

Gross margin decreased in dollars and decreased slightly as a percentage of revenue for 2014 as compared to 2013. The decrease in gross margin as a percentage of revenue is due to higher usage of lower margin sub-contractors on certain professional services contracts, which was partially offset by higher gross margins related to our airborne collection services.

Gross margin increased in dollars and decreased as a percentage of revenue during 2013 as compared to 2012. The increase in revenue drove the increased gross margin dollars. The decreased gross margin profit percentage was due to the acquisition of Poole in late 2012 and a resulting increased reliance on lower margin subcontract revenue.

TABLE OF CONTENTS

Operating Expense

Operating expense decreased $9.5 million for 2014, as compared to 2013. The main drivers for this decrease were cost reduction measures that were implemented mid-2013 and the beginning of 2014, staffing reductions in overhead management and synergies derived from prior acquisitions.

Operating expenses increased by $8.1 million in 2013 from 2012. The main driver for the increase was the acquisition of Poole that was only included for three months of 2012, offset partially by staffing reductions in overhead management staffing and synergies derived from prior acquisitions.

Intangible Amortization

Intangible amortization expense has decreased by $12.8 million in 2014 as compared to 2013. The decrease was primarily a result of certain intangibles from prior acquisitions becoming fully amortized during the end of 2013 and throughout 2014.

Intangible amortization expense was flat in 2013 as compared to 2012. The nine additional months of Poole intangible amortization was offset by a reduction in amortization from earlier acquisitions as they became fully amortized.

COMMERCIAL CYBER SOLUTIONS SEGMENT RESULTS (In thousands)	Year ended December 31, 2014			Year ended December 31, 2013			Year ended December 31, 2012		
Revenue	$11,280	100	%	$9,823	100	%	$3,275	100	%
Gross Margin	$8,787	78	%	$7,983	81	%	$2,728	83	%
Operating Expenses	$39,311	349	%	$19,393	197	%	$1,990	61	%
Intangible Amortization	$4,425	39	%	$4,125	42	%	$753	23	%

Revenue

Revenue for 2014 increased by $1.5 million, or 15%, as compared to 2013. The main drivers for the increase were additional license sales of Hawkeye AP and sales of HawkEye G in 2014, which were partially offset by lower professional services sales related to Hawkeye AP in 2014.

Our Commercial Cyber Solutions segment dates back to the acquisition of Sensage in the fourth quarter of 2012. The growth shown in 2013 from 2012 is a result of an additional nine months of operations.

Gross Margin

Gross margin as a percentage of revenue decreased slightly for 2014, as compared to 2013. The decrease in gross margin relates to the sales of HawkEye G in 2014, which generally have a lower gross margin than HawkEye AP. Gross margins were substantially consistent in 2013 and 2012.

Operating Expense

Operating expense increased $19.9 million during 2014, as compared to 2013. The main driver for the increase was additional investment in infrastructure related to our software platform. We more than doubled our sales team, built a more robust customer delivery infrastructure and continued to build out our technical team.

Operating expense increased significantly in 2013 as a result of full year operations as compared to only three months in 2012, and with the investment in infrastructure related to the introduction of our new software platform.

Intangible Amortization

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

Intangible amortization increased in 2013 from 2012 due to the full year impact of the Sensage acquisition.

Liquidity and Capital Resources

At December 31, 2014, we had approximately $39.6 million in cash and cash equivalents. During 2014 we had several significant cash events including the issuance of $149.5 million of convertible notes, repaying and retiring our prior credit facility, entering into a new credit facility and continued infrastructure spending to establish our Hexis business.

Cash from Operations

Operations provided approximately $8.5 million in cash during 2014. This amount primarily consisted of net income plus non-cash adjustments for depreciation, amortization and stock compensation, partially offset by cash used for increased working capital needs. Accounts receivable increased by $4.3 million primarily due to higher fourth quarter revenue in 2014. As we continue to grow, our working capital needs are expected to increase accordingly, particularly with respect to accounts receivable and inventory. Our need for additional working capital will be determined by our method and volume of growth. Growing through self-performed labor will require more working capital than growing using subcontractors, but we expect self-performed labor will be a more profitable alternative than using subcontractors. The main difference for cash flow is that employees are generally paid within two weeks of incurring costs, whereas subcontractors are generally paid within 30 days of receiving an invoice. The expansion of sales within our commercial cyber security platform should improve cash flow and continue to increase our deferred revenue.

We had a number of non-cash adjustments to our net income in 2014, including intangible amortization, depreciation, stock compensation expense, amortization of convertible debt discount, deferred financing costs written-off and changes in our deferred taxes. Intangible amortization was approximately $12.2 million in 2014 and is expected to decrease in 2015 due to the reduction from fully amortized intangibles from earlier acquisitions. We expect intangible amortization, without any additional acquisitions, to be approximately $10.3 million in 2015. We believe that all employees should have an ownership stake in our company. Accordingly, we grant all new employees, whether new hires or employees acquired via acquisition, equity in our company. Our significant growth over the past several years, both organically and through acquisition, has increased our stock compensation expense to $6.4 million in 2014. We use an accelerated method of expensing stock options such that most of the expense is recorded during the first year of the options. Depreciation expense for 2014 was $7.2 million.

Investing and Financing

During 2014, we spent approximately $2.9 million in cash and equity consideration to complete two acquisitions. We have historically completed acquisitions each year. Depending on the size and timing of future acquisitions, we may use additional proceeds under our existing credit facility, as well as additional debt or possibly equity offering proceeds, to complete such acquisitions.

Convertible Notes

On July 21, 2014, we initially issued $130.0 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 “Underwriting Agreement”) with RBC Capital Markets, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of several underwriters (collectively, the “Underwriters”). Under the terms of the Underwriting Agreement, the Company granted the Underwriters an option, exercisable for up to 30 days after the closing of the offering, to purchase up to an additional $19.5 million principal amount of the Notes solely to cover over-allotments, if any, which was subsequently exercised in full in August 2014, resulting in a total issuance of $149.5 million aggregate principal amount of Notes.

In connection with the issuance of the Notes, the Company entered into an indenture (the “Base Indenture”) with Wilmington Trust, National Association, as trustee (the “Trustee”), as supplemented by a first supplemental indenture thereto, between the same parties (the “First Supplemental Indenture,” and together with the “Base Indenture,” the “Indenture”).

The terms of the Notes are governed by the Indenture. The Notes bear interest at a rate of 2.50% per annum on the principal amount thereof, 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 will 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.

The conversion rate for the Notes is initially 67.4093 shares of Company common stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $14.83 per share of Company common stock, and 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. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of Company common stock or a combination of cash and shares of Company common stock, at its election, as described 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.

The events of default, which may result in the acceleration of the maturity of the Notes, include default by the Company in the payment of principal of the Notes, default by the Company in the payment of interest on the Notes when due and the continuance of such default for a period of 30 days, failure by the Company to comply with its conversion obligations upon exercise of a holder's conversion right under the Indenture and such failure continuing for 3 business days, failure by the Company to provide timely notice of a fundamental change or specified corporate transaction, if required, failure by the Company to comply with its obligations in respect of certain merger transactions, failure by the Company to perform certain of its agreements required under the Indenture if such failure continues for 90 days after notice is given in accordance with the Indenture, failure by the Company to timely discharge certain other indebtedness, entry of certain judgments against the Company which are not paid, discharged or stayed within 60 days, certain events of bankruptcy or insolvency involving the Company or any significant subsidiary (as defined in the Indenture) of the Company, and failure by the Company to comply with its obligation to postpone the record date of the Hexis spin-off, if necessary.

If an event of default, other than an event of default involving bankruptcy or insolvency of the Company or a significant subsidiary of the Company, occurs and is continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding, by notice to the Company and the Trustee, may declare 100% of the principal amount of, and accrued and unpaid interest (including additional interest, if any) on, all the Notes then outstanding, to be due and payable immediately. If an event of default involving bankruptcy or insolvency events with respect to the Company or a significant subsidiary of the Company occurs, then 100% of the principal amount of, and all accrued and unpaid interest on, all the Notes, will automatically become immediately due and payable without any notice or other action by the Trustee or any holder. Notwithstanding the foregoing, the Company may elect, at its option, that the sole remedy for an event of default relating to certain failures by the Company to comply with certain reporting covenants in the Indenture will consist exclusively of the right of the holders of the Notes to receive additional interest on the Notes.

TABLE OF CONTENTS

Capped Call Transactions

On July 16, 2014, the Company entered into capped call transactions with each of Royal Bank of Canada and Bank of America, N.A. (collectively, the “Counterparties” and such transactions, the “Capped Call Transactions”). The Capped Call Transactions have an initial strike price of approximately $14.83 per share, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the Notes, and have a cap price of approximately $19.3760. The Capped Call Transactions cover, subject to anti-dilution adjustments, 8,763,209 shares of the Company’s common stock, which is the same number of shares of the Company’s common stock initially underlying the Notes.

The Capped Call Transactions are expected generally 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 per share of the Company’s common stock, as measured under the terms of the Capped Call Transactions, is greater than the strike price of the Capped Call Transactions as adjusted pursuant to the anti-dilution adjustments. If, however, the market price per share of the Company’s common stock, as measured under the terms of the Capped Call Transactions, exceeds the cap price of the Capped Call Transactions, there would nevertheless be dilution and/or there would not be an offset of such potential cash payments, in each case, upon conversion of the Notes to the extent that such market price exceeds the cap price of the Capped Call Transactions.

The Company has been advised that the Counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to the Company’s common stock and/or purchasing or selling the Company’s common stock or other securities of the Company in secondary market transactions prior to the maturity of the Notes. This activity could also cause or avoid an increase or a decrease in the market price of the Company’s common stock or the Notes, which could affect the ability of holders of the Notes to convert the Notes.

The Company intends to exercise options it holds under the Capped Call Transactions whenever Notes are converted on or after January 15, 2019, and expects that upon any conversions of Notes prior to January 15, 2019 or any repurchase of Notes by the Company, a corresponding portion of the Capped Call Transactions will be terminated. Upon such termination, the Company expects to receive from the Counterparties either a number of shares of the Company’s common stock with an aggregate market value equal to, or an amount of cash equal to, the value of the Capped Call Transactions or a portion thereof, as the case may be, being early terminated, subject to the terms of the Capped Call Transactions. The Company has been advised that the Counterparties or their respective affiliates, in order to unwind their hedge positions with respect to those exercised or terminated options, are likely to buy or sell shares of the Company’s common stock or other securities or instruments of the Company, including the Notes, in secondary market transactions or unwind various derivative transactions with respect to such common stock during the relevant valuation period under the Capped Call Transactions, which generally corresponds to the observation period for the converted Notes. These unwind activities could have the effect of increasing or decreasing the trading price of the Company’s common stock and, to the extent the activity occurs during any observation period related to a conversion of Notes, could have the effect of increasing or reducing the value of the consideration that holders of the Notes will receive upon conversion of the Notes.

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.

New Revolving Credit Facility

On July 21, 2014, the Company, as a guarantor, entered into a senior credit agreement, (the “Credit Agreement”), by and among itself, the KEYW Corporation, as the borrower (the “Borrower”), the domestic direct and indirect subsidiary guarantors of KEYW (the “Subsidiary Guarantors”), the lenders and Royal Bank of Canada, as administrative agent. Under the Credit Agreement, the Company provided a guaranty of all of the obligations of the Borrower. The Credit Agreement provides the Borrower a $42.5 million revolving credit facility, (the “Revolver”). The Revolver includes a $10 million swing line and a $15 million letter of credit facility.

Borrowings under the 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 will also be required to pay a facility fee to the Lenders for any unused commitments and customary letter of credit fees.
The outstanding amount of revolving loans shall be prepaid with (a) 100% of the net cash proceeds of all asset sales or other dispositions of property by Borrower and its subsidiaries, (b) 100% of the net cash proceeds of issuances of debt obligations of Borrower and its subsidiaries (other than permitted debt), and (c) 100% of the net cash proceeds of any public offering or disposition of the equity of Borrower or its subsidiaries (other than up to 33% of the equity of Hexis Cyber Solutions, Inc. or sales to Borrower or its subsidiaries).

TABLE OF CONTENTS

The Company may voluntarily repay outstanding loans under the Revolver at any time without premium or penalty, subject to customary fees in the case of prepayment of LIBOR based loans.
The Revolver will mature on the earlier to occur of (i) the fifth anniversary of the closing of the 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 Credit Agreement.
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. As of December 31, 2014, the Company was in compliance with its covenants under the Credit Agreement.
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.
The Credit Agreement replaced the amended and restated credit agreement dated November 20, 2012, by and among the Company, the Borrower, the Administrative Agent and the lenders and subsidiary guarantors identified therein.
Outlook

We expect that our 2015 cash flow from operations will be positive. As discussed above, the manner in which we staff our contracts will impact the degree of working capital investment required to fuel our growth. Included in our net income are several significant non-cash transactions that would be add-backs to net income when calculating our cash flow from operations, including stock compensation expense, amortization of intangibles and depreciation of fixed assets.

We will continue to acquire new companies that are a strategic fit and enhance our corporate platform. It is our goal to include an equity component in our acquisitions (20% is our normal target equity component of total purchase price) and the amount of equity we include in any 2015 acquisitions will impact our available cash and credit. The pace and size of any acquisitions will determine how much, if any, of our available credit facility we utilize during the year.

We intend to invest in several potential growth areas in 2015 that may require us to expend more research and development dollars than we have historically. These expenses may not be incurred evenly throughout the year.

After we went public in 2010, employees and investors began to exercise their options and warrants. Some of these exercises were done cashlessly but other exercises were done by paying cash for their shares. We are unable to forecast what the employee and investor activity will be in 2015 with regard to these instruments. The total potential value of these instruments, if all exercised for cash, would be approximately $42 million.

Contractual Obligations and Commitments

	Total	Less than one year	1 – 3 years	3 – 5 years	More than 5 years
	(In thousands)				
Facilities/Office space	$35,488	$6,354	$11,361	$8,389	$9,384
Office equipment	80	47	33	—	—
Total Operating Leases	$35,568	$6,401	$11,394	$8,389	$9,384
Debt	149,500	—	—	149,500	—
Total Contractual Obligations	$185,068	$6,401	$11,394	$157,889	$9,384

TABLE OF CONTENTS

Off Balance Sheet Arrangements
We do not have any off balance sheet arrangements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial position is exposed to several risks including interest rate risk and credit risk. We do not use any derivative financial instruments to manage currency exchange rate risk, interest rate risk, equity market or commodity price risk.

Currency Exchange Rates

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.

Interest Rates

At December 31, 2014, 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 December 31, 2014, our results of operations are not subject to fluctuations in interest rates with respect to the Notes.

Equity Price Risk

We do not currently own nor have we ever owned any marketable equity investments to include marketable equity securities and equity derivative instruments such as warrants and options. Therefore, since we do not currently own investments that are subject to market price volatility, our equity price risk is very low.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
See Item 15(a)(1) in Part IV of this Form 10-K.
Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.
Item 9A. CONTROLS AND PROCEDURES

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.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated financial statements for external purposes in accordance with US generally accepted accounting principles.

Management assessed our internal control over financial reporting as of December 31, 2014, the end of our fiscal year. Management based its assessment on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management's assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

TABLE OF CONTENTS

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year. We reviewed the results of management's assessment with the audit committee of our board of directors.

Attestation Report of the Independent Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Grant Thornton LLP, our independent registered public accounting firm, who also audited our consolidated financial statements included in this Annual Report on Form 10-K, as stated in their reports which appear with our accompanying consolidated financial statements.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15-d-15(f) under the Exchange Act) that occurred during the fourth quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Item 9B. OTHER INFORMATION
None.

TABLE OF CONTENTS

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

Our executive officers and directors, and their respective ages and positions, are set forth below.

Name	Age	Position
Leonard E. Moodispaw	72	President; Chief Executive Officer and Chairman of the Board of Directors
Philip L. Calamia	52	Chief Financial Officer
Mark A. Willard	55	Chief Operating Officer
Chris Fedde	64	Executive Vice President and President, Hexis Cyber Solutions, Inc., a subsidiary of The KEYW Corporation
Kimberly J. DeChello	53	Chief Administrative Officer and Secretary
Deborah A. Bonanni	59	Director
William I. Campbell	70	Director
Pierre A. Chao	48	Director
John G. Hannon	77	Director
Kenneth A. Minihan	71	Director
Arthur L. Money	75	Director
Caroline S. Pisano	48	Director

Set forth below is biographical information for our directors and executive officers.

Len Moodispaw has served as the Chief Executive Officer (CEO), President & Chairman of the Board of Directors of KEYW since it began operations on August 4, 2008 and is the founder of KEYW. Prior to the founding of KEYW, Mr. Moodispaw was President and Chief Executive Officer for Essex Corporation, from 2000 until January 2007, and Chairman of the Board of Directors of Essex from 2005 to January 2007. Essex provided advanced signal, image, information processing, information assurance and cybersecurity solutions, primarily for US Government intelligence and defense customers, as well as for commercial customers. In 2007, Essex was acquired by Northrop Grumman, where Mr. Moodispaw served as a Vice President, responsible for managing Essex as a subsidiary within Northrop Grumman Mission Systems from January 2007 to July 2008.

Mr. Moodispaw also served as Chief Operating Officer of Essex Corporation from 1998 to 2000. Prior to that time, he was President of ManTech Advanced Systems International, Inc., a subsidiary of ManTech International Corporation. Prior to his time with ManTech Advanced Systems International, Inc., Mr. Moodispaw served in several positions of the former Essex subsidiary, System Engineering and Development Corporation, including president and general counsel.

From 1965 to 1978, Mr. Moodispaw was a senior manager in the National Security Agency (NSA) and later engaged in the private practice of law. Mr. Moodispaw is the founder of the Security Affairs Support Association (now known as INSA) that brings government and industry together to solve problems of mutual interest. He serves on proxy boards for KLAS, LTD, Inmarsat US and QinetiQ US,

Mr. Moodispaw earned a Bachelor of Science degree in Business Administration from the American University in Washington, D.C., a Master of Science degree in Business Administration from George Washington University in Washington, D.C., and a Juris Doctorate degree in Law from the University of Baltimore.

Mr. Moodispaw’s history with our company and leadership role since its founding has provided him with unique qualifications to serve as the Chairman of our Board of Directors. He previously served as President, Chief Executive Officer and Chairman of the board of directors of Essex, a former public company in our industry. His prior managerial experience at other companies in our industry and work with and for government agencies such as the NSA augments his range of knowledge and gives him experience on which he can draw in leading our company.

Phil Calamia has served as the Chief Financial Officer and Executive Vice President of KEYW since March 25, 2014. Mr. Calamia joined KEYW in December 2013. He served as Vice President of Finance and Administration for Hexis Cyber Solutions, Inc., a wholly-owned subsidiary of the Company from December 2013 to March 2014. Prior to joining KEYW, he was Managing Partner of CFO Navigator, a boutique management-consulting firm assisting management teams and investors in building sustainable enterprise value with a focus on enhancing performance by uncovering previously unidentified opportunities, from February 2013 to December 2013 and from September 2005 to August 2010. From September 2010 to February 2013, he served as the Chief Financial Officer and Principal Accounting Officer of AuthenTec, Inc., which was acquired by Apple, Inc. in the fall of 2012. AuthenTec provided security solutions focused on secure networking, content and data protection, access control and strong fingerprint security on mobile devices and PCs. He also served as Interim Chief Financial Officer and Principal Accounting Officer of Encorium Group, Inc., from May 2008 to March 2011. Encorium Group, Inc. was engaged in the design and management of clinical trials for pharmaceutical, biotechnology, and medical device industries in the U.S. and Europe providing clinical research and development services supporting Phase I through Phase IV clinical trials. Mr. Calamia holds a Bachelor of Administration in Economics from East Stroudsburg University, in PA.

Mark Willard has served as the Chief Operating Officer of KEYW since its founding in August of 2008. In this position, he has played a key role in developing a strong operations team. In his current role he is responsible for ensuring that the goals for revenue and profit are met and assists the CEO in formulating current and long-range plans, objectives and policies. He provides leadership to senior management related to organization, business development and financial management and ensures a clarity of objectives and focus for senior managers and operations personnel. He has over 30 years of multi disciplined management experience related to systems development, operation and life cycle support. Mr. Willard has played a key role in building an engineering capability from the ground up at four companies focused on supporting the Intelligence Community. After eight years of military service he joined ManTech and served as the Vice President of Columbia, MD Operations, responsible for building the company from 30 to over 300 personnel providing engineering services to the National Security Agency. He transitioned to Windermere in 1998. As one of Windermere’s first employees, he helped build a well established engineering development and systems integration company. Windermere was acquired by Essex Corporation in 2005 and Mr. Willard remained at the company and served as the Vice President of the Engineering & Technology Sector. When Essex Corporation was acquired by Northrop Grumman, Mr. Willard continued to build the Engineering & Technology Sector and was responsible for over 400 personnel providing services to the major Intelligence Community agencies, as well as special military. Mr. Willard served at Northrop Grumman in this capacity until his employment with KEYW in 2008. Mr. Willard has a Bachelor of Science degree in Management Sciences and has completed coursework toward a Master of Science degree in Technology Management at the University of Maryland. He proudly raised 3 daughters on lessons learned from Seinfeld episodes, and is looking forward to opening our first warm climate ocean-front office someday.

Chris Fedde, joined KEYW in April 2013 as an Executive Vice President. As Executive Vice President, Mr. Fedde led KEYW’s products business, responsible for strategic product planning to meet the Company's growth objectives. In July 2013 he was appointed President of Hexis Cyber Solutions, Inc., a KEYW subsidiary. Mr. Fedde is the executive responsible for the commercial security products developed and marketed by Hexis. Prior to joining KEYW, he was President and Chief Executive Officer of SafeNet, Inc., a global leader in data protection from May 2011 to December 2012. He was named CEO in May 2011, having more than a decade of executive leadership at SafeNet and previously serving as its President and Chief Operating Officer. During his tenure at SafeNet, he led the rapid and dynamic growth of SafeNet, first as Director of Corporate Product Management and Business Development and then as General Manager of the Enterprise Security Division. Mr. Fedde established the Company's security presence in the US Government, and expanded SafeNet’s presence in the worldwide security community. He led the company from sub- $20 million in revenue in 2001 to more than $450 million by 2010, along the way establishing SafeNet as one of the largest independent security technology companies in the world.

Prior to joining SafeNet, Mr. Fedde was Director of Secure Products at Harris Corporation, where he established the security business and led its growth. In this role, he was responsible for the direction and management of security businesses requiring very high levels of security, including the US Government. Before joining Harris Corporation, Mr. Fedde previously served as Engineering Manager at Motorola, developing wireless two-way products for the global markets.

He served on the Board of SafeNet and was also a member of the Board of Directors for AuthenTec, a publicly traded company sold to Apple in 2012. Mr. Fedde holds a Bachelor of Science in Electrical Engineering from the University of Iowa. He and his family escape to upstate New York when they can - even in the winter.

Kim DeChello has served as the Chief Administrative Officer and Secretary of KEYW since its founding in 2008. Ms. DeChello is responsible for providing internal and external coordination, management, and oversight of all administrative activities related to the development and implementation of the mission and goals of the organization. She oversees the administrative functions of the organization such as: corporate administration, human resources, recruiting, stock administration, management information systems and others; ensuring appropriate policies and budgets are in place. She assists with mergers and acquisitions and ethics and compliance. She is responsible for developing company policies that comply with regulations and that reflect management philosophy and culture. She partners with the CEO and other executives in formulating current and long-range plans and implementing strategic and operational strategies. As Corporate Secretary she has a wide range of responsibilities including administration of critical corporate matters. Prior to this, she was the Chief Administrative Officer at Essex Corporation, which she joined in May 1987. At Essex she served in various administrative and management capacities. She was appointed Vice President in December 2003, appointed Corporate Secretary in January 1998 and Chief Administrative Officer in November 1997. She served in these positions at Essex through July 2008, until her employment with KEYW in 2008. Ms. DeChello received a Master of Science degree in Human Resources Management in 2000 from the University of Maryland. Ms. DeChello also holds an Associate of Arts degree in Accounting, and a Bachelor of Science degree in Criminal Justice/Criminology from the University of Maryland.

Deborah Bonanni has been a director at KEYW since April 1, 2013. Ms. Bonanni retired from public service in early 2013. From 2006 to 2013 she served as the Chief of Staff of the National Security Agency. She was responsible for the strategic direction, leadership and oversight of the corporate functions that enable and support the Agency’s signals intelligence, information assurance, and cybersecurity missions. Her span of control covered physical and personnel security, human resource services, education and training, installations and logistics, policy and records management, external relations, corporate communications, occupational health and wellness, and registry and protocol services. She chaired the corporate board and managed the processes that governed the identification, selection, compensation, and professional development of NSA’s highest-level executive leaders and technical experts.

Prior to serving as NSA Chief of Staff, Ms. Bonanni served in a number of senior leadership positions, including the Associate Director of Human Resources Services; the Associate Director for Education and Training; and the Commandant of the National Cryptologic School, a nationally recognized academic institution providing tailored training and professional development of military and civilian employees. As Deputy Director of the NSA’s Equal Employment Opportunity organization, she advocated for the use of mediation as a neutral and effective alternative to litigation for resolving disputes, and established the Agency’s first alternative dispute resolution center. Ms. Bonanni began her NSA career as a staff attorney specializing in federal procurement law before assuming the position of Associate General Counsel for Information Security.

Ms. Bonanni graduated from Hood College, Summa Cum Laude, with a Bachelor of Arts degree in History and Political Science. She received her Juris Doctorate from the Columbus School of Law, Catholic University, and is a member of the Bars of Maryland and the District of Columbia. She is a graduate of the 43rd Senior Seminar, an executive leadership program sponsored by the US Department of State for civilian and military leaders from the federal foreign affairs community. She has also completed numerous executive leadership and professional mediation programs. Ms. Bonanni received the Exceptional Civilian Service Award, NSA’s highest honorary award, as well as three Presidential Rank Awards. She was also awarded the National Distinguished Service Medal from the Director, National Intelligence.

Since retiring from public service, Ms. Bonanni has been employed as a senior advisor at Intelligent Decisions, Inc. where she currently holds the title of Vice President, Strategic Relations for the firm's intelligence division. She serves on the Hood College Board of Associates.

Ms. Bonanni’s broad business experiences in public service and as the Chief of Staff of the NSA brings valuable expertise to our board of directors. Her past leadership in the corporate functions of the NSA brings a unique industry expertise to our board.

Bill Campbell has been a director at KEYW since July 16, 2009. Mr. Campbell is currently a Senior Advisor to JPMorgan Chase & Co. where he was most recently Chairman of Chase Card Services, the nation’s second largest credit card organization. From 2005 to 2007 he served as Chairman of Visa International, leading the organization to its IPO in 2008, the largest in US history. With an extensive consumer products and financial services management background, Mr. Campbell also serves as President of Sanoch Management, a consulting and investment firm for financial companies, start-ups, and venture capital firms. Prior to his executive roles at JPMorgan Chase and its predecessors, and the formation of Sanoch Management, Mr. Campbell oversaw Citigroup’s Global Consumer

Business, including global branch banking and credit cards. He became Chief Executive Officer of Global Citibank in 1996 and Chief Executive Officer of Citigroup's Global Consumer Business a year later. Before joining Citicorp in 1995, Mr. Campbell spent 28 years at Philip Morris, including five years as Chief Executive Officer of Philip Morris USA. He began his career in Canada in brand management in 1967 and eventually served as President of the Asian region for Philip Morris, EVP of Marketing and Sales for Philip Morris USA, and EVP of Strategic Planning for Philip Morris Companies. He currently serves as a director to the following privately held companies: BTI Systems, Inc., First Beverage Group, Focus Financial Partners LLC and LeadDog Marketing Group. Mr. Campbell earned a Bachelor's degree in Economics from the University of Alberta in 1965 and a Master's degree in Business Administration from the University of Western Ontario in 1967.

Mr. Campbell's business experiences in a diverse group of major public companies, including service as the CEO of Philip Morris USA and in numerous executive positions in the financial services industry, gives our board of directors a perspective on national and global economic developments and valued experience in the operations of large organizations.

Pierre Chao has been a director at KEYW since October 27, 2010. Mr. Chao is a Managing Partner and co-founder of Enlightenment Capital and a Founding Partner of Renaissance Strategic Advisors. From 2003 – 2007, Mr. Chao was the Director of Defense-

TABLE OF CONTENTS

Industrial Initiatives at the Center for Strategic and International Studies, a Washington D.C. based, non-partisan defense and foreign policy think tank. From 1999 to 2003, Mr. Chao was a managing director and senior aerospace/defense analyst at Credit Suisse First Boston (CSFB), where he was responsible for following the US and global aerospace/defense industry. He remained a CSFB independent senior adviser with the Equity Research group and then Investment Banking from 2003 to 2006. Prior to joining CFSB, Mr. Chao was the senior aerospace/defense analyst at Morgan Stanley Dean Witter from 1995 to 1999 and he was the senior aerospace/defense industry analyst at Smith Barney during 1994. Prior to his career as a Wall Street analyst, Mr. Chao was a director at JSA International, a Boston/Paris-based management-consulting firm that focused on the aerospace/defense industry. Mr. Chao was also a co-founder of JSA Research, an equity research boutique specializing in the aerospace/defense industry. Before signing on with JSA, he worked in the New York and London offices of Prudential-Bache Capital Funding as a mergers and acquisitions banker focusing on aerospace/defense.

Mr. Chao earned dual Bachelor of Science degrees in Political Science and Management Science from the Massachusetts Institute of Technology. He is a holder of the right to use the Chartered Financial Analyst designation. Mr. Chao brings three decades of management consulting, investment banking and policy expertise in the aerospace/defense industry to our board.

John Hannon has been a director at KEYW since August 22, 2008. Previously he served as a Director of Essex from September 2000 to 2007. From early 2000 to 2002, Mr. Hannon was the managing member of Networking Ventures, L.L.C., a privately held company that invested in technology companies. From 1979 to March 2000, Mr. Hannon served as the Chief Executive Officer of Pulse Engineering, Inc. an information security and signals processing company which was sold in March 2000. Mr. Hannon started his business career in 1963 after serving in the United States Marine Corps. Since that time, he has been involved in numerous entrepreneurial ventures. He is a past Director of the Armed Forces Communications and Electronics Association.

Mr. Hannon’s significant institutional knowledge of the Company provides valuable insight to our board of directors. His prior managerial experience and military service brings an enhanced understanding of government contract focused business to board deliberations.

Ken Minihan (Lt. General (Ret) USAF) has been a director at KEYW since August 22, 2008. Lt. General Minihan is a Managing Director of Paladin Capital Group and is focused on the development and implementation of new investment opportunities for Paladin’s Homeland Security Fund. Prior to joining Paladin, Lt. General Minihan was the 14th Director of the National Security Agency (NSA)/Central Security Service. While at the NSA, he was instrumental in the definition and implementation of the National Information Assurance Program. During his military service, Lt. General Minihan developed extensive experience in making new technologies operational and implementing leading edge services and products in a competitive environment where lives were often at risk. During the last twenty years of the Cold War and the transition to the Information Age, he was instrumental in the definition and selection of technology solutions to solve many difficult national security information needs. Throughout that time, Lt. General Minihan helped set the performance standards for information enterprise operations. Lt. General Minihan is a past Chairman and President of the Security Affairs Support Association (now known as INSA), which focuses on shared government and industry national intelligence and technology challenges. He also is a member of the Air Force Association, the National Military Intelligence Association and other national organizations. He has substantial experience in capital raising, enterprise operations, business development and business readiness assurance. He devotes considerable attention to and consults on national security affairs. Lt. General Minihan has a Bachelor of Arts degree from Florida State University, a Master of Arts degree from the Naval Postgraduate School, and has completed executive development programs at the University of Illinois and Harvard University. Among his awards and decorations are the National Security Medal, the Defense Distinguished Service Medal, the Bronze Star, the National Intelligence Distinguished Service Medal, and the Legion of Merit. He serves as a Director on the following boards: BAE Systems, Inc., ManTech International Corporation, Lucent Government Solutions, Lexis Nexis Special Services, American Government Solutions and CGI Federal.

Lt. General Minihan’s depth of knowledge from his military service and as a director of the NSA brings valuable expertise to our board of directors. Further, his business experience with Paladin Capital Group brings industry expertise to our board that is compounded by his public sector service.

Art Money has been a director at KEYW since August 22, 2008. Previously, he served as a Director of Essex Corporation from January 2003 to January 2007. He is currently consulting, specializing in command, control, and communications, intelligence, signal processing, and information processing. Mr. Money served as the Assistant Secretary of Defense for Command, Control, Communication and Intelligence (C3I) from October 1999 to April 2001. Prior to his Senate confirmation in that role, he was the Senior Civilian Official, Office of the Assistant Secretary of Defense for C3I from February 1998. Mr. Money also served as the Chief Information Officer for the Department of Defense from 1998 to 2001. From 1996 to 1998, he served as Assistant Secretary of the Air Force for Research, Development and Acquisition, and as CIO for the Air Force. He has also received distinguished public service awards from the US Department of Defense (Bronze Palm), the US Air Force, and the US Navy. Prior to his government service, Mr. Money held senior management positions (including President from 1989 to 1995) with ESL Inc., a subsidiary of TRW, and the TRW Avionics and Surveillance Group. Mr. Money serves on numerous United States Government panels, boards and commissions. He currently serves on the board of Electronic Warfare Associates, Inc., NovoDynamics, Inc., InfoZen, Inc. and Eagle Ray, Inc. Mr. Money received a Bachelor of Science degree in Mechanical Engineering from San Jose State University in 1965, a Master of Science degree in Mechanical Engineering from University of Santa Clara in 1970 and attended the Harvard Executive Security Program in 1985 and the Program for Senior Executives at the Sloan School at the Massachusetts Institute of Technology in 1988. Mr. Money received the INSA (Intelligence and National Security Alliance) 28th Dr. William Oliver Baker Award in May 2012 and was elected to the National Academy of Engineering in October 2013.

Mr. Money's service in the intelligence sector and on the boards of numerous public companies and with sophisticated advisory groups, combined with his prior management experience in the private sector, brings a breadth of knowledge to our board of directors.

Caroline Pisano has been a director at KEYW since August 22, 2008. Previously, she was a Director of Essex Corporation from September 2000 through January 2003 and served as General Counsel and Vice President of Finance of Essex from January 2003 to June 2004. From April 2000 through December 2002, Ms. Pisano was a member of Networking Ventures, L.L.C. From August 1996 to March 2000, Ms. Pisano served as General Counsel and Chief Financial Officer of Pulse Engineering, Inc., an information security and signal processing company which was sold in March 2000. From August 1992 to July 1996, Ms. Pisano served as a senior transactional attorney with the law firm of Wechsler, Selzer, and Gurvitch, Chartered. From June 1988 to August 1990, Ms. Pisano, was a certified public accountant, practiced public accounting and specialized in high tech and biotech companies. Ms. Pisano received her Juris Doctorate degree from the Washington College of Law at the American University in Washington, D.C. Ms. Pisano graduated Magna Cum Laude with a Bachelor of Science degree in Accounting from the University of Maryland. Although Ms. Pisano is an attorney and an accountant she likes to follow Jimmy Buffett's advice and "say what you mean, mean what you say". Ms. Pisano has four children and enjoys volunteering at her children's public schools.

Ms. Pisano's significant institutional knowledge of our company's field of work gives our board of directors valuable insight into our operations. Her prior managerial experience brings insightful business knowledge to bear on our board deliberations.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3 and Forms 4 furnished to the Company pursuant to Rule 16a-3 under the Exchange Act during its most recent fiscal year and Forms 5 with respect to its most recent fiscal year, the Company believes that all such forms required to be filed pursuant to Section 16(a) of the Exchange Act were timely filed by the respective reporting persons during the fiscal year ended December 31, 2014.

Code of Ethics

KEYW has adopted a code of business conduct and ethics applicable to all of our officers including our CEO and CFO, directors, and employees. A copy of that code is available on our corporate website at www.keywcorp.com. The policies and procedures address a wide array of professional conduct, including, but not limited to:

Conduct	Political Contributions, Activities and Public Positions
Public Disclosure	Government Officials and Company Personnel
Legal Compliance	Payments to Employees of Customers or Suppliers
Government Business	Conflict of Interest
Company Records and Accounts	Compliance with Tax and Currency Laws
Insider Trading	Import and Export
Vigilant Reporting	Time Recording
Indoctrination	Reporting of Violations

Any person may receive a copy of this Code of Ethics at no charge by contacting the Company's Chief Administrative Officer via mail, email to corporatesecretary@keywcorp.com or by phone at 443-733-1600.

Employees with complaints or concerns may report these through the KEYW OpenBoard which provides an anonymous and confidential method for reporting any issues or concerns. Employees may present concerns anonymously through OpenBoard at 866-265-3857. Confidential reports also may be submitted by mail addressed to the Corporate Secretary for delivery to the board of directors, submitted online at https://www.openboard.info/keyw/index.cfm or by e-mail at keyw@openboard.info.

Changes to Procedures for Security Holder Recommendation of Nominees

During the last fiscal year there were no changes to the procedures by which security holders may recommend nominees to the Company's board of directors.

Audit Committee

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Our audit committee is comprised of Caroline Pisano, Art Money, and John Hannon. Ms. Pisano is the chairperson of our audit committee.

Audit Committee Financial Expert

Our board of directors has determined that Ms. Pisano qualifies as an "audit committee financial expert" under the SEC rules implementing Section 407 of the Sarbanes-Oxley Act of 2002. In addition, our board of directors has determined that Ms. Pisano is an independent director under the listing standards of the NASDAQ Marketplace Rules and is independent pursuant to Rule 10A-3 of the Exchange Act.

Board Composition

The biographical information presented above discusses the specific experience, qualifications, attributes and skills contributing to our conclusion that each director should serve as a member of our board of directors. Our goal in selecting board members is to compose leadership that has a broad base of knowledge and experience targeted to our business and industry, which allows our board to engage in forthright discussion about our strategies, risks and plans as a company. Members of the board of directors who have an investment stake in our company have interests that are aligned with our company's desire to grow and prosper. We believe that each board member has demonstrated business acumen and an ability to exercise sound and ethical judgment, as well as a commitment of service to our company and to our board of directors during the period leading up to this filing. Finally, we value their significant experience on other public company boards of directors and board committees, in government agencies, and in private companies, which when aggregated as a full board we feel provides the level of expertise necessary in directing our company.

Board Committees

Our board of directors has established an audit committee, a compensation committee, and a nominating and corporate governance committee, with each committee having the composition and responsibilities described below. The members of each committee are appointed by our board of directors. Copies of the charters of each of the audit committee, compensation committee, and nominating and corporate governance committee setting forth the responsibilities of the committees are available on our website at www.keywcorp.com. We periodically review and revise the committee charters.

Audit Committee

Our audit committee is comprised of Caroline Pisano, Art Money, and John Hannon. Ms. Pisano is the chairperson of our audit committee. Our board of directors has determined that each member of the audit committee meets the financial literacy requirements under the NASDAQ Marketplace Rules and that Ms. Pisano qualifies as an "audit committee financial expert" under the SEC rules implementing Section 407 of the Sarbanes-Oxley Act of 2002. In addition, our board of directors has determined that each member of our audit committee is an independent director under the listing standards of the NASDAQ Marketplace Rules and is independent pursuant to Rule 10A-3 of the Exchange Act. As provided for in the committee's charter, as approved by our board of directors, our audit committee is responsible for, among other things:

- Determining the appointment, compensation, retention and oversight of our independent registered public accounting firm; evaluating the qualifications, performance and independence of our independent registered public accounting firm, and approving the audit and non-audit services to be performed by our independent registered public accounting firm;
- Overseeing our accounting and financial reporting processes and the audits of our financial statements; and
- Reviewing and assessing the qualitative aspects of our financial reporting, our processes to manage business and financial risk, and our compliance with significant applicable legal, ethical and regulatory requirements as they relate to financial statements or accounting matters.

Compensation Committee

Our compensation committee is comprised of Art Money, Bill Campbell and John Hannon. Mr. Money is the chairperson of our compensation committee. As provided for in the committee's charter, as approved by our board of directors, our compensation committee is responsible for, among other things:

- Reviewing and recommending KEYW's general policy regarding executive compensation;

52

TABLE OF CONTENTS

- Reviewing and recommending compensation for our chief executive officer and our other executive officers, including annual base salary, annual incentive bonus (including the specific goals required to receive an annual incentive bonus and the amount of any such annual incentive bonus), equity compensation and any other benefits or compensation;
- Reviewing and recommending any employment-related agreements, severance arrangements and change-of-control arrangements and similar agreements/arrangements for our executive officers;
- Reviewing and recommending compensation plans for our employees and amendments to our compensation plans to our board of directors;
- Preparing the compensation committee report that the SEC requires to be included in our annual proxy statement; and
- Overseeing, reviewing and making recommendations with respect to our equity incentive plans.

Our board of directors has determined that each member of our compensation committee is an "independent director" as defined under the NASDAQ Marketplace Rules.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee is comprised of Deborah Bonanni, Ken Minihan and Pierre Chao. Mr. Minihan is the chairperson of our nominating and corporate governance committee. As provided for in the committee's charter, as approved by our board of directors, our nominating and corporate governance committee is responsible for, among other things:

- Reviewing developments in corporate governance practices and developing and recommending governance principles, policies and procedures applicable to KEYW;
- Identifying, reviewing and recommending to our board of directors nominees for election to our board of directors and to fill vacancies on our board of directors;
- New director orientation;
- Reviewing and making recommendations to our board of directors regarding board committee structure and membership; and
- Succession planning for our executive officers.

Our board of directors has determined that each member of our nominating and corporate governance committee is an "independent director" as defined under the NASDAQ Marketplace Rules.

Item 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

The following discussion provides an overview and analysis of the compensation programs applicable to each person that served as our principal executive officer or principal financial officer during 2014 and our three other most highly compensated executive officers for 2014 (referred to herein as our Named Executive Officers, or NEOs), and certain executive compensation policies for 2013 and 2014. This section also explains our general compensation philosophy and objectives and how we made compensation decisions for our NEOs for 2014. Our NEOs in 2014 were:

- Len Moodispaw — President & Chief Executive Officer;
- Phil Calamia — Chief Financial Officer (CFO);
- Mark Willard — Chief Operating Officer (COO);
- Chris Fedde — Executive Vice President & President of Hexis Cyber Solutions, Inc., a KEYW Subsidiary;
- Kim DeChello — Chief Administrative Officer (CAO);
- John Krobath — Chief Financial Officer (CFO and NEO through March 25, 2014).

TABLE OF CONTENTS

This discussion contains forward looking statements based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion.

Compensation Philosophy and Objectives

The overall goal of our compensation programs is to attract, retain, and motivate qualified, talented and diverse leaders who are enthusiastic about our mission and culture by providing competitive compensation and benefits to our executive officers consistent with our focus on controlling costs. We believe that compensation plays a role in, but is not the exclusive means of, achieving these goals. Non-financial attributes, such as a rewarding and innovative work environment, challenging projects, and career growth opportunities also help us to attract and motivate the leaders we seek to employ at KEYW.

We aim to design our compensation programs so that our executive officers are motivated both to achieve strong short-term (annual) performance goals and to contribute to the creation of long-term stockholder value. Accordingly, a significant portion of each executive's total compensation is tied to the achievement of annual performance goals and to long-term stock appreciation. In addition, we believe that annual incentive compensation for our executive officers should be based primarily on the achievement of objective corporate financial goals, with the flexibility to also reward our executives for exceptional contributions to the achievement of these goals or for the achievement of specific individual goals or other corporate performance goals.

Change of Control and Severance Benefits

We have change-of-control and severance provisions in the employment agreements in place for all of our 2014 NEOs except Mr. Fedde. For a further discussion of the change-of-control and severance provisions applicable to some NEOs see "Employment Agreements" and "Potential Payments Upon Termination or Change of Control" below.

Determination of Executive Compensation

Role of Compensation Committee and Board of Directors. We established a compensation committee of our board of directors in January 2009 to review and recommend to our full board of directors compensation for our executive officers, including our NEOs. Since its formation, the compensation committee has been responsible for:

- reviewing and recommending corporate goals and objectives as they relate to executive compensation;
- evaluating the performance of executive officers;
- overseeing the administration of incentive and equity-based compensation plans;
- recommending new plans, plan amendments, and/or the termination of current plans;
- recommending board of directors' compensation, such as retainers, chairperson fees, or equity grants; and
- overseeing the work of external consultants advising KEYW on compensation matters.

For a more detailed description of the role of our compensation committee, see "Board Committees — Compensation Committee" above.

Role of Management. Our Chief Executive Officer participates in meetings of our compensation committee upon the request of its members and in meetings of our board of directors as a member of the board and makes recommendations to the compensation committee and board of directors with respect to base salary, the setting of performance targets, the amounts of any short-term and long-term incentive compensation and equity awards for our executive officers. The compensation committee also works with our COO, CFO and CAO in evaluating the financial, accounting, tax and retention implications of our various compensation programs. Neither Mr. Moodispaw nor any of our other NEOs participate in deliberations relating to his or her own compensation.

Assessment of Competitive Practices and Role of Compensation Consultant. We believe that competitive compensation programs are critical in attracting, retaining and motivating the talent KEYW needs to achieve its stated objectives. Our board of directors engages outside Compensation Consultants to assist the compensation committee in its assessment of the competitiveness of our executive compensation practices. Pursuant to their engagement, they complete a benchmarking analysis of total direct compensation for top executives and other key employees and make recommendations to management and the compensation committee regarding executive and key employee compensation. In addition, they assist in the design of annual incentive and long-term incentive plans for KEYW executives and employees. See “Components of Executive Compensation” below, for further discussion of our annual incentive and long-term incentive plans. They perform the work under the direction and authority of the board of directors and the compensation committee, with input from management.

In August 2012, our board of directors engaged Aon Hewitt, whom we refer to as the “Compensation Consultant”, to complete a series of benchmark activities to understand changes to executive and independent compensation practices. The Compensation

TABLE OF CONTENTS

Consultant's benchmarking analysis was based on two distinct peer groups (Direct and Indirect Peers) which it developed jointly with executive management. We believe Direct Peers should serve as the primary reference point for evaluating the reasonableness of pay levels, while practices should be shaped by a broader index including Indirect Peers.

The first peer group developed by the Compensation Consultant and executive management and examined by the compensation committee consisted of companies that are comparable to KEYW with respect to industry and size as measured by revenues. The compensation committee reviewed companies that provide similar services/products to the Intelligence Community, which we refer to as the Direct Peer Group. The Direct Peer Group was as follows:

AeroVironment, Inc.	ICF International, Inc.
American Science & Engineering, Inc.	Mercury Computer Systems, Inc.
Dynamics Research Corporation	NCI, Inc.
GeoEye, Inc.	Sourcefire, Inc.
Globecomm Systems, Inc.	

The second peer group developed by the Compensation Consultant and executive management and examined by the compensation committee consisted of Indirect Peer competitors as follows:

Astronics Corporation	Kratos Defense Security Solutions
Booz Allen Hamilton	Mantech International Corporation
CACI International	Symantec Corporation
Digitalglobe	Verint Systems
Ducommun	Viasat
Flir Systems	

The Compensation Consultant also utilized published survey data from the following sources:

- 2012 Western Management Group Government Contractors Compensation Survey
- 2012 Aon Hewitt Executive Total Compensation Report
- 2012 Mercer Benchmark Database - Executive Report
- 2011 Towers Watson Survey Report on Top Management Compensation

The Compensation Consultant used these peer groups and industry surveys to present to the compensation committee data about salary, bonus and equity compensation at the 25th, 50th and 75th percentiles and the relative mix of these components of total compensation for executive and senior personnel positions at these comparable companies and in comparable industry and company groups. We use this compensation data as a reference point when setting compensation levels. Our compensation committee maintains discretion in determining the nature and extent to which this data is applied.

Components of Executive Compensation

The chart below lists and describes the elements currently included in our executive compensation program and summarizes our purpose in providing each such element.

TABLE OF CONTENTS

Compensation Component	Description	Purpose
Base Salary	Base compensation for performing core responsibilities and contributions to the Company.	Provide steady source of income based primarily on scope of responsibility and years of experience.
Annual Incentives	Annual cash incentive opportunities are provided for under the KEYW Annual Incentive Plan and are expressed as a percentage of base salary. Threshold, target, and maximum incentive opportunities are established based on corporate, business unit, and individual goals.	Ensure focus on specific annual goals, provide annual performance-based cash compensation, and motivate achievement of critical short-term performance metrics.
Long-Term Incentives	Equity grants provided under our equity incentive plans to all executives and employees. Equity award types provided for include Stock Options and Restricted Stock. Cash-based incentives also may be provided from time to time under our long-term incentive plan. Hexis Executive Incentive Plan includes a payout to participants in the event of a Liquidation Event of Hexis, as described in the plan.	Align the interests of executives with stockholders, provide for executive ownership of stock, attract, retain and motivate key talent, and reward long-term growth of the business. The purpose of this plan is to incentivize and reward key senior management personnel of Hexis to maximize the market value of Hexis, independent of KEYW, through a limited trigger compensation plan.
Discretionary Awards	One-time awards of cash or equity.	Intended to recognize exceptional contributions to KEYW's business by individual executives and employees.
Retirement, Health, & Welfare Benefits	Includes benefits such as: Health, dental and vision insurance Life and disability insurance Paid Time Off and Holidays Company 401(k) contributions Employee Stock Purchase Plan	These benefits are part of our broad-based total compensation program, available to all full-time employees of the Company.

Base Salary. Base salary is intended to provide executives with a base level of regular income for performance of their essential duties and responsibilities. In general, base salaries for our NEOs are initially negotiated with the executive at the time the executive is hired, and reviewed annually by our compensation committee and board of directors, with input from our Chief Executive Officer (other than with respect to himself). In determining base salaries, we consider the executive's qualifications and experience, salaries of executives in similar positions at comparable companies as described above under "Determination of Executive Compensation — Assessment of Competitive Practices and Role of Compensation Consultant," and internal comparisons of the relative compensation paid to members of our executive team.

Annual Incentives. Effective January 2010, we adopted the KEYW Annual Incentive Plan, which we refer to as the annual incentive plan (the "AIP"). In general, all of our employees may become eligible to participate in the AIP, with our Chief Executive Officer retaining discretion to determine which employees (other than executive officers) are included in the AIP on a year-to-year basis. Approval of the compensation committee is required with respect to the inclusion of any of our executive officers in the AIP. The AIP is intended to:

- Motivate eligible employees to achieve annual financial performance goals, other corporate goals or individual goals, depending on the level of seniority and responsibilities of the employee;
- Reward employees for achievement of financial, business unit, and individual performance targets that contribute to the creation of long-term stockholder value; and
- Provide maximum flexibility to reward individual employee performance and innovation.

TABLE OF CONTENTS

Under the AIP, annual incentive opportunities are established each year as a percentage of each eligible employee's base salary. For our Chief Executive Officer and other executive officers, performance goals and incentive opportunities are generally recommended by the compensation committee and determined by the board of directors in the first quarter of the fiscal year to which the award relates. For our Chief Executive Officer and other executive officers, annual incentive payments under the AIP are tied to company-wide financial performance targets. In establishing the AIP, the compensation committee and the board of directors assessed that company-wide financial performance targets best gauge the performance of KEYW's senior management team in growing short- and long-term stockholder value. For 2014, the compensation committee determined to set company-wide financial performance targets for our Chief Executive Officer and other executive officers based on the achievement of a combination of specified target revenue and specified target EBITDA, measured after giving effect to payments to employees under the AIP, which we refer to as the 2014 financial target. The board determines revenue and EBITDA growth rates and corresponding AIP target levels based on the economic environment, investor expectations, and contract activity. The levels are expected to be challenging but reachable. In particular, the compensation committee and the board of directors determined to weight KEYW achievement of the 2014 financial target 60% on the achievement of target revenue and 40% on the achievement of target EBITDA and for Hexis 100% on the achievement of target revenue. Annual incentive plan payouts for 2014 for our Chief Executive Officer and other executive officers were based on the extent to which actual revenue and EBITDA performance (weighted as described above) met the 2014 financial target, based on a sliding scale of performance. For our NEOs, actual revenue and EBITDA performance were required to achieve a minimum level of 90% of the 2014 financial target for awards to be paid under the AIP. For employees that are not executive officers, actual revenue and EBITDA performance were required to achieve a minimum level of either 80% or 90% of the 2014 financial target (or in the case of non-executive employees for which other performance targets were established, 80% or 90% of such other performance target), depending on the particular employee's job title and position. For 2014, the Chief Executive Officer's incentive opportunity ranged from 37.5% to 112.5% of base salary, with a target of 75% of base salary. For each other executive officer, his or her incentive opportunity ranged from 25% of base salary to 75% of base salary, with a target of 50% of base salary.

The following table sets forth the minimum, target and maximum annual incentive payments potentially payable to our Chief Executive Officer and our other executive officers based on the percentage achievement of the 2014 financial target. Former Chief Financial Officer Krobath was not eligible to participate in the 2014 AIP. The table is based on 2014 annual salaries.

Name	2014 Base Salary	Payment Level/Percentage Achievement of 2014 Financial Target		
		Minimum/90%	Target/100%	Maximum/110%
Len Moodispaw	$500,011	$187,504	$375,008	$562,512
Phil Calamia	$280,010	$70,003	$140,005	$210,008
Mark Willard	$325,000	$81,250	$162,500	$243,750
Chris Fedde	$300,020	$75,005	$150,010	$225,015
Kim DeChello	$250,016	$62,504	$125,008	$187,512

The AIP awards are paid in cash. The amount payable pursuant to each award is determined by the compensation committee based on achievement of the applicable performance targets. Under the AIP, the compensation committee has the discretion to increase or decrease the amount of the payout to an executive officer based on individual performance, provided such payout does not exceed the maximum payout permitted to the executive officer under the AIP. Additionally, the compensation committee may not make a discretionary increase in payment under the AIP to an executive officer subject to the $1,000,000 limit on compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), if the Company is intending to qualify the AIP awards for an exception to the compensation limit for such executive officer under Section 162(m) of the Code.

Our compensation committee determined that for 2014, KEYW achieved actual revenue and EBITDA performance above the minimum payment level under the plan and Hexis did not meet performance goals. Therefore, the compensation committee approved the payment of a bonus under the AIP to the CEO and Mr. Calamia, Mr. Willard and Ms. DeChello at an appropriate payment level for such NEO. See “Compensation Actions in 2015”, “Summary Compensation Table” and “Grants of Plan-Based Awards Table” herein.

Long-Term Incentives. We believe that our executives should have a continuing stake in our long-term success. We believe that equity compensation is the best means of aligning the interests of our executives and employees to the interests of our stockholders and of incentivizing our executives and employees to contribute to the long-term growth of stockholder value. We require our executives to hold a significant equity interest in our Company. See "Stock Ownership Guidelines" herein.

In 2012, we awarded stock options and restricted stock awards to our NEOs under The KEYW Holding Corporation 2009 Stock Incentive Plan (the 2009 Plan). In 2013 and 2014, we awarded stock options and restricted stock awards to our NEOs under The

TABLE OF CONTENTS

KEYW Holding Corporation 2013 Stock Incentive Plan (the 2013 Plan). See “Executive Compensation — Grants of Plan-Based Awards Table” for a detailed description of equity awards made to our NEOs from 2012 to 2014 and “Executive Compensation — Equity Incentive Plans” for a detailed description of the 2008, 2009 and 2013 Plans. Awards originally granted under the 2008 Plan, generally vest ratably on an annual basis over five years. In early 2009, the board of directors determined to modify the vesting of awards so as to have these awards vest ratably on an annual basis over three years with an initial 25% vesting immediately. The board of directors determined that such three-year vesting would be applied to future awards.

As part of the board of directors’ and compensation committee’s review of competitive compensation practices, the board of directors and compensation committee adopted a new long-term incentive plan, which we refer to as the long-term incentive plan or LTIP, which sets forth KEYW’s long-term incentive compensation policy for its executive officers and other employees. The LTIP applies with respect to long-term incentive compensation awards beginning in 2010. The LTIP is designed to:

- attract, retain, and motivate key contributors to KEYW’s profitability and growth;
- align employee and stockholder interests;
- share the benefits of appreciation in the value of KEYW’s common stock with key contributors; and
- facilitate stock ownership by key contributors.

The LTIP sets forth the framework KEYW intends to use for the award of long-term incentive compensation, and contemplates that KEYW may award various types of equity-based awards under its equity plans on an annual basis, including nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units (“RSUs”), performance shares, performance units, and other stock-based awards. The LTIP also contemplates awards linked to the value of our common stock but that are payable in cash. The type and mix of equity-based compensation awards made under the LTIP may vary from year-to-year based on KEYW’s compensation philosophy, employment needs, and business goals.

Under the LTIP, long-term incentive awards are to be awarded annually to eligible employees. To date, we have only issued stock options and restricted stock under the LTIP. We expect LTIP awards to be made early each year based on prior year performance.

Discretionary Awards. Discretionary awards are intended to recognize exceptional contributions to KEYW’s business by individual executives and employees. On August 13, 2014, the board of directors of the Company approved a separate bonus to Mr. Calamia of $25,000 in connection with Mr. Calamia's performance for the successful 2.50% Convertible Senior Notes Offering.

Hexis Executive Incentive Plan. Effective January 31, 2014, we adopted the Hexis Executive Incentive Plan which is managed and administered by KEYW. The plan is designed to incentivize and reward key senior management personnel of Hexis to maximize the market value of Hexis, independent of KEYW, through a limited trigger compensation plan. In the event of a Liquidation Event of Hexis, as defined below, KEYW will allocate a percentage of the market valuation received or attributed to Hexis to the Plan to be distributed to participants based on their ownership interests in that pool. The payout will be triggered solely upon the consummation of either a sale, either for stock or cash of the acquiring company, of 51% or more of the outstanding shares of Hexis owned by KEYW or an initial public offering of Hexis stock. Under no other events will the plan funding be triggered.

Retirement, Health, & Welfare Benefits. We operate in a competitive market for highly skilled technical and management staff who also hold high-level security clearances. As a result, our benefits programs must be competitive with those of our competitors since employees in our industry typically look at the complete compensation program being offered, including retirement, health and welfare benefits. Our benefits programs are available to all of our full-time employees and include health, dental and vision insurance, life insurance, disability insurance, paid time off, company contributions under our 401(k) plan and employee stock purchase plan. We believe that it is important to maintain a competitive benefits program that complements our salary structure and confirms the commitment we have to maintaining a rewarding and enjoyable work environment.

Employee Stock Purchase Plan

We adopted the Employee Stock Purchase Plan (the “ESPP”) on September 3, 2010. The ESPP offers a maximum of 5,000,000 million shares of Common Stock for purchase by employees (including NEOs) over the ten year life of the ESPP. Employees are able to purchase shares through accumulated payroll deductions at 85% of the fair market value of the shares based on the closing sales price of the shares on the purchase date, which will occur at the end of each fiscal quarter. Individual employees are limited to a maximum of 1,000 shares per quarter under the ESPP. The Company has elected to use open market purchases for all shares issued under the ESPP.

TABLE OF CONTENTS

Compensation Actions in 2014
On January 31, 2014 AIP awards were paid to the NEOs based on the achievement of the 2013 financial targets above the minimum AIP payment level.

Payments were as follows:

NEO	Annual Incentive Plan (AIP) Performance Award	AIP Discretionary Award	Total
Len Moodispaw	$300,000	$—	$300,000
John Krobath [(1)]	112,000	—	112,000
Mark Willard	140,000	—	140,000
Chris Fedde [(2)]	65,000	—	65,000
Kim DeChello	100,000	—	100,000

(1) Mr. Krobath resigned effective as of April 25, 2014 and stepped down as Chief Financial Officer on March 25, 2014 when the Company appointed Philip Calamia to this role.
(2) Pro-rated due to partial year employment.

In February 2014, we issued LTIP grants to our NEOs totaling 75,000 restricted stock shares and non-qualified stock options to purchase 225,000 shares with a strike price of $17.11. The restricted stock cliff vests in February 2017 and the options have performance-based vesting based on attainment of financial performance goals: 50% in February 2015, 25% in February 2016 and 25% in February 2017. If performance is not met prior to first vesting, the options are canceled. Our inclusion of performance based options is evidence that we are focused on vehicles that reward executives based on both short-term performance and growing long-term shareholder value.

On March 20, 2014, Mr. Krobath, our Chief Financial Officer, announced his departure to pursue other professional opportunities, effective as of April 25, 2014. Mr. Krobath was focused on transition issues and certain corporate initiatives during that time. In connection with his departure, the Company and Mr. Krobath entered into an amendment (the “Third Amendment”) to Mr. Krobath’s Employment Agreement, dated as of June 16, 2009, as amended by Amendment to Employment Agreement dated as of March 12, 2012 and Second Amendment to Employment Agreement dated as of June 29, 2012 (collectively, the “Employment Agreement”). Pursuant to the Third Amendment, Mr. Krobath received compensation continuing through December 26, 2014 and a lump-sum payment of $330,000 on January 16, 2015. In addition, all of Mr. Krobath’s outstanding equity awards that would have vested before February 28, 2016 will continue to vest on their original vesting schedule, and the performance criteria with respect to Mr. Krobath’s 2014 stock option awards made on February 7, 2014 were removed, and 50% of such options vested on the first anniversary of the grant date, and 25% will vest on the second anniversary of the grant date. The remaining 25% will not vest.

On March 25, 2014, the Company appointed Philip L. Calamia as Chief Financial Officer and Executive Vice President. Currently, Mr. Calamia receives an annual salary of $280,010 and became eligible to participate in the Company’s annual incentive plan beginning with the 2014 fiscal year. Mr. Calamia’s target bonus is 50% of his base salary. Mr. Calamia received 2,500 restricted stock awards which will vest on December 31, 2016, and 1,000 restricted stock awards which will vest on February 7, 2017. Mr. Calamia must continue service with the Company through the applicable equity vesting dates. Mr. Calamia may receive additional annual equity grants, subject to the discretion of the board of directors. Mr. Calamia also participates in the Hexis Executive Incentive Plan.

In the Company’s Proxy Statement filed on July 11, 2014, the board of directors of the Company recommended that shareholders vote (i) to approve the compensation of the Company’s NEOs (“Say-on-Pay”) and (ii) for the option of having a Say-on-Pay vote every year (annually). As previously reported, at the Company’s 2014 annual meeting, the Company’s shareholders approved the Say-on-Pay proposal and approved an annual Say-on-Pay Vote by a majority of the votes cast.

TABLE OF CONTENTS

In August 2014, the Board of Directors at the recommendation of the Compensation Committee, approved an increase to the base salaries of two NEOs over 2013 base salaries as follows:

Name/Title	2013 Base Salary	2014 Base Salary	Percentage Increase	
Len Moodispaw President and Chief Executive Officer	$500,011	$500,011	—	%
Phil Calamia Chief Financial Officer	$245,000	$280,010	14.29	%
Mark Willard Chief Operating Officer	$325,000	$325,000	—	%
Chris Fedde EVP, President - Hexis Cyber Solutions, Inc.	$275,018	$300,019	9.09	%
Kim DeChello Chief Administrative Officer and Secretary	$250,016	$250,016	—	%
John Krobath Former Chief Financial Officer	$280,010	$280,010	—	%

In August 2014, Hexis Cyber Solutions, Inc., a wholly owned subsidiary of The KEYW Holding Corporation, entered into an employment agreement with Phil Calamia, Chief Financial Officer of the Company.

The Agreement provides, among other things: (a) an initial base salary of $280,010 and an annual fifty percent (50%) target bonus under the terms of the Company's Annual Incentive Plan, both of which may be adjusted by the Board of Directors of the Company from time to time; (b) other benefits currently provided to Mr. Calamia, including but not limited to, vacation, health insurance and officers and directors liability insurance; and (c) upon termination of Mr. Calamia's employment by the Company without Cause (as defined in the Agreement), payment of an amount equal to one year's base salary plus the amount of certain unpaid and/or pro-rated bonuses and incentive plan payments, and reimbursement of health and dental insurance premiums for one year following such termination, and (d) upon termination of Mr. Calamia's employment by the Company without Cause or by Mr. Calamia with Good Reason (as defined in the agreement) within one year of a Change of Control (as defined in the Agreement), payment of an amount equal to one year's base salary plus the amount of certain unpaid and/or pro-rated bonuses and incentive plan payments, and reimbursement of health and dental insurance premiums for three years following such termination.

The Agreement also provides for adjustment and recovery of performance-based compensation, including equity awards, paid or payable to Mr. Calamia upon certain restatements of the Company's financial statements.

The Agreement contains employee non-solicitation restrictions that extend for a one year period following termination of Mr. Calamia's employment, and customary confidentiality restrictions. In addition to the salary and benefits provided under the Agreement, on August 13, 2014, the Board of Directors of the Company approved a separate bonus to Mr. Calamia of $25,000.

Compensation Actions in 2015

On January 16, 2015 Mr. Krobath received a lump-sum payment of $330,000 per the Third Amendment to his employment agreement.

On January 23, 2015 AIP awards were paid to the NEOs based on the achievement of 2014 financial targets. Payments were as follows:

NEO	Annual Incentive Plan (AIP) Performance	AIP Discretionary Award	Total

	Award		
Len Moodispaw	$375,000	$—	$375,000
Philip Calamia	116,500	—	$116,500
Mark Willard	220,000	—	$220,000
Chris Fedde	—	—	$—
Kim DeChello	170,000	—	$170,000

In February 2015, the Board of Directors at the recommendation of the Compensation Committee, approved to grant 2015 retention and performance-based restricted stock to our NEOs. These shares will be issued in April 2015.

TABLE OF CONTENTS

Tax and Accounting Considerations

Section 409A. With the assistance of the outside compensation consultant, in 2011, we completed our review of employment agreements for compliance with Section 409A of the Code, and reviewed our other executive compensation and benefits plans for compliance with Section 409A of the Code.

Section 162(m). Section 162(m) of the Code limits our ability to deduct compensation paid in any given year to a “covered employee” (which includes all of the NEOs other than the CFO) in excess of $1.0 million. After the end of the “grandfather” period set forth under Section 162(m), as much as practicable, we will attempt to structure the compensation paid to our NEOs in a manner that enables us to deduct such compensation. Compensation is not subject to this deduction limitation if it qualifies as “performance based compensation” within the meaning of Section 162(m). In the event the proposed compensation for any of our NEOs is expected to exceed the $1.0 million limitation, the compensation committee will, in making decisions about such compensation, balance the benefits of tax deductibility with its responsibility to hire, retain and motivate executive officers with competitive compensation programs. We may approve the payment of compensation that exceeds the deductibility limitation under Section 162(m) in order to meet our compensation objectives or if we determine that doing so is otherwise in the interest of our stockholders.

Accounting for Stock-Based Compensation (FASB ASC Topic 718 Compensation — Stock Compensation, formerly SFAS 123(R), “FASB ASC Topic 718”). FASB ASC Topic 718 requires the expensing of stock-based compensation, which includes equity incentive awards such as stock options and restricted stock. The expense related to stock options and restricted stock granted to certain executives and board members is determined in accordance with FASB ASC Topic 718.

Sections 280G and 4999. Under Sections 280G and 4999 of the Code, a 20% excise tax may be levied on certain payments made to certain executives as a result of a change-of-control if such payments equal or exceed three times the executive’s “base amount” (as defined under Section 280G). In structuring our executive compensation, we seek to minimize the potential tax consequences that could arise under Sections 280G and 4999 in the event of a change-of-control of KEYW.

Compensation Policies and Practices as they Relate to Risk Management

The compensation committee considers, in establishing and recommending KEYW's employee compensation policies and practices, whether the policy or practice encourages unnecessary or excessive risk taking. The compensation committee has concluded that any risks arising from KEYW's employee compensation policies and practices are not reasonably likely to have a material adverse effect on KEYW. Base salaries are fixed in amount and thus should not encourage unnecessary or excessive risk taking. While the annual incentive plan focuses executives on achievement of short-term or annual goals, and short-term goals may encourage the taking of short-term risks at the expense of long-term results, our annual incentive plan represents only a minority portion of each executive officer's total compensation opportunity. The compensation committee believes that the annual incentive plan appropriately balances risk and the desire to focus executives on specific short-term goals that we believe are important to our success.

Stock Ownership Guidelines

A large percentage of the compensation provided to our executive officers and other key employees are in the form of long-term incentive awards, which we believe are important to help further align our employees' interests with those of our stockholders. We expect this practice to continue going forward. The compensation committee believes that these awards will not encourage unnecessary or excessive risk taking since the ultimate value of the awards is tied to our stock price, and subject to long-term vesting schedules, to help ensure that employees have significant value tied to long-term stock price performance.

We established a “Stock Ownership Guidelines” Policy to align the financial interests of KEYW executives and Board members with those of our shareholders. The policy is applicable to all non-employee directors and identified executives. Participants must have beneficial ownership, as defined under Rule 13d-3(d)(1) under the Exchange Act, of our common stock in accordance with the following schedule:

Leadership Position	Value in Share/Number of Shares/% of Ownership
Non-Employee Member of Board	25,000 shares
President and CEO	6x annual base salary
Executive Vice Presidents	3x annual base salary
Other Section 16 Filers	1x annual base salary

Participants may satisfy their ownership guidelines with one or more of the following forms of equity beneficial ownership: shares owned directly, shares owned indirectly (i.e. by spouse or trust), stock options and warrants (vested and/or exercisable within 60-days and in-the-money), or restricted stock.

TABLE OF CONTENTS

Once a participant has achieved the requisite level of ownership, the guideline will be considered met going forward unless a participant sells shares and/or receives a salary adjustment, at which time compliance will be re-evaluated. Participants are prohibited from selling company stock until such officer is in compliance with his or her ownership requirement.

Compensation Committee Report

The Compensation Committee, which is composed solely of independent directors, assists the Board in fulfilling its responsibilities with regard to compensation matters, and is responsible under its charter for determining the compensation of KEYW's executive officers. The Compensation Committee has reviewed and discussed the "Compensation Discussion and Analysis" section of this 2014 Annual Report on Form 10-K with management, including our CEO, Leonard E. Moodispaw, and our CFO, Philip L. Calamia. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the "Compensation Discussion and Analysis" section be included in KEYW's 2014 Annual Report on Form 10-K for the year ended December 31, 2014.

Compensation Committee
Arthur L. Money
William I. Campbell
John G. Hannon

TABLE OF CONTENTS

Summary Compensation Table

The following table sets forth the aggregate compensation awarded to, earned by, or paid to our Named Executive Officers (NEOs) in the last three fiscal years.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(5)(6)	Option Awards ($)(5)(6)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)(7)	Total ($)
Len Moodispaw	2014	500,011	—	427,750	482,353	375,000 (4)	172,638 (11)	1,957,752
President and	2013	496,742	—	281,750	364,693	300,000 (4)	85,478	1,528,663
Chief Executive Officer	2012	415,002	—	111,150	61,318	366,875 (1)(4)	77,961	1,032,306
Phil Calamia (2)								
Chief Financial Officer	2014	261,160	25,000 (3)	17,110	12,863	116,500 (4)	6,763	439,396
Mark Willard	2014	325,000	—	213,875	241,177	220,000 (4)	128,694 (12)	1,128,746
Chief Operating	2013	324,039	—	366,275	182,347	140,000 (4)	80,015	1,092,676
Officer	2012	293,288	—	55,575	77,617	225,000 (4)	85,789	737,269
Chris Fedde (8)	2014	282,710	—	213,875	—	—	34,802 (13)	531,387
EVP and President, Hexis Cyber Solutions, Inc.	2013	174,530	—	133,500	130,679	65,000 (4)	28,919	532,628
Kim DeChello	2014	250,016	—	213,875	241,176	170,000 (4)	107,586 (14)	982,653
Chief	2013	249,054	—	366,275	182,347	100,000 (4)	77,858	975,534
Administrative Officer	2012	225,014	—	55,575	47,599	168,750 (4)	74,933	571,871
John Krobath (9)	2014	280,010 (10)	—	213,875	241,176	—	3,588,669 (15)	4,323,730
Former Chief	2013	278,856	—	140,875	182,347	112,000 (4)	64,979	779,057
Financial Officer	2012	250,016	20,000 (3)	55,575	47,599	187,500 (4)	276,437	837,127

(1) The compensation committee approved a $466,875 bonus payment under the 2012 AIP to Mr. Moodispaw based on his performance and their full confidence in him. Mr. Moodispaw declined $100,000 of the bonus and requested KEYW to make a charitable contribution with those funds.

(2) Mr. Calamia was appointed to the role of CFO effective March 25, 2014.

(3) In 2014, the compensation committee approved a $25,000 bonus payment to Mr. Calamia for his performance for the successful 2.50% Convertible Senior Notes offering completed in July 2014. In 2012, the compensation committee approved a $20,000 bonus payment to Mr. Krobath for his performance for the successful secondary offering. Such payments are taken into consideration when determining AIP awards.

(4) On January 23, 2015 and on January 31, 2014 AIP awards were paid based on KEYW achievement of actual revenue and EBITDA performance above the minimum payment level under the plan for the prior fiscal year. In January 2015, no payments were made based on Hexis 2014 performance against goals. The compensation committee approved the payment of a bonus under the AIP to the CEO and other executive officers at an

appropriate payment level for each NEO. See table titled "Payment Level/Percentage Achievement of 2014 Financial Target". On January 25, 2013 AIP awards were paid based on achievement of the applicable performance targets as determined by the compensation committee.

(5) Amounts reported in this column reflect the aggregate grant date fair value as calculated under FASB ASC Topic 718. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements and notes thereto which are included elsewhere in this Form 10-K for a description of the assumptions used in making these calculations.

63

TABLE OF CONTENTS

(6) Equity awards granted to our NEOs in 2012 were issued under our 2009 Plan. Equity awards granted to our NEOs in 2013 and 2014 were issued under our 2013 Plan. See "— Executive Compensation — Equity Incentive Plans" for a description of our 2009 and 2013 Plans.

(7) Represents KEYW matching contributions under our 401(k), employee stock purchase plan discounts, paid time off (PTO) payouts of amounts over the accrual limits, premiums paid by KEYW for health, dental, vision, long-term care, life and disability insurance, as well as an expense allowance to cover miscellaneous non-travel business expenses and stock equity compensation. Except as described in footnotes (10 - 15) to the Summary Compensation Table, none of the perquisites and personal benefits included in the "All Other Compensation" column above for any of our NEOs in 2014 exceeds the greater of $25,000 or 10% of the total amount of benefits for that NEO.

(8) Mr. Fedde's employment commenced April 29, 2013.

(9) Mr. Krobath resigned effective April 25, 2014 and stepped down as Chief Financial Officer on March 25, 2014 when the Company appointed Mr. Calamia to this role.

(10) Per Mr. Krobath's Third Amendment to his Employment Agreement, he received compensation through December 26, 2014

(11) Includes 401(k) matching contributions of $23,000, PTO payout of $9,616, the amount over the accrual limit, premiums paid by KEYW of $15,872, expense allowance of $20,150 and gain on restricted stock vesting in the amount of $104,000 .

(12) Includes 401(k) matching contributions of $22,750, PTO payout of $6,241, the amount over the accrual limit, premiums paid by KEYW of $15,553, expense allowance of $20,150 and gain on restricted stock vesting in the amount of $64,000.

(13) Includes 401(k) matching contributions of $6,346, premiums paid by KEYW of $12,806 and expense allowance of $15,650.

(14) Includes 401(k) matching contributions of $23,000, employee stock purchase discounts of $443, PTO payout of $4,808, the amount over the accrual limit, premiums paid by KEYW of $6,385, expense allowance of $20,150 and gain on restricted stock vesting in the amount of $52,800.

(15) Includes 401(k) matching contributions of $10,770, employee stock purchase discounts of $399, PTO payout of $21,337, premiums paid by KEYW of $5,063, expense allowance of $6,975, gain on restricted stock vesting in the amount of $64,000 and gain on net issue exercises of non-qualified stock options in the amount of $3,480,125.

Grants of Plan-Based Awards Table

The following table sets forth the incentive plan awards made to the NEOs during fiscal year 2014.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All other stock awards: Number of shares of stock or units (#)	All other options awards: Number of securities underlying options (#)	Exercise price of option awards ($/Sh)	Grant date fair value of stock and option awards ($)(3)
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)				
Len Moodispaw		187,504	375,008	562,512							
	2/7/2014				—	100,000	—			17.11	910,103
Phil Calamia		70,003	140,005	210,008							

	2/7/2014				—	3,000	—		17.11	29,973
Mark Willard		81,250	162,500	243,750						
	2/7/2014				—	50,000	—		17.11	455,052
Chris Fedde		75,005	150,010	225,014						
	2/7/2014				—	50,000	—		17.11	455,052
Kim DeChello		62,504	125,008	187,512						
	2/7/2014				—	50,000	—		17.11	455,052
John Krobath [(4)]		—	—	—						
	2/7/2014				—	50,000	—		17.11	455,052

(1) Amounts in these columns show the range of payouts that was possible under the Company's AIP based on performance during 2014, as described in the Compensation Discussion and Analysis section above. The actual bonus amounts that were

64

TABLE OF CONTENTS

paid in 2015 based on 2014 performance are shown in the Summary Compensation table above in the column titled "Non-Equity Incentive Plan Compensation".

(2) Amounts in these columns show the maximum number of shares that may vest pursuant to the LTIP awards made to the NEOs in 2014, as described in the Compensation Discussion and Analysis section above. The LTIP awards were as follows: Mr. Moodispaw: 25,000 shares of restricted stock and 75,000 non-qualified stock options; Mr. Calamia: 1,000 shares of restricted stock and 2,000 non-qualified stock options; Mr. Willard: 12,500 shares of restricted stock and 37,500 non-qualified stock options; Mr. Fedde: 12,500 shares of restricted stock and 37,500 non-qualified stock options; Ms. DeChello: 12,500 shares of restricted stock and 37,500 non-qualified stock options; Mr. Krobath: 12,500 shares of restricted stock and 37,500 non-qualified stock options. Each of the stock option awards was made at a strike price of $17.11. The restricted stock cliff vests in February 2017, and the options have performance-based vesting based on attainment of financial performance goals: 50% in February 2015, 25% in February 2016 and 25% in February 2017. If performance is not met prior to the first vesting, the options are canceled. The financial performance goals for the 2014 stock option grants were met and therefore the initial vesting occurred in February 2015 for all NEOs except Mr. Fedde whose stock option grant was canceled. Pursuant to Mr. Krobath's third amendment to his employment agreement with respect to his 2014 stock option grant, the performance criteria was removed, and 50% of such options vested in February 2015 and 25% will vest on the second anniversary of the grant date. The remaining 25% do not vest.

(3) Amounts reported in this column reflect the aggregate grant date fair value as calculated under FASB ASC Topic 718. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements and notes thereto, which are included elsewhere in this Form 10-K, for a description of the assumptions used in making these calculations.

(4) Mr. Krobath was not eligible to participate in the 2014 AIP.

TABLE OF CONTENTS

Outstanding Equity Awards at Fiscal Year End
The following table sets forth the equity awards outstanding as of the end of fiscal year 2014 held by each NEO.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)	Market Value of Shares of Stock That Have Not Vested ($) *	Equity Incentive Plan Awards: Number of Unearned Shares, That Have Not Vested (#)	Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) *
Len Moodispaw			75,000	17.11	2/6/2024 (1)	25,000 (10)	259,500		
	37,500	37,500		11.27	2/7/2023 (2)	25,000 (11)	259,500		
	33,750	11,250		10.00	2/7/2022 (3)	15,000 (12)	155,700		
	83,000	—		14.57	1/30/2021 (4)				
	75,000	—		5.50	10/15/2019 (5)				
Phil Calamia			2,000	17.11	2/6/2024 (1)	1,000 (10)	10,380		
						2,500 (13)	25,950		
Mark Willard			37,500	17.11	2/6/2024 (1)	12,500 (10)	129,750		
	18,750	18,750		11.27	2/7/2023 (2)	12,500 (11)	129,750		
	7,500	2,500		10.98	8/14/2022 (6)	20,000 (11)	207,600		
	16,875	5,625		7.41	2/7/2022 (3)	7,500 (12)	77,850		
	30,000	—		14.57	1/30/2021 (4)				
	25,000	—		5.50	10/15/2019 (5)				
Chris Fedde	12,500	12,500		13.35	4/30/2023 (7)	12,500 (10)	129,750		
						10,000 (14)	103,800		
Kim DeChello			37,500	17.11	2/6/2024 (1)	12,500 (10)	129,750		
	18,750	18,750		11.27	2/7/2023 (2)	12,500 (11)	129,750		
	16,875	5,625		7.41	2/7/2022 (3)	20,000 (11)	207,600		
	25,000	—		14.57	1/30/2021 (4)	7,500 (12)	77,850		

	25,000	—	5.50	10/15/2019 (5)		
John Krobath		28,125	17.11	2/6/2024 (8)	12,500 (10)	129,750
	—	18,750	11.27	2/7/2023 (2)	12,500 (11)	129,750
	—	5,625	7.41	2/7/2022 (3)	7,500 (12)	77,850
	4,000	—	5.50	7/15/2019 (9)		

* Market value for this purpose is determined based on the number of shares outstanding multiplied by our stock price of $10.38 on December 31, 2014, less any award price per share.

Vesting Schedule for Outstanding Stock Options and Unvested Restricted Stock

Note	Grant Date	Incremental Vesting Dates
(1)	02/7/14	50% on 2/7/15 based on performance achievements being met; 25% on 2/8/16 and 25% on 2/8/17
(2)	02/8/13	50% on 2/8/14 based on performance achievements being met; 25% on 2/8/15 and 25% on 2/8/16
(3)	02/8/12	50% on 2/8/13 based on performance achievements being met; 25% on 2/8/14 and 25% on 2/8/15
(4)	1/31/11	25% on 1/31/11; 25% annually for next 3 years
(5)	10/16/09	25% on 10/16/10; 25% annually for next 3 years
(6)	8/15/12	25% on 8/15/12; 25% annually for next 3 years
(7)	5/1/13	25% on 5/1/13; 25% annually for next 3 years

TABLE OF CONTENTS

(8) 02/7/14 50% on 2/7/15 and 25% on 2/8/16 of Original Option Award of 37,500 shares. Per third amendment to Mr. Krobath's employment agreement the performance criteria was removed from the award and only awards through 2/8/16 will vest
(9) 7/16/09 20% on 7/16/10; 20% annually for next 4 years
(10) 2/7/14 Full vesting on 2/7/17
(11) 2/8/13 Full vesting on 2/8/16
(12) 2/8/12 Full vesting on 2/8/15
(13) 12/31/13 Full vesting on 12/31/16
(14) 5/1/13 Full vesting on 5/1/16

Option Exercises and Stock Vested at Fiscal Year End

The following table shows the number of shares acquired by each of the NEOs during 2014 through stock option exercises and vesting of restricted stock awards.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($) (2)
Len Moodispaw	—	—	6,500	104,000
Phil Calamia	—	—	—	—
Mark Willard	—	—	4,000	64,000
Chris Fedde	—	—	—	—
Kim DeChello	—	—	3,300	52,800
John Krobath	99,520	1,820,221	4,000	64,000

(1) Market value for this purpose is determined based on the number of shares exercised multiplied by our stock price of $18.29 on March 26, 2014 (exercise date). Mr. Krobath exercised a total of 307,125 shares through a net issue exercise. Under the net issue 207,605 shares were used to pay option exercise prices and taxes due.

(2) Market value for this purpose is determined based on the number of shares vested multiplied by our stock price of $16.00 on January 31, 2014 (vesting date).

Employment Agreements

We entered into employment agreements on June 10, 2010 with the following NEOs: Mr. Moodispaw, Mr. Willard and Ms. DeChello. These agreements were amended on March 12, 2012 and June 12, 2012. The March 2012 amendments changed the guaranteed employment term which ran through August 2012 by extending the term date to February 28, 2014. An evergreen clause was added to allow automatic extensions for successive additional years unless the Company notifies the employee in writing that the employment period will not be extended. The amendments also state that applicable payments for change of control (discussed below) will be within sixty (60) days of the occurrence of the triggering event. The compensation committee determined it was in the Company's best interest to enter into these amendments in order to retain the current NEOs as well as establish the evergreen feature for future agreements to attract and retain senior management, since it is common market practice to include such a feature. The amended agreements give the Company flexibility by having shorter rolling term agreements that can be terminated annually versus the longer commitments with fixed terms. No termination of any NEO employment agreement was enacted prior to February 28, 2014, and therefore each of the NEO employment agreement's currently have a term extending to February 28, 2016 (subject to automatic extensions as described above).

The agreements also provide for the payment of certain amounts to the NEO upon a “change of control” that occurs within the guaranteed employment term. Under each employment agreement “change of control” is defined as the occurrence of any of (w) an acquisition after the date of the employment agreement by an individual or legal entity or “group” (as described in Rule 13d-5(b)(1) promulgated under the Exchange Act) of in excess of 50% of the voting securities of KEYW, (x) the dissolution or liquidation of KEYW or a merger, consolidation, or reorganization of KEYW with one or more other entities in which KEYW is not the surviving entity, unless the holders of KEYW's voting securities immediately prior to such transaction continue to hold at least 51% of such securities following such transaction, (y) the consolidation or sale of all or substantially all of the assets of KEYW in one or a series of related transactions, or (z) the completion by KEYW of an agreement to which KEYW is a party or by which it is bound, providing for any of the events set forth in the above clauses (w), (x) or (y).

Specifically, the agreements provide that upon a change of control, the following occurs:

1) CEO - The CEO is entitled to receive a cash payment in an amount equal to three (3) times (the total of the CEO's current base salary plus the greater of (the total cash bonuses paid during the last 24 months divided by two (2) or (current year's target annual incentive opportunity)). If employment is terminated within one (1) year following the change-in-control, the CEO will be entitled to receive compensation and severance benefits for the remainder of the guaranteed employment period or for twelve (12) months, whichever is greater. This qualifying termination is if the Company terminates the CEO without cause or termination is at-will by the CEO for “good reason” (as defined in the agreement). The CEO will continue to have health care, dental, disability or life insurance benefits for three years following the change-of-control. Further, subject to any overriding laws, the Company shall not be required to provide health care, dental, disability or life insurance benefits otherwise receivable by the CEO if the CEO is actually covered or becomes covered by an equivalent benefit (at the same or lesser cost to the CEO, if any) from another source. Any such benefit made available to the CEO shall be reported to the Company. Stock options will remain exercisable for a period of one (1) year following termination, and any outstanding equity awards shall vest immediately upon the change-of-control. The Company will provide a gross-up payment if payments exceed the IRS “safe harbor” limit by more than 10%. To the extent payments are less than or equal to 10% of the safe harbor, then payments are reduced to the safe harbor amount to avoid any excise tax liability.

2) NEOs, other than the CEO - The NEO is entitled to receive a cash payment in an amount equal to two (2) times the (total of the executive's current base salary plus the greater of (the total cash bonuses paid during the last 24 months divided by two (2) or (current year's target annual incentive opportunity)). If employment is terminated within one (1) year following the change-in-control, the executive will be entitled to receive compensation and severance benefits for the remainder of the guaranteed period or for twelve (12) months, whichever is greater. This qualifying termination is if the Company terminates the executive without cause or the termination at-will by the executive for “good reason” (as defined in the agreement). The executive will continue to have health care, dental, disability or life insurance benefits for three years following the change-of-control. Further, subject to any overriding laws, the Company shall not be required to provide health care, dental, disability or life insurance benefits otherwise receivable by the executive if the executive is actually covered or becomes covered by an equivalent benefit (at the same or lesser cost to the executive, if any) from another source. Any such benefit made available to the executive shall be reported to the Company. Stock options will remain exercisable for a period of one (1) year following termination, and any outstanding equity awards shall vest immediately upon the change-of-control. The Company will provide a gross-up payment if payments exceed the IRS “safe harbor” limit by more than 10%. To the extent payments are less than or equal to 10% of the safe harbor, then payments are reduced to the safe harbor amount to avoid any excise tax liability.

The right of NEOs under current employment agreements to receive payment upon a change of control is commonly referred to as a “single trigger” payment right (i.e., the NEO's employment does not have to be terminated following the change of control for the executive to receive the cash payment). The board of directors and compensation committee considered the inclusion of a single trigger payment mechanism upon a change of control as part of the full package of benefits contained in the NEOs employment agreements. The board of directors and compensation committee believed that it was important for KEYW, in attracting and retaining executive management that it provided certainty of employment and the opportunity to benefit from long-term appreciation in equity value during KEYW's initial growth. The single-trigger commitments were made to a few executives at or near KEYW's founding because they had recently experienced an acquisition, and will remain, but no new “single trigger” agreements will be made in the future. There has been considerable consolidation of companies within our industry and attracting high-level management can be difficult in that environment. Accordingly, as described above, the employment agreements provide some NEOs with a guaranteed employment term, currently through February 28, 2016. If KEYW is acquired in a change of control prior to February 28, 2016, the board of directors and compensation committee believe it is important these NEOs be compensated for the termination of their guaranteed employment term and for potentially foregoing the long-term appreciation in equity value that they might realize if the company were to continue operating independently until February 28, 2016. By providing that the executive is paid on a change of control regardless of whether the executive has been terminated or demoted or has otherwise experienced any diminution in compensation or duties, the board of directors believes that it is providing its NEOs with a reasonable and desirable level of financial security in the event that we experience a change-of-control prior to February 28, 2016.

We believe that the single trigger provision contained in these employment agreements is appropriate when the uniqueness of our structure is considered. The overall structure of our employment agreements, our executive ownership requirements and the relatively insignificant amount of the potential change in control payments to potential deal values make the single trigger appropriate.

Our NEO employment agreements allow for executives to terminate their employment at will, given certain notice period requirements. This requirement does not change with a change of control, nor does the employment agreement terminate in conjunction with a change in control payment. The payment is simply a term within the context of the larger agreement and the remaining terms of the agreement remain in effect. We have established, and the executives currently maintain, above average ownership requirements for our senior executives who have single trigger clauses in their contracts. This level of ownership aligns shareholder and executive interests with respect to transactions that could trigger the change in control clauses. The value of the change in control payments is less than the amount of individual equity the executives have in the company. Lastly, the amount of our single trigger change in control payments is not significant.

Each employment agreement also contains confidentiality and proprietary information protection provisions to the benefit of KEYW, and non-competition and non-solicitation covenants applicable to the NEO during his or her term of employment. For a one-year period following termination of the NEO's employment with KEYW non-solicitation covenants remain. Further, each employment agreement provides for reimbursement by KEYW of all reasonable, ordinary and necessary business, travel or entertainment expenses incurred by the NEO in the performance of his or her services to KEYW in accordance with KEYW's policies.

The June 2012 amended agreements added clawback provisions and changed the Internal Revenue Code Section 280G excise tax gross-up provision to a “Best Net” provision as summarized below:

Clawback Provision

The clawback provision provides that any performance based compensation paid or payable to the executive pursuant to his/her employment agreement or any other agreement or arrangement with the Company which is subject to recovery under any law, government regulation, order or stock exchange listing requirement, will be subject to deductions and clawback (recovery). If the financial statements of the Company are restated for any reason other than for accounting changes that require retrospective treatment or other external reasons not attributable to the Company and its compilation of the financial statements, any cash awards paid to the executives based on the financial statements will be recalculated based on the restated financial statements and the affected executives will have their compensation adjusted. If the compensation is reduced, the executive will be responsible for repaying the difference and if the compensation is increased, the Company will pay that additional compensation. In the case of equity awards, any shares issued in excess of the amounts calculated in the restatement will be returned to the Company if possible. If the shares have already been disposed of at the time of the restatement, the awardee will return the proceeds from the sale to the Company. If the shares have been gifted or otherwise transferred, then an equal number of shares will be returned to the Company.

The clawback period extends for three years from the date of award payment. Each applicable executive specifically authorized the Company to withhold from their future wages any amounts that may become due under the clawback provision. The clawback provision survives termination of each applicable employment agreement for a period of two years.

This clawback provision will be terminated in conjunction with any transaction in which a change of control is deemed to have occurred and KEYW as a publicly traded corporation no longer exists.

Best Net Provision

The "Best Net" provision provides that, in the event that it is determined that total payments following a change-of-control would be subject to the excise tax imposed by Section 280G and Section 4999 of the Code, then (i) if the total payments exceed the safe harbor threshold by less than 10%, the payments will be reduced to the safe harbor amount; or (ii) if the total payments exceed the safe harbor threshold by more than 10%, the executive shall be entitled to receive the “Best Net” for the aggregate severance payments and benefits. The executive will receive either the full amount of severance payments and benefits or an amount reduced to the extent necessary so that the executive incurs no excise tax, whichever results in the executive receiving the greater amount, taking into account applicable taxes, as well as the excise tax.

The agreements contain the following specific terms for each 2014 NEO set forth below:

Len Moodispaw. Mr. Moodispaw's employment agreement provides for his employment as President and Chief Executive Officer during the employment period. Under his employment agreement, Mr. Moodispaw is entitled to a base salary, which was increased by the Board to $500,011 in 2013. The board of directors, may from time to time alter his base salary. In addition, Mr. Moodispaw is entitled to certain benefits, including vacation, health insurance and other insurance benefits.

Mark Willard. Mr. Willard's employment agreement provides for his employment as Executive Vice President during the employment period. Under his employment agreement, Mr. Willard is entitled to a base salary, which was increased by the Board to $325,000 in 2013. The board of directors, may from time to time alter his base salary. In addition, Mr. Willard is entitled to certain benefits, including vacation, health insurance and other insurance benefits.

TABLE OF CONTENTS

Kim DeChello. Ms. DeChello's employment agreement provides for her employment as Executive Vice President, Secretary during the employment period. Under her employment agreement, Ms. DeChello is entitled to a base salary, which was increased by the Board to $250,016 in 2013. The board of directors, may from time to time alter her base salary. In addition, Ms. DeChello is entitled to certain benefits, including vacation, health insurance and other insurance benefits.

Other Employment Agreements

John Krobath. Mr. Krobath's employment agreement provided for his employment as Executive Vice President, Chief Financial Officer during the employment period. Under his employment agreement, Mr. Krobath was entitled to a base salary, which was increased by the board of directors to $280,010 in 2013. In addition, Mr. Krobath was entitled to certain benefits, including vacation, health insurance and other insurance benefits. On March 20, 2014, Mr. Krobath announced his departure to pursue other professional opportunities, effective as of April 25, 2014. In connection with his departure, the Company and Mr. Krobath entered into the Third Amendment. Pursuant to the Third Amendment, Mr. Krobath received compensation continuing through December 26, 2014 and a lump-sum payment of $330,000 on January 16, 2015. No success fee was awarded because Mr. Krobath did not achieve certain corporate milestones by August 1, 2014. In addition, all of Mr. Krobath’s outstanding equity awards that would have vested before February 28, 2016 will continue to vest on their original vesting schedule, and the performance criteria with respect to Mr. Krobath’s 2014 stock option awards made on February 7, 2014 was removed, and 50% of such options will vest on the first anniversary of the grant date, and 25% will vest on the second anniversary of the grant date. The remaining 25% will not vest.

Phil Calamia. In August 2014, Hexis Cyber Solutions, Inc., a wholly owned subsidiary of The KEYW Holding Corporation, entered into an employment agreement with Phil Calamia, Chief Financial Officer of the Company. The agreement provides, among other things: (a) an initial base salary of $280,010 and an annual fifty percent (50%) target bonus under the terms of the Company’s Annual Incentive Plan, both of which may be adjusted by the Board of Directors of the Company from time to time; (b) other benefits currently provided to Mr. Calamia, including but not limited to, vacation, health insurance and officers and directors liability insurance; and (c) upon termination of Mr. Calamia’s employment by the Company without Cause (as defined in the Agreement), payment of an amount equal to one year’s base salary plus the amount of certain unpaid and/or pro-rated bonuses and incentive plan payments, and reimbursement of health and dental insurance premiums for one year following such termination, and (d) upon termination of Mr. Calamia’s employment by the Company without Cause or by Mr. Calamia with Good Reason (as defined in the agreement) within one year of a Change of Control (as defined in the agreement), payment of an amount equal to one year’s base salary plus the amount of certain unpaid and/or pro-rated bonuses and incentive plan payments, and reimbursement of health and dental insurance premiums for three years following such termination.

The agreement also has a clawback provision which provides for adjustment and recovery of performance-based compensation, including equity awards, paid or payable to Mr. Calamia upon certain restatements of the Company’s financial statements.

The agreement contains employee non-solicitation restrictions that extend for a one year period following termination of Mr. Calamia’s employment, and customary confidentiality restrictions.

Potential Payments Upon Termination or Change of Control

The employment agreements for our NEOs, described above, have certain provisions that provide for payments to them (a) in the event of the termination of their respective employment without "cause" (as defined in the agreements) and (b) upon a "change of control" (as defined in the agreements).

Under each employment agreement “cause” is defined as (a) a good faith finding by KEYW that (i) the NEO has failed to perform his or her reasonably assigned duties and has failed to remedy such failure within 10 days following written notice from KEYW to the NEO notifying him or her of such failure, or (ii) the NEO has engaged in dishonesty, gross negligence or misconduct; (b) the conviction of the NEO of, or the entry of a pleading of guilty or nolo contendere by the NEO to, any crime involving any felony; (c) the NEO has breached fiduciary duties owed to KEYW or has materially breached the terms of his or her employment agreement or any other agreement between the NEO and KEYW; or (d) the failure of the NEO to maintain his or her security clearance if such clearance is necessary to perform the duties assigned to the NEO under his or her employment agreement.

Upon the occurrence of a "change of control", KEYW or its successor in interest shall pay to the NEO in immediately available funds a cash payment based on the terms of their respective employment agreements. In the event the NEO's employment is terminated solely by the Company without "cause", or due to the NEO's disability, the Company shall pay to the NEO the compensation and benefits otherwise payable to him through the last day of his actual employment by the Company or through the remainder of his employment period, whichever is greater. These payments are conditioned on execution of a waiver and release agreement and shall be paid within ten days after the release becomes effective and such revocation rights have lapsed.

TABLE OF CONTENTS

In addition, our 2008 and 2009 equity plans provide that, upon a change of control (as defined in our 2008 Plan and 2009 Plan), our board of directors may elect to cause all outstanding shares of restricted stock and all outstanding stock options awarded under the 2008 Plan and 2009 Plan to become immediately exercisable for a period of fifteen days prior to the scheduled consummation of the change of control. Under our 2013 Stock Incentive Plan, our board of directors may (i) elect to cause all outstanding shares of restricted stock and all outstanding stock options awarded under the 2013 Stock Incentive Plan to become immediately exercisable for a period of fifteen days prior to the scheduled consummation of the change of control or (ii) elect to cancel any outstanding awards and pay or deliver, or cause to be paid or delivered, an amount in cash or securities having a value equal to the product of the "Grant Shares" (as defined in the 2013 Plan) multiplied by the amount, if any, by which (I) the formula or fixed price per share paid to holders of shares of stock pursuant to such transaction exceeds (II) the option price applicable to such Grant Shares. See “Executive Compensation — Equity Incentive Plans” for a detailed description of the terms of our equity incentive plans.

The following table sets forth the Company’s estimated payment obligations under the NEO employment agreements that would arise in the event of (i) the termination of the NEO’s employment without cause or (ii) a change of control of KEYW. The estimated payments assume that the relevant termination or change of control occurred as of December 31, 2014, using the price of our common stock as of December 31, 2014, which was $10.38 per share.

	TERMINATION WITHOUT CAUSE			CHANGE-OF-CONTROL			
	Severance Pay ($)(1)	Welfare Benefits Continuation ($)(1)	Total ($)	Cash Payment ($)(2)	Accelerated Vesting of Stock Options ($)(3)(4)	Accelerated Vesting of Restricted Stock ($)(3)(4)	Total ($)
Len Moodispaw	570,376	17,195	587,571	2,625,057	4,275	674,700	3,304,032
Mark Willard	375,074	16,849	391,923	1,015,000	16,706	544,950	1,576,656
Kim DeChello	287,123	6,916	294,039	768,782	16,706	544,950	1,330,438

(1) See “Executive Compensation — Employment Agreements” above for a description of the severance payment and benefits continuation that would be payable to the NEO upon termination without cause.

(2) See “Executive Compensation — Employment Agreements” above for a description of the calculation of the cash payment owed to an NEO upon a change of control.

(3) Assumes full vesting of stock options and restricted stock awards in connection with a change of control. See “Executive Compensation — Equity Incentive Plans” below for a description of the potential acceleration of stock options and restricted stock awards in connection with a change of control.

(4) Calculated based on our common stock share price of $10.38 as of December 31, 2014.

The following table sets forth the Company’s estimated payment obligations under Mr. Calamia's employment agreement that would arise in the event of (i) the termination of his employment without cause or (ii) a change of control of KEYW. The estimated payments assume that the relevant termination or change of control occurred as of December 31, 2014, using the price of our common stock as of December 31, 2014, which was $10.38 per share.

	TERMINATION WITHOUT CAUSE			CHANGE-OF-CONTROL				
	Severance Pay ($)(1)	Welfare Benefits Continuation ($)(1)	Total ($)	Cash Payment ($)(2)	Welfare Benefits Continuation ($)(1)	Accelerated Vesting of Stock Options ($)(3)(4)	Accelerated Vesting of Restricted Stock ($)(3)(4)	Total ($)
Phil Calamia	291,049	981	292,030	396,510	2,945	—	36,330	435,785

(1) See “Executive Compensation — Employment Agreements” above for a description of the severance payment and benefits continuation that would be payable to Mr. Calamia upon termination without cause.

(2) See “Executive Compensation — Employment Agreements” above for a description of the calculation of the cash payment owed to Mr. Calamia upon a change of control, if terminated within one year.

TABLE OF CONTENTS

(3) Assumes full vesting of stock options and restricted stock awards in connection with a change of control. See "Executive Compensation — Equity Incentive Plans" below for a description of the potential acceleration of stock options and restricted stock awards in connection with a change of control.
(4) Calculated based on our common stock share price of $10.38 as of December 31, 2014.

Equity Incentive Plans

2008 Stock Incentive Plan

Overview. The KEYW Corporation 2008 Stock Incentive Plan (which we refer to as our 2008 Stock Incentive Plan, or 2008 Plan) was adopted by our wholly-owned subsidiary, The KEYW Corporation, on July 31, 2008 (inception). Pursuant to a corporate restructuring, we assumed the 2008 Plan and the awards thereunder from The KEYW Corporation, in December 2009. The purpose of the 2008 Plan is to enhance our ability to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate such persons to serve KEYW and to expend maximum effort to improve the business results and earnings of KEYW, by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of KEYW. Under the 2008 Plan, 1,000,000 shares of our common stock were reserved for issuance as potential awards under the plan. As of December 31, 2014, options to purchase 378,150 shares of our common stock were outstanding under the 2008 Plan and 322,500 shares of restricted stock were outstanding under the 2008 Plan.

In general, options and restricted shares awarded under the 2008 Plan are subject to vesting over a five-year period beginning on the grant date, except for grants of stock options in an amount less than 1,000 shares. These awards vest over a three-year period.

As of December 31, 2014, outstanding options under the 2008 Plan had a weighted average exercise price of $5.39 per share, and had expiration dates ranging from October 2, 2018 to December 29, 2019. In connection with the adoption of our 2009 Plan (described below), we ceased making awards under the 2008 Plan, and no additional shares are reserved for new grants under the 2008 Plan. The 2008 Plan remains in effect, however, with respect to awards outstanding under the plan.

Effective Date and Term. The 2008 Plan was effective as of the date of approval by our board of directors, or July 31, 2008 (inception), and will expire at the close of a ten-year term unless earlier terminated by our board of directors.

Administration, Amendment and Termination. Our board of directors has the power and authority to administer the 2008 Plan. As permitted by the terms of the 2008 Plan, our board of directors had delegated this power and authority to our compensation committee. The compensation committee has the authority to interpret the terms and intent of the 2008 Plan and make all determinations necessary or advisable for the administration of the 2008 Plan.

The compensation committee may amend, suspend or terminate the 2008 Plan at any time with respect to any shares of common stock as to which awards have not been made. No such action may amend the 2008 Plan without the approval of stockholders if the amendment is required to be submitted for stockholder approval by applicable law, rule or regulation.

Award Types. The 2008 Plan provides for the grant of incentive stock options, non-qualified stock options and restricted stock. An "incentive stock option" is an option that meets the requirements of Section 422 of the Internal Revenue Code, and a "non-qualified stock option" is an option that does not meet those requirements. "Restricted stock" is an award of common stock on which restrictions are imposed over specified periods that subject the shares to a substantial risk of forfeiture, as defined in Section 83 of the Internal Revenue Code. No incentive stock options were issued under the 2008 Plan.

Shares Issued under the 2008 Plan. Shares issued under the 2008 Plan may be authorized as unissued shares or treasury shares. Any shares covered by an award, or portion of an award, granted under the 2008 Plan that are forfeited or canceled, expire or are settled in cash will be deemed not to have been issued for purposes of determining the maximum number of shares available for issuance under the 2008 Plan.

If any stock option is exercised by tendering shares to us, or if we withhold shares to satisfy tax withholding obligations in connection with such an exercise, as full or partial payment in connection with the exercise of a stock option under the 2008 Plan, only the number of shares issued net of the shares tendered will be deemed issued for purposes of determining the maximum number of shares available for issuance under the 2008 Plan.

Terms and Conditions of Option Awards. An option granted under the 2008 Plan is exercisable only to the extent that it is vested. No option may be exercisable more than ten years from the option grant date.
The exercise price per share for each option granted under the 2008 Plan may not be less than 100%, or 110% in the case of an incentive stock option granted to a 10% stockholder, of the fair market value of the common stock on the option grant date. Prior to the cessation of awards under the 2008 Plan, fair market value was determined in good faith by our board of directors in a manner consistent with Section 409A of the Internal Revenue Code. Except upon the occurrence of a merger or other transaction

described below, no amendment or modification may be made to an outstanding option which reduces the exercise price, either by lowering the exercise price or by canceling the outstanding option and granting a replacement option with a lower exercise price.

Payment of the exercise price for shares purchased pursuant to the exercise of an option may be made in cash or in cash equivalents acceptable to us or, to the extent permitted by law, in any other form that is consistent with applicable laws, regulations and rules, including NASDAQ rules.

The non-qualified stock options awarded under the 2008 Plan are generally non-transferable, except for transfers by will or the laws of descent and distribution. The compensation committee may, in its discretion, determine that an award of non-qualified stock options also may be transferred to family members by gift or other transfers deemed not to be for value.

Terms and Conditions of Restricted Stock Awards. Subject to the provisions of the 2008 Plan, our board of directors determined the terms and conditions of each award of restricted stock, including the restricted period for all or a portion of the award, the restrictions applicable to the award and the purchase price, if any, for the common stock subject to the award. Holders of shares of restricted stock have the right during the restricted period to exercise full voting rights with respect to those shares and the right to receive any dividends declared or paid with respect to the shares.

The shares of restricted stock awarded under the 2008 Plan are generally nontransferable during the restricted period or before satisfaction of any other restrictions applicable to the awards.

Adjustment of Shares Subject to 2008 Plan. In the event of any increase or decrease in the number of outstanding shares of our common stock, or in the event such shares are changed into or exchanged for a different number or kind of shares or other securities of ours on account of any recapitalization, reclassification, stock split, reverse split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, the compensation committee will adjust, among other award terms, the number and kind of shares or property that may be delivered in connection with awards and the exercise price, grant price or purchase price relating to any award in such manner as the compensation committee determines to be necessary to prevent dilution or enlargement of the rights of participants.

Effect of Certain Corporate Transactions. Certain corporate transactions involving us, such as a sale or other change-of-control of KEYW, may cause awards granted under the 2008 Plan to vest, unless the awards are continued or substituted for by the surviving company in connection with the corporate transaction. Upon such a transaction the compensation committee may also elect to cancel outstanding awards in exchange for cash or securities equal in value to the shares subject to the award, less, in the case of stock options, the aggregate exercise price.

2009 Stock Incentive Plan

Overview. The KEYW Holding Corporation 2009 Stock Incentive Plan (which we refer to as our 2009 Stock Incentive Plan, or the 2009 Plan), was adopted on December 29, 2009. As with our 2008 Plan, the purpose of the 2009 Plan is to enhance our ability to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate such persons to serve KEYW and to expend maximum effort to improve the business results and earnings of KEYW, by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of KEYW. The 2009 Plan provides for the grant of stock options (in the form of either incentive stock options or non-qualified stock options), restricted stock, and restricted stock units (RSUs). Awards may be made under the 2009 Plan to any employee, officer, or director of KEYW or, except for incentive stock options, to any consultant or adviser currently providing services to KEYW. Under the 2009 Plan, 12,000,000 shares of our common stock were reserved for issuance under the plan; provided, however, that awards will not be granted in excess of 12% of our total issued and outstanding common stock at any given time. Of the total shares reserved under the plan, as of December 31, 2014, non-qualified stock options for 1,655,331 shares of our common stock were outstanding and 435,550 shares of restricted stock were outstanding under the 2009 Plan. No RSUs or incentive stock options have been issued under the 2009 Plan. As of December 31, 2014, outstanding options under the 2009 Plan had a weighted average exercise price of $10.99 per share and had expiration dates ranging from December 29, 2019 to December 30, 2022. In connection with the adoption of our 2013 Plan (described below), we ceased making awards under the 2009 Plan, and no additional shares are reserved for new grants under the 2009 Plan. The 2009 Plan remains in effect, however, with respect to awards outstanding under the plan.

In general, options and restricted shares awarded under the 2009 Plan are subject to vesting over a three-year period. However, our compensation committee, which administers the 2009 Plan, has discretion to determine other vesting terms of equity awards at the time of grant.

Effective Date and Term. The 2009 Plan was effective as of the date of approval by our board of directors, or December 29, 2009, and will expire at the close of a ten-year term unless earlier terminated by our board of directors.

TABLE OF CONTENTS

Administration, Amendment and Termination. Our board of directors has the power and authority to administer the 2009 Plan. As permitted by the terms of the 2009 Plan, our board of directors had delegated this power and authority to our compensation committee. The compensation committee has the authority to interpret the terms and intent of the 2009 Plan, determine eligibility and terms of awards for participants and make all other determinations necessary or advisable for the administration of the 2009 Plan.

The compensation committee may amend, suspend or terminate the 2009 Plan at any time with respect to any shares of our common stock as to which awards have not been made. No such action may amend the 2009 Plan without the approval of stockholders if the amendment is required to be submitted for stockholder approval by applicable law, rule or regulation, including NASDAQ rules.

Award Types. As noted above, the 2009 Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock and restricted stock units. “Restricted stock units,” or “RSUs,” are awards that represent a conditional right to receive shares of common stock in the future and that may be made subject to the same types of restrictions and risk of forfeiture as restricted stock.

Shares Issued Under The 2009 Plan. Shares issued under the 2009 Plan may be authorized as unissued shares or treasury shares. Any shares covered by an award, or portion of an award, granted under the 2009 Plan that are forfeited or canceled, expire or are settled in cash will be deemed not to have been issued for purposes of determining the maximum number of shares available for issuance under the 2009 Plan.

If any stock option is exercised by tendering shares to us, or if we withhold shares to satisfy tax withholding obligations in connection with such an exercise, as full or partial payment in connection with the exercise of a stock option under the 2009 Plan, only the number of shares issued net of the shares tendered will be deemed issued for purposes of determining the maximum number of shares available for issuance under the 2009 Plan.

Terms and Conditions of Option Awards. An option granted under the 2009 Plan will be exercisable only to the extent that it is vested. No option may be exercisable more than ten years from the option grant date. The compensation committee may include in the option agreement the period during which an option may be exercised following termination of employment or service.

The exercise price per share for each option granted under the 2009 Plan could not be less than 100%, or 110% in the case of an incentive stock option granted to a 10% stockholder, of the fair market value of the common stock on the option grant date. Prior to our IPO, fair market value was determined in good faith by our board of directors or compensation committee in a manner consistent with Section 409A of the Internal Revenue Code. After the offering, for so long as the common stock is listed on the NASDAQ, the fair market value of the common stock was the closing price of the common stock as reported on the NASDAQ on the option grant date.

Except upon the occurrence of a merger or other transaction described below, no amendment or modification may be made to an outstanding option which reduces the exercise price, either by lowering the exercise price or by canceling the outstanding option and granting a replacement option with a lower exercise price.

Payment of the exercise price for shares purchased pursuant to the exercise of an option may be made in cash or in cash equivalents acceptable to us or, to the extent permitted by law, in any other form that is consistent with applicable laws, regulations and rules, including NASDAQ rules.

Each option will become vested and exercisable at such times and under such conditions as the compensation committee may approve consistent with the terms of the 2009 Plan.

In the case of incentive stock options, the aggregate fair market value of the common stock determined on the option grant date with respect to which such options are exercisable for the first time during any calendar year may not exceed $100,000.

Incentive stock options are non-transferable during the optionee’s lifetime. Awards of non-qualified stock options are generally non-transferable, except for transfers by will or the laws of descent and distribution. The compensation committee may, in its discretion, determine that an award of non-qualified stock options also may be transferred to family members by gift or other transfers deemed not to be for value.

The compensation committee may impose restrictions on any shares of common stock acquired pursuant to the exercise of an option as it deems advisable, including minimum holding period requirements or restrictions under

applicable federal securities laws, under the requirements of any stock exchange or market upon which the shares of common stock are then listed or traded, or under any blue sky or state securities laws applicable to the shares of common stock.
A non-solicitation, non-interference clause was added to the form of stock option agreement in June 2012.

TABLE OF CONTENTS

Terms and Conditions of Restricted Stock and Restricted Stock Units. Subject to the provisions of the 2009 Plan, the compensation committee will recommend and the board of directors will determine the terms and conditions of each award of restricted stock and RSUs, including the restricted period for all or a portion of the award, the restrictions applicable to the award and the purchase price, if any, for the common stock subject to the award. Unless otherwise recommended by the compensation committee, to the extent permitted or required by law as determined by the board of directors, holders of shares of restricted stock will have the right during the restricted period to exercise full voting rights with respect to those shares and the right to receive any dividends declared or paid with respect to the shares. Holders of RSUs will not have the right during the restricted period to exercise any voting rights with respect to our common stock or to receive any dividends declared or paid with respect to our common stock.

The restrictions and the restricted period may differ with respect to each participant. An award will be subject to forfeiture if events specified by the compensation committee occur before the lapse of the restrictions.

Awards of restricted stock and RSUs are generally nontransferable during the restricted period or before satisfaction of any other restrictions applicable to the awards.

A non-solicitation, non-interference clause was added to the form of restricted stock agreement in June 2012.

Adjustment of Shares Subject to 2009 Plan. In the event of any increase or decrease in the number of outstanding shares of our stock, or in the event such shares are changed into or exchanged for a different number or kind of shares or other securities of ours on account of any recapitalization, reclassification, stock split, reverse split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, the compensation committee will adjust, among other award terms, the number and kind of shares or property that may be delivered in connection with awards and the exercise price, grant price or purchase price relating to any award in such manner as the compensation committee determines to be necessary to prevent dilution or enlargement of the rights of participants.

Effect of Certain Corporate Transactions. Certain corporate transactions involving us, such as a sale of KEYW or change of control, may cause awards granted under the 2009 Plan to vest, unless the awards are continued or substituted for by the surviving company in connection with the corporate transaction. Upon such a transaction the compensation committee may also elect to cancel outstanding awards in exchange for cash or securities equal in value to the shares subject to the award, less, in the case of stock options, the aggregate exercise price.

2013 Stock Incentive Plan

The principal terms of the 2013 Stock Incentive Plan (which we refer to as our 2013 Stock Incentive Plan, or the 2013 Plan) are summarized below. The following summary is qualified in its entirety by the full text of the 2013 Plan. The 2013 Plan became effective on January 1, 2013 and replaced the 2009 Plan. Under the 2013 Plan, 2,000,000 shares of our common stock are reserved for issuance under the plan. Of the total shares reserved under the plan, as of December 31, 2014, non-qualified stock options for 915,393 shares of our common stock were outstanding and 517,386 shares of restricted stock were outstanding under the 2013 Plan. No RSUs or incentive stock options have been issued under the 2013 Plan. As of December 31, 2014, outstanding options under the 2013 Plan had a weighted average exercise price of $15.11 per share and had expiration dates ranging from January 31, 2023 to June 30, 2024.

Purpose

The 2013 Plan is intended to enhance the Company's ability to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate such persons to serve the Company and to expend maximum effort to improve the business results and earnings of the Company, by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the 2013 Plan provides for the grant of stock options, restricted stock, restricted stock units, SARs and performance shares. Stock options granted under the 2013 Plan may be nonqualified stock options or incentive stock options.

Administration

The Board has such powers and authorities related to the administration of the 2013 Plan as are consistent with the Company's certificate of incorporation and bylaws and applicable law.

The Board, from time to time, may delegate to one or more Committees or the CEO such powers and authorities related to the administration and implementation of the 2013 Plan, as the Board may determine.

TABLE OF CONTENTS

Subject to the other terms and conditions of the 2013 Plan, the Board has full and final authority to:

(i) designate grantees;
(ii) determine the type or types of awards to be made to a grantee;
(iii) determine the number of shares of stock to be subject to an award;
(iv) establish the terms and conditions of each award (including, but not limited to, the option price of any option, the nature and duration of any restriction or condition (or provision for lapse thereof) relating to the vesting, exercise, transfer, or forfeiture of an award or the shares of stock subject thereto, and any terms or conditions that may be necessary to qualify options as incentive stock options);
(v) prescribe the form of each award Agreement evidencing an award; and
(vi) amend, modify, or supplement the terms of any outstanding award.

Deferral Arrangements
The Board may permit or require the deferral of any award payment into a deferred compensation arrangement, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest or dividend equivalents, including converting such credits into deferred stock equivalents. Any such deferrals will be made in a manner that complies with Code Section 409A.

Stock Subject to the 2013 Plan
The number of shares of stock currently available for issuance under the 2013 Plan is 2,000,000 (two million). All shares of stock issuable under the 2013 Plan may be issued as common stock.

The 2013 Plan imposes individual limitations on the amount of awards, to comply with Code Section 162(m). Under these limitations, in any fiscal year of the Company during any part of which the 2013 Plan is in effect, no participant may be granted an award of more than 200,000 shares.

Adjustments in Authorized Shares
The Board has the right to substitute or assume awards in connection with mergers, reorganizations, separations, or other transactions to which Section 424(a) of the Code applies. The number of shares of stock reserved pursuant to the Plan will be increased by the corresponding number of Awards assumed and, in the case of a substitution, by the net increase in the number of shares of Stock subject to awards before and after the substitution.

Effective Data and Term
The 2013 Plan became effective as of January 1, 2013, was approved by the Company's board of directors on May 2, 2012 and was approved by the Company's stockholders on August 15, 2012.

The 2013 Plan will terminate automatically on December 31, 2022 (10 years from the effective date) and may be terminated on any earlier date as provided in the 2013 Plan.

Eligibility
Awards may be made under the 2013 Plan to any employee, officer or director of, or other service provider providing services to, the Company or any affiliate thereof.

Award Agreements
Each award pursuant to the 2013 Plan will be evidenced by an award agreement, in such form or forms as the Board will from time to time determine, which specifies the number of shares subject to the award. A non-solicitation, non-interference clause is included in all award agreements.

Options
The option price of each option will be fixed by the Board and stated in the award agreement evidencing such option. The option price will not be less than the fair market value on the grant date of a share of stock; provided, however, that in the event that a grantee is a beneficial holder of more than ten percent of our common stock, the option price of an incentive stock option granted to such grantee will be not less than one hundred ten percent (110%) of the fair market value of a share of common stock on the grant date.

Subject to the terms of the Plan, each option granted under the 2013 Plan will become exercisable at such times and under such conditions as will be determined by the Board and stated in the award agreement.

TABLE OF CONTENTS

The Board may provide, for example, in the award agreement for (i) accelerated exercisability of the option in the event the grantee's service terminates on account of death, disability (as defined in the 2013 Plan) or another event, (ii) expiration of the option prior to its term in the event of the termination of the grantee's service to the Company, (iii) immediate forfeiture of the option in the event the grantee's service is terminated for "Cause" (as defined in the Plan) or (iv) unvested options to be exercised subject to the Company's right of repurchase with respect to unvested shares of stock.

Generally, each option granted under the 2013 Plan will terminate, and all rights to purchase shares of stock thereunder will cease, upon the expiration of ten (10) years from the grant date, or under such circumstances and on such date prior thereto as is set forth in the 2013 Plan or as may be fixed by the Board and stated in the award agreement relating to such option.

Restricted Stock and Stock Units

The Board may from time to time grant restricted stock or stock units to persons eligible to receive awards under the 2013 Plan, subject to such restrictions, conditions and other terms as the Board may determine.

At the time an award of restricted stock or stock units is made, the Board will establish a restriction period applicable to such restricted stock or stock units.

Each award of restricted stock or stock units may be subject to a different restriction period. The Board may, in its sole discretion, at the time an award of restricted stock or stock units is made, prescribe conditions that must be satisfied prior to the expiration of the restriction period, including the satisfaction of corporate or individual performance objectives or continued service, in order that all or any portion of the restricted stock or stock units will vest.

The Board also may, in its sole discretion, shorten or terminate the restriction period or waive any of the conditions applicable to all or a portion of the restricted stock or stock units.

Holders of restricted stock will have the right to vote such stock and, unless the Board otherwise provides in an award agreement, to receive any dividends declared or paid with respect to such stock. In the case of unearned performance awards (shares/units), dividend payouts/dividend equivalents are prohibited.

Holders of stock units will have no rights as stockholders of the Company. The Board may provide in an award agreement evidencing a grant of stock units that the holder of such stock units will be entitled to receive, upon the Company's payment of a cash dividend on its outstanding stock, a cash payment for each stock unit held equal to the per-share dividend paid on the stock.

Unless otherwise provided by the Board in the applicable award agreement, upon the termination of a grantee's service with the Company or an affiliate thereof, any shares of restricted stock or stock units held by such grantee that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, will immediately be deemed forfeited.

Withholding Taxes

The Company will have the right to deduct from payments of any kind otherwise due to a grantee any federal, state, or local taxes of any kind required by law to be withheld with respect to the vesting of or other lapse of restrictions applicable to an award or upon the issuance of any shares of stock or payment of any kind upon the exercise of an option. Subject to the prior approval of the Company the grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company to withhold shares of stock otherwise issuable to the grantee or (ii) by delivering to the Company shares of stock already owned by the grantee. The shares of stock so delivered or withheld will have an aggregate fair market value equal to such withholding obligations.

Change of Control

Subject to certain exceptions upon the occurrence of a change of control either of the following two actions will be taken:

(i) fifteen days prior to the scheduled consummation of a change of control, all shares of restricted stock and stock units will become immediately vested and all options outstanding hereunder will become immediately exercisable unless otherwise specified in any executed executive agreements and will remain exercisable for a period of fifteen days, or

(ii) the Board may elect, in its sole discretion, to cancel any outstanding awards and pay or deliver, or cause to be paid or delivered, to the holder thereof an amount in cash or securities having a value (as determined by the Board acting in good faith) equal to the product of the number of shares of stock subject to the award multiplied by the amount, if any, by which (I) the formula or fixed price per share paid to holders of shares of stock pursuant to such transaction exceeds (II) the option price applicable to such grant shares.

TABLE OF CONTENTS

With respect to the Company's establishment of an exercise window, (i) any exercise of an option during such period will be conditioned upon the consummation of the event and will be effective only immediately before the consummation of the event, and (ii) upon consummation of any change of control, the 2013 Plan and all outstanding but unexercised options will terminate.

These above terms will not apply to any change of control to the extent that provision is made in writing in connection with such change of control for the assumption or continuation of the options, stock units or shares of restricted stock theretofore granted, or for the substitution for such awards for new common stock options, stock units or new shares of restricted stock relating to the stock of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number of shares (disregarding any consideration that is not common stock) and option prices, in which event the awards theretofore granted will continue in the manner and under the terms so provided. In the event a grantee's award is assumed, continued or substituted upon the consummation of any change of control and their employment is terminated without cause within one year following the consummation of such change of control, the grantee's award will be fully vested and may be exercised in full, to the extent applicable, for the period set forth in the grantee's award agreement or for such longer period as the 2013 Plan committee may determine.

New Plan Benefits

Future benefits under the 2013 Plan generally will be granted at the discretion of the Board and are therefore not currently determinable.

Non-Plan Awards

Grants Made Outside of the 2008, 2009 and 2013 Plans. On October 16, 2009, Mr. Krobath was awarded options to purchase 195,000 shares of common stock outside of the 2008 Plan pursuant to a Non-Qualified Stock Option Agreement. Mr. Krobath exercised such options by cashless exercise in March 2014. The options, vested ratably on an annual basis over three years with the first vesting on October 16, 2010 and had a per share exercise price of $5.50. In addition, on December 2, 2009, our original five NEOs received restricted stock awards pursuant to Restricted Stock Agreements with each grantee, such awards totaling 27,500 restricted shares. These shares of restricted stock cliff vested on December 2, 2012. On July 31, 2008, our original five NEOs received restricted stock awards pursuant to Restricted Stock Agreements with each grantee, such awards totaling 374,900 restricted shares. These shares vest 20% on grant date and then the next four anniversaries of the grant date. In 2012 and 2013, no options or restricted stock were issued as Non-Plan awards.

Federal Income Tax Consequences

Incentive Stock Options. The grant of an option will not be a taxable event for the grantee or for us. A grantee will not recognize taxable income upon exercise of an incentive stock option (except that the alternative minimum tax may apply), and any gain realized upon a disposition of our common stock received pursuant to the exercise of an incentive stock option will be taxed as long-term capital gain if the grantee holds the shares of common stock for at least two years after the date of grant and for one year after the date of exercise (the “holding period requirement”). We will not be entitled to any business expense deduction with respect to the exercise of an incentive stock option, except as discussed below.

For the exercise of an option to qualify for the foregoing tax treatment, the grantee generally must be our employee or an employee of our subsidiary from the date the option is granted through a date within three months before the date of exercise of the option. If all of the foregoing requirements are met except the holding period requirement mentioned above, the grantee will recognize ordinary income upon the disposition of the common stock in an amount generally equal to the excess of the fair market value of the common stock at the time the option was exercised over the option exercise price (but not in excess of the gain realized on the sale). The balance of the realized gain, if any, will be capital gain. We will be allowed a business expense deduction to the extent the grantee recognizes ordinary income.

Non-Qualified Options. The grant of an option will not be a taxable event for the grantee or for us. Upon exercising a non-qualified option, a grantee will recognize ordinary income in an amount equal to the difference between the exercise price and the fair market value of the common stock on the date of exercise. Upon a subsequent sale or exchange of shares acquired pursuant to the exercise of a non-qualified option, the grantee will have taxable capital gain or loss, measured by the difference between the amount realized on the disposition and the tax basis of the shares of common stock (generally, the amount paid for the shares plus the amount treated as ordinary income at the time the option was exercised). We will generally be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

Restricted Stock. A grantee who is awarded restricted stock will not recognize any taxable income for federal income tax purposes in the year of the award, provided that the shares of common stock are subject to restrictions (that is, the restricted stock is nontransferable and subject to a substantial risk of forfeiture). However, the grantee may elect under Section 83(b) of the Internal Revenue Code to recognize compensation income in the year of the award in an amount equal to the fair market value of the common stock on the date of the award (less the purchase price, if any), determined without regard to the restrictions. If the grantee does not make such a Section 83(b) election, the fair market value of the common stock on the date the restrictions lapse (less the

TABLE OF CONTENTS

purchase price, if any) will be treated as compensation income to the grantee and will be taxable in the year the restrictions lapse and dividends paid while the common stock is subject to restrictions will be subject to withholding taxes. We will generally be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

Restricted Stock Units. There are no immediate tax consequences of receiving an award of restricted stock units under the 2009 Plan or stock units under our 2013 Plan. A grantee who is awarded such stock units will be required to recognize ordinary income in an amount equal to the fair market value of shares issued to such grantee at the end of the restriction period or, if later, the payment date. We will generally be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

Director Compensation

Directors who are full-time employees of KEYW receive no additional compensation for their service as directors. With respect to non-employee directors, our philosophy is to provide competitive compensation necessary to attract and retain outstanding people to our board of directors. The compensation committee reviews annually the form and amount of director compensation, and as part of its review of the compensation policies of KEYW, has sought input from Grant Thornton and Aon Hewitt as to director compensation practices of similarly-situated companies.

In 2011, the board of directors and the compensation committee approved the following non-employee director cash compensation levels, which continued to apply to director compensation paid in 2014:

- Annual retainer of $30,000 for board service;
- Audit committee chairperson retainer of $10,000;
- Compensation committee chairperson retainer of $5,000; and
- Nominating and corporate governance committee chairperson retainer of $5,000.

The table below summarizes the compensation paid by KEYW to non-employee directors for the fiscal year ended December 31, 2014.

Director Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) [2]	Option Awards ($) [2]	Total ($)
Deborah Bonanni	30,000	51,330	56,365	137,695
Bill Campbell	30,000	51,330	56,365	137,695
Pierre Chao	30,000	51,330	56,365	137,695
John Hannon	— [1]	51,330	56,365	107,695
Ken Minihan	30,000	51,330	56,365	137,695
Art Money	35,000	51,330	56,365	142,695
Caroline Pisano	40,000	51,330	56,365	147,695

[1] Mr. Hannon declined receiving board fees.

[2] Amounts reported in this column reflect the aggregate grant date fair value as calculated under FASB ASC Topic 718. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements and notes thereto which are included elsewhere in this Form 10-K for a description of the assumptions used in making these calculations. Each director was awarded 3,000 shares of restricted stock and 9,000 shares of stock options (granted 2/7/2014).

TABLE OF CONTENTS

The non-employee directors held the following numbers of stock options and unvested restricted stock as of December 31, 2014.

Director Name	Stock Options Outstanding	Unvested Restricted Stock Awards
Deborah Bonanni	31,500	5,500
Bill Campbell	40,500	8,500
Pierre Chao	40,500	8,500
John Hannon	9,000	3,000
Ken Minihan	50,500	8,500
Art Money	50,500	8,500
Caroline Pisano	18,000	6,000

Compensation Committee Interlocks and Insider Participation

No person who served as a member of the compensation committee during the last completed fiscal year: (a) was, during the fiscal year, an officer or employee of the Company; (b) was formerly an officer of the Company; or (c) had any relationships requiring disclosure under Item 404 of Regulation S-K.

During the last completed fiscal year: (a) no executive officer of the Company served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on the compensation committee of the Company; (b) no executive officer of the Company served as a director of another entity, one of whose executive officers served on the compensation committee of the Company; and (c) no executive officer of the Company served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as a director of the Company.

TABLE OF CONTENTS

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners and Management

The following table and accompanying notes set forth as of February 23, 2015, information with respect to the beneficial ownership of the Company’s Common Stock, $0.001 par value per share by (i) each person or group who beneficially owns more than 5% of the Common Stock, (ii) each of the directors of the Company, (iii) each of the officers of the Company named in the Summary Compensation Table, and (iv) all directors and executive officers of the Company as a group. Unless otherwise indicated by footnote, the nature of all beneficial ownership is direct.

Name and Address of Beneficial Owner*	Amount and Nature of Beneficial Ownership	Percent of Class(1)	
5% Owners			
Baron Capital Group, Inc. and related parties (2)	1,964,882	5.2	%
BlackRock, Inc. (3)	2,392,153	6.4	%
Capital Research Global Investors (4)	3,586,400	9.5	%
FMR, LLC (5)	5,635,031	15.0	%
Franklin Resources, Inc. and related parties (6)	3,697,373	9.8	%
The Hannon Family LLC and related parties (7)	2,250,000	5.9	%
Oak Ridge Investments, LLC (8)	2,297,106	6.1	%
Zazove Associates, LLC and related parties (9)	2,696,372	6.7	%
Executive Officers and Directors			
Len Moodispaw (10)	1,206,000	3.1	%
Phil Calamia (11)	4,500	**	
Mark Willard (12)	289,609	**	
Chris Fedde (13)	37,000	**	
Kim DeChello (14)	298,929	**	
Deborah Bonanni (15)	21,250	**	
Bill Campbell (16)	62,012	**	
Pierre Chao (17)	39,125	**	
John Hannon (18)	623,751	1.6	%
Ken Minihan (19)	55,125	**	
Art Money (20)	59,868	**	
Caroline Pisano (21)	1,287,480	3.5	%
All Directors and Executive Officers as a Group (12 persons) (22)	3,984,649	10.2	%

* The address of all directors and executive officers is c/o The KEYW Holding Corporation, 7740 Milestone Parkway, Suite 400, Hanover, MD 21076.

** Less than 1%.

(1) The percentages are calculated on the basis of 37,580,249 shares outstanding as of February 23, 2015 plus, for each person listed, securities deemed outstanding pursuant to Rule 13d-3(d)(1) under the Exchange Act. All restricted stock regardless of vesting status is included since these shares have voting rights.

(2) Based solely on a Schedule 13G/A filed with the SEC on February 14, 2015 by Baron Capital Group, Inc., BAMCO, Inc., Baron Small Cap Fund and Ronald Baron. Principal Business Office address is 767 Fifth Avenue, 49th Floor, New York, NY 10153. The report states that each of Baron Capital Group, BAMCO and Ronald Baron have shared voting and dispositive power over all 1,964,882 shares, and that Baron Small Cap Fund has shared voting and dispositive power over 1,881,863 shares.

(3)

Based solely on a Schedule 13G/A filed with the SEC on January 12, 2015 by BlackRock, Inc. on behalf of BlackRock and certain of its subsidiaries. Principal Business Office address is 55 East 52nd Street, New York, NY 10022. The report states that BlackRock has sole voting power over 2,296,417 shares and sole dispositive power over 2,392,153 shares.

(4) Based solely on a Schedule 13G/A filed with the SEC on February 10, 2015 by Capital Research Global Investors. Principal Business Office address is 333 South Hope Street, Los Angeles, CA 90071.

TABLE OF CONTENTS

(5) Based solely on a Schedule 13G/A filed with the SEC on February 13, 2015 by FMR, LLC on behalf of itself, Edward C. Johnson, 3rd, Abigail P. Johnson and Fidelity Mid-Cap Stock Fund. Principal Business Office address is 245 Summer Street, Boston MD 02210. The report states that FMR has sole voting power over 54,740 shares and each of FMR, Mr. Johnson and Ms. Johnson (by virtue of his and her control over FMR and affiliated entities) has sole dispositive power over all 5,635,031 shares. Fidelity Mid-Cap Stock Fund as sole voting power over 3,652,436 shares.

(6) Based solely on a Schedule 13G filed with the SEC on February 13, 2015 by Franklin Resources, Inc., Charles B. Johnson, Rupert H. Johnson, Jr. and Franklin Advisers, Inc. Principal Business Office address is One Franklin Parkway, San Mateo, CA 94403-1906. The report states that Franklin Advisers, Inc. has sole voting power over 3,243,096 shares and sole dispositive power over 3,410,596 shares.

(7) Based solely on a Schedule 13G/A filed with the SEC on February 12, 2015, by The Hannon Family LLC, Glenn A. Hannon, Natalie R. Hannon Kizer and Nichole Potee. Principal Business Office address is 4416 East West Highway, Bethesda, MD 20814. The report states that The Hannon Family LLC has sole voting and dispositive power over all 2,250,000 shares. Glenn Hannon has sole voting and dispositive power over 96,127 shares and shared voting and dispositive power over 2,250,000 shares. Natalie R. Hannon Kizer has sole voting and dispositive power over 72,015 shares and shared voting and dispositive power over 2,250,000 shares. Nichole Potee has sole voting and dispositive power over 39,199 shares and shared voting and dispositive power over 2,250,000 shares.

(8) Based solely on a Schedule 13G filed with the SEC on January 12, 2015 by Oak Ridge Investments, LLC. Principal Business Office address is 10 South LaSalle Street, Suite 1900, Chicago, IL 60603. Oak Ridge Investments, LLC disclaims beneficial ownership of the shares reflected in this Schedule 13G except to the extent of its pecuniary interest therein, if any. The report states that Oak Ridge has sole voting power over 2,225,249 shares and sole dispositive power over 2,297,106 shares.

(9) Based on a Schedule 13G filed with the SEC on January 22, 2015 by Zazove Associates, LLC, Zazove Associates, Inc. and Gene T. Pretti. Principal Business Office address is 1001 Tahoe Boulevard, Incline Village, NV 89451. Of the shares shown as beneficially owned, 2,696,372 shares are issuable upon the conversion of the Issuer's 2.5% Convertible Notes Due 7/15/2019.

(10) Of the shares shown as beneficially owned, 366,901 are owned directly by Mr. Moodispaw, 30,000 are held jointly with his spouse, 50,000 are unvested restricted stock, 145,000 represent presently exercisable rights to acquire common stock through warrants, and 296,750 represent presently exercisable rights to acquire common stock through stock options. Shares deemed to be beneficially owned by Mr. Moodispaw include 317,349 shares of common stock held by The Leonard E. Moodispaw 2013 Grantor Retained Annuity Trust . Mr. Moodispaw has voting and dispositive power over the shares beneficially owned by the trust. Mr. Moodispaw disclaims beneficial ownership of the shares held by the trust except to the extent of his pecuniary interest therein.

(11) Of the shares shown as beneficially owned by Mr. Calamia, 3,500 are unvested restricted stock and 1,000 represent presently exercisable rights to acquire common stock through stock options.

(12) Of the shares shown as beneficially owned, 112,734 are owned directly by Mr. Willard, 45,000 are unvested restricted stock, and 131,875 represent presently exercisable rights to acquire common stock through stock options.

(13) Of the shares shown as beneficially owned, 2,000 are owned directly by Mr. Fedde, 22,500 are unvested restricted stock, and 12,500 represent presently exercisable rights to acquire common stock through stock options.

(14) Of the shares shown as beneficially owned, 134,554 are owned directly by Ms. DeChello, 45,000 are unvested restricted stock, and 119,375 represent presently exercisable rights to acquire common stock through stock options.

(15) Of the shares shown as beneficially owned by Ms. Bonanni, 5,500 are unvested restricted stock, and 15,750 represent presently exercisable rights to acquire common stock through stock options.

(16) Of the shares shown as beneficially owned, 20,387 are owned directly by Mr. Campbell, 8,500 are unvested restricted stock, 13,125 represent presently exercisable rights to acquire common stock through stock options and

20,000 represent presently exercisable rights to acquire common stock through stock options under his consulting firm Sanoch Management LLC.

(17) Of the shares shown as beneficially owned, 2,500 are owned directly by Mr. Chao, 8,500 are unvested restricted stock and 28,125 represent presently exercisable rights to acquire common stock through stock options.

(18) Of the shares shown as beneficially owned, 35,330 are owned directly by Mr. Hannon, 3,000 are unvested restricted stock and 4,500 represent presently exercisable rights to acquire common stock through stock options. Shares deemed to be beneficially owned by Mr. Hannon include 260,111 shares of common stock owned by The John G. Hannon Revocable Trust U/A DTD 03/09/04 and presently exercisable rights to acquire 272,728 shares of common stock through warrants held by such trust. Mr. Hannon has voting and dispositive power over the shares owned by the above entities. Mr. Hannon disclaims beneficial ownership of the shares except to the extent of his pecuniary interest therein. Also deemed as beneficially owned by Mr. Hannon include 36,082 shares of common stock owned by a daughter who resides in his household and presently exercisable rights to acquire 12,000 shares of common stock through warrants, Mr. Hannon disclaims beneficial ownership of these securities.

(19) Of the shares shown as beneficially owned 3,500 are owned directly by Mr. Minihan, 8,500 are unvested restricted stock, and 43,125 represent presently exercisable rights to acquire common stock through stock options.

(20) Of the shares shown as beneficially owned 6,662 are owned directly by Mr. Money, 8,500 are unvested restricted stock, 1,581 represent presently exercisable rights to acquire common stock through warrants, and 43,125 represent presently exercisable rights to acquire common stock through stock options.

(21) Shares deemed to be beneficially owned by Caroline S. Pisano include: (i) shares held by Ms. Pisano herself, who beneficially owns 841,820 shares of common stock, 6,000 are unvested restricted stock, 11,250 represent presently exercisable rights to acquire common stock through stock options, and presently exercisable rights to acquire 20,000 shares of common stock through warrants; (ii) presently exercisable rights to purchase 403,410 shares of common stock through warrants held by The Caroline S. Pisano 2009 Irrevocable Trust and (iii) 5,000 shares owned by her mother who resides in her household. Ms. Pisano has voting and dispositive power over the shares beneficially owned by the trust. Ms. Pisano disclaims beneficial ownership of the shares held by the trust except to the extent of her pecuniary interest therein and disclaims beneficial ownership of the securities held by her mother.

(22) Of the shares shown as beneficially owned, 740,500 represent presently exercisable rights to acquire Common Stock through stock options and 854,719 represent presently exercisable rights to acquire common stock through warrants.

Change in Control

There are no arrangements, known to the Company, including any pledge by any person of securities of the Company, where the operation of which may at a subsequent date result in a change in control of the Company.

Equity Compensation Plan Information

See Item 5 "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in this Annual Report.

TABLE OF CONTENTS

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

Set forth below is a summary of any transactions occurring since December 31, 2013, or currently proposed transaction, that involve us and one or more of our (i) directors, (ii) executive officers, or (iii) beneficial owners of more than 5% of our common stock outstanding (a “5% stockholder”) (or any of the foregoing person's affiliates or associates) (which we refer to collectively as “related persons”), in each case, in which the amount involved in the transaction exceeds or will exceed $120,000.

Gwen Pal, who is our Vice President and Chief Compliance Officer, is the daughter of Len Moodispaw, our Chief Executive Officer and a member of our board of directors. In 2014, Ms. Pal's total compensation was approximately $146,930. This amount includes her base salary, bonus pay, gain on restricted stock vesting, insurance premiums and KEYW matching contributions under our 401(k).

Andrew Fedde, who is the Hexis, Director of Finance and Administration, is the son of Chris Fedde, Executive Vice President and President of Hexis. In 2014, Mr. Andrew Fedde's total compensation was approximately $124,135. This amount includes his base salary, insurance premiums and KEYW matching contributions under our 401(k).

Review, Approval or Ratification of Transactions with Related Persons

We have adopted a related person transactions policy pursuant to which our executive officers, directors and principal stockholders, including their immediate family members, are not permitted to enter into a related person transaction with us without the consent of our audit committee, another independent committee of our board of directors or the full board. Any request for us to enter into a transaction with an executive officer, director, principal stockholder or any of such persons' immediate family members, in which the amount involved exceeds $120,000 will be required to be presented to our audit committee for review, consideration and approval. All of our directors, executive officers and employees will be required to report to our audit committee any such related person transaction. In approving or rejecting the proposed agreement, our audit committee will take into account, among other factors it deems appropriate, whether the proposed related person transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, the extent of the person's interest in the transaction and, if applicable, the impact on a director's independence. Under the policy, if we should discover related person transactions that have not been approved, the audit committee will be notified and will determine the appropriate action, including ratification, rescission or amendment of the transaction. A copy of our related person transactions policy is available on our website at www.keywcorp.com.

Director Independence

Under the NASDAQ Marketplace Rules, a majority of our board of directors must be comprised of independent directors, and each member of our audit, compensation and nominating and corporate governance committees must be an independent director, as defined under the NASDAQ Marketplace Rules. Under the NASDAQ Marketplace Rules, a director will not qualify as an “independent director” if, in the opinion of the company's board of directors, the director has any relationship which would interfere with the exercise of the director's independent judgment in carrying out his or her responsibilities as a director. In addition, under the NASDAQ Marketplace Rules, an independent director may not be an executive officer or employee of the company and must satisfy certain other requirements under the NASDAQ Marketplace Rules.

In addition, each member of our audit committee must satisfy the independence criteria set forth in Rule 10A-3 under the Exchange Act. In order to be considered independent for purposes of Rule 10A-3, a member of the audit committee may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: (1) accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the company or any of its subsidiaries; or (2) be an affiliated person of the company or any of its subsidiaries.

Our board of directors has undertaken a review of the independence of each director under the NASDAQ Marketplace Rules and under applicable securities laws and rules. As a result of this review, our board of directors affirmatively determined that Mr. Campbell, Mr. Chao, Mr. Hannon, Mr. Minihan, Mr. Money, Ms. Bonanni and Ms. Pisano, representing a majority of our eight directors, are "independent directors" as defined under the NASDAQ Marketplace Rules and that each member of our audit committee satisfies the independence requirements of Rule 10A-3 of the Exchange Act.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The Company uses Grant Thornton LLP as its principal accountant. The following table shows the fees that were billed to the Corporation by Grant Thornton LLP for professional services rendered for the fiscal years ended December 31, 2014 and 2013.

TABLE OF CONTENTS

Fee Category	2014	2013
(In thousands)		
Audit Fees	$515	$570
Audit-Related Fees	67	40
Tax Fees	—	13
All Other Fees	42	62
Total Fees	$624	$685

Audit Fees

This category includes fees for the audit of the Company's annual financial statements and review of financial statements included in the quarterly reports on Form 10-Q.

Audit-Related Fees

This category includes fees for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not included above under "Audit Fees". These services include services in connection with acquisitions and stock offerings, including comfort letters to underwriters.

Tax Fees

This category includes fees for the research and development tax credit study.

All Other Fees

This category includes fees for products and services provided by Grant Thornton LLP that are not included in the services reported above and out-of-pocket expenses consisting primarily of travel expenses.

Pre-Approval of Services

The audit committee pre-approves all services, including both audit and non-audit services, provided by the Company's independent accountants. For audit services, each year the independent auditor provides the committee with an engagement letter outlining the scope of the audit services proposed to be performed during the year, which must be formally accepted by the committee before the audit commences. The independent auditor also submits an audit services fee proposal, which also must be approved by the committee before the audit commences.

TABLE OF CONTENTS

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Consolidated Financial Statements

(2) Financial Statement Schedules — All financial statement schedules required by Item 8 and Item 15 of Form 10-K have been omitted because the information requested is not required, not applicable, or is shown in the Consolidated Financial Statements or Notes thereto.

(3) Exhibits — See Exhibit Index, which is incorporated in this item by reference.

(b) Exhibits — See Exhibit Index, which is incorporated in this item by reference.

(c) Financial Statement Schedules — Included in Item 15(a)(2) above.

TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
The KEYW Holding Corporation

We have audited the internal control over financial reporting of The KEYW Holding Corporation (a Maryland corporation) and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2014, and our report dated March 9, 2015, expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Baltimore, Maryland
March 9, 2015

TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Board of Directors and Shareholders
The KEYW Holding Corporation
We have audited the accompanying consolidated balance sheets of The KEYW Holding Corporation (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The KEYW Holding Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2015, expressed an unqualified opinion.

/s/GRANT THORNTON LLP

Baltimore, Maryland
March 9, 2015

TABLE OF CONTENTS

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$39,601	$2,480
Receivables	56,961	52,698
Inventories, net	14,861	11,305
Prepaid expenses	3,139	2,009
Income tax receivable	3,951	4,133
Deferred tax assets, current	2,878	1,133
Total current assets	121,391	73,758
Property and equipment, net	29,341	26,826
Goodwill	295,984	295,984
Other intangibles, net	21,109	29,343
Other assets	5,208	3,038
TOTAL ASSETS	$473,033	$428,949
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolver	$—	$22,000
Accounts payable	10,266	8,004
Accrued expenses	7,009	5,628
Accrued salaries & wages	11,648	11,948
Term note – current portion	—	7,000
Deferred revenue	4,488	2,745
Deferred income taxes		
Total current liabilities	33,411	57,325
Long-term liabilities:		
Convertible senior notes, net of discount	124,338	—
Term note – non-current portion	—	56,000
Non-current deferred tax liabilities	4,294	8,095
Other non-current liabilities	6,619	7,292
TOTAL LIABILITIES	168,662	128,712
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, 37,601,474 and 36,925,730 shares issued and outstanding	38	37
Additional paid-in capital	319,554	302,557
Accumulated deficit	(15,221)	(2,357)
Total stockholders' equity	304,371	300,237
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$473,033	$428,949

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

TABLE OF CONTENTS

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Revenues			
Government Solutions	$279,250	$288,909	$240,245
Commercial Cyber Solutions	11,280	9,823	3,275
Total	290,530	298,732	243,520
Costs of Revenues, excluding amortization			
Government Solutions	192,908	197,380	159,180
Commercial Cyber Solutions	2,493	1,840	547
Total	195,401	199,220	159,727
Gross Profit			
Government Solutions	86,342	91,529	81,065
Commercial Cyber Solutions	8,787	7,983	2,728
Total	95,129	99,512	83,793
Operating Expenses			
Operating expenses	95,155	84,701	59,189
Intangible amortization expense	12,162	24,658	21,411
Total	107,317	109,359	80,600
Operating (Loss) Income	(12,188)	(9,847)	3,193
Non-Operating Expense, net	8,804	9,792	2,264
(Loss) Income before Income Taxes	(20,992)	(19,639)	929
Income Tax Benefit, net	(8,128)	(9,005)	(86)
Net (Loss) Income	$(12,864)	$(10,634)	$1,015
Weighted Average Common Shares Outstanding			
Basic	37,442,680	36,618,919	28,239,945
Diluted	37,442,680	36,618,919	31,152,924
(Loss) Earnings per Share			
Basic	$(0.34)	$(0.29)	$0.04
Diluted	$(0.34)	$(0.29)	$0.03

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

TABLE OF CONTENTS

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKOLDERS' EQUITY
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital (APIC)	(Accumulated Deficit) Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
BALANCE, JANUARY 1, 2012	25,770,795	$26	$173,371	$7,262	$180,659
Net income	—	—	—	1,015	1,015
Warrant exercise, net	74,669	—	90	—	90
Option exercise	81,674	—	648	—	648
Stock issued in secondary offering, net of expenses	8,510,000	8	94,443	—	94,451
Restricted stock issuances	314,700	—	1,021	—	1,021
Restricted stock forfeitures	(44,400)	—	(82)	—	(82)
Equity issued as part of acquisitions	1,824,295	2	24,087	—	24,089
Stock based compensation	—	—	2,085	—	2,085
Stock repurchase	(396,191)	$—	$(2,948)	$—	$(2,948)
BALANCE, DECEMBER 31, 2012	36,135,542	$36	$292,715	$8,277	$301,028
Net loss	—	—	—	(10,634)	(10,634)
Warrant exercise, net	204,610	—	43	—	43
Option exercise	224,973	—	2,041	—	2,041
Restricted stock issuances	258,250	1	2,816	—	2,817
Restricted stock forfeitures	(55,300)	—	(296)	—	(296)
Equity issued as part of acquisitions	157,655	—	2,027	—	2,027
Stock based compensation	—	—	3,211	—	3,211
BALANCE, DECEMBER 31, 2013	36,925,730	$37	$302,557	$(2,357)	$300,237
Net loss	—	—	—	(12,864)	(12,864)
Warrant exercise, net	31,097	—	132	—	132
Option exercise, net	293,795	1	1,500	—	1,501
Restricted stock issuances	279,123	—	3,312	—	3,312
Restricted stock forfeitures	(24,137)	—	(164)	—	(164)
Equity issued as part of an acquisition, net	95,866	—	1,016	—	1,016
Stock based compensation	—	—	3,273	—	3,273
Conversion feature of convertible debt, net of expenses	—	—	26,331	—	26,331
Purchase of capped calls	—	—	(18,403)	—	(18,403)
BALANCE, DECEMBER 31, 2014	37,601,474	$38	$319,554	$(15,221)	$304,371

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

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Net (loss) income	$(12,864)	$(10,634)	$1,015
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Stock compensation	6,421	5,731	3,024
Depreciation/amortization	19,357	30,667	25,780
Amortization of discount of convertible debt	2,209	—	—
Write-off of deferred financing costs	1,976	—	—
Loss on disposal of equipment	—	20	87
Non-cash impact of TI earn-out reduction	—	(146)	—
Windfall tax benefit from option exercise	(1,189)	(219)	(140)
Deferred taxes	(5,545)	(7,191)	(1,864)
Changes in balance sheet items:			
Receivables	(4,263)	7,587	(8,546)
Inventory	(3,492)	(1,989)	(1,313)
Prepaid expenses	(583)	(114)	910
Income tax receivable	1,556	(4,037)	(69)
Accounts payable	2,262	184	(298)
Accrued expenses	1,905	(4,262)	(2,429)
Other balance sheet changes	714	(477)	(2,128)
Net cash provided by operating activities	8,464	15,120	14,029
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(2,940)	(6,751)	(131,392)
Purchase of property and equipment	(8,197)	(6,236)	(9,174)
Capitalized software development costs	(1,489)	(2,716)	(1,547)
Proceeds from sale of equipment	—	28	—
Net cash used in investing activities	(12,626)	(15,675)	(142,113)
Cash flows from financing activities:			
Proceeds from issuance of convertible debt	149,500	—	—
Purchase of capped calls	(18,403)	—	—
Issuance cost of convertible senior notes and revolving credit facility	(6,446)	—	—
Proceeds from stock issuances	—	—	94,451
Proceeds from term note	—	—	70,000
Proceeds from revolver	46,000	60,000	51,500
Repayment of debt	(131,000)	(64,688)	(81,312)
Repurchase of stock	—	—	(2,948)
Windfall tax benefit from option exercise	1,189	219	140
Proceeds from option and warrant exercises, net	443	1,865	598
Net cash provided by (used in) financing activities	41,283	(2,604)	132,429
Net increase (decrease) in cash and cash equivalents	37,121	(3,159)	4,345
Cash and cash equivalents at beginning of period	2,480	5,639	1,294
Cash and cash equivalents at end of period	$39,601	$2,480	$5,639
Supplemental disclosure of cash flow information:			

Cash paid for interest	$1,734	$3,555	$2,059
Cash paid for taxes	$84	$2,646	$5,797
Equity issued for acquisitions	$1,016	$2,027	$24,089
Non-cash fixed asset additions	$—	$—	$7,950

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.
F-6

TABLE OF CONTENTS

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Corporate Organization
The KEYW Holding Corporation (“Holdco”, "KEYW" or the "Company") was incorporated in Maryland in December 2009. Holdco is a holding company and conducts its operations through The KEYW Corporation (“Opco”), Hexis Cyber Solutions ("Hexis"), and their 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 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"). 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, and the Company has established VSOE of fair value for maintenance and 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. We manufacture at quantity levels that are projected to be sold in the six month period following production. As of December 31, 2014 and 2013, we had inventory reserve balances of $0.2 million and $0 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. For the years ended December 31, 2014, 2013 and 2012 there were no credits to the valuation allowance.

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 terms of the underlying leases or the estimated useful lives of the assets.

Lease Incentives

As part of entering into certain building leases, the lessors have provided the Company with tenant improvement allowances. Typically, such allowances are in the form of cash and 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 December 31, 2014 and 2013, we had capitalized $5.8 million and $4.3 million of software development costs, respectively. The capitalized software development costs are amortized using the greater of straight-line method or as a percentage of revenue recognized from the sale of the capitalized software. For the year ended December 31, 2014, the Company had capitalized software development costs amortization of $0.8 million. No amortization had been recognized related to these capitalized software costs as of December 31, 2013.

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 are 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. As of and subsequent to the measurement date of October 1, 2014, the Company has operated 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 years 2014, 2013 and 2012 and found no impairment to the carrying value of goodwill.

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, during the years ended December 31, 2014 and 2013 exceeded 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 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.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The balance sheet includes various financial instruments consisting of cash and cash equivalents, accounts receivable, and accounts payable. The fair values of these instruments approximate the carrying values due to the short maturity of these instruments. The 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

F-9

costs consist primarily of payroll, materials, subcontractor and an allocation of overhead costs related to product development. Research and development costs totaled $18.6 million, $7.5 million and $5.4 million for years ended December 31, 2014, 2013 and 2012, respectively.

Income Taxes

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

For a tax position that meets the more-likely-than-not recognition threshold, the Company initially and subsequently measures the tax liability or benefit as the largest amount that it judges to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax obligations or benefits and subsequent adjustments as considered appropriate by management. The Company's policy is to record interest and penalties as an increase in the liability for uncertain tax obligations or benefits and a corresponding increase to the income tax provision. No material adjustments were recorded as of December 31, 2014, 2013, or 2012.

Earnings per Share

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

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

	December 31, 2014	December 31, 2013	December 31, 2012
Net (loss) income	$(12,864)	$(10,634)	$1,015
Weighted average shares – basic	37,443	36,619	28,240
Effect of dilutive potential common shares	—	—	2,913
Weighted average shares – diluted	37,443	36,619	31,153
Net (loss) income per share – basic	$(0.34)	$(0.29)	$0.04
Net (loss) income per share – diluted	$(0.34)	$(0.29)	$0.03
Anti-dilutive share-based awards, excluded	7,251	7,415	796
Outstanding options and warrants, total	7,251	7,415	7,825

Employee equity share options, restricted shares, and warrants granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options and in-the-money warrants 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 years ended December 31, 2014 and 2013, 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 year ended December 31, 2014, approximately 10.1 million shares related 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 year ended December 31, 2014 and the Company had a net loss for the year ended December 31, 2014.

Share-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 in conjunction with the corporate reorganization. The Company applies the fair value method that requires all share-based payments to employees and non-employee directors, including grants of employee stock options, 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 individually vesting piece of a grant. Our typical grant vests 25% at issuance and 25% per year over the next three years. We expense the initial 25% vesting at issuance, all of the first year vesting in the first twelve months, the third vesting would be expensed over twenty-four months and the fourth tranche would be expensed over thirty-six months. The calculated expense is required to be based upon awards that ultimately vest and we have accordingly reduced the expense by estimated forfeitures.

The following assumptions were used for option grants during the years ended December 31, 2014, 2013, and 2012.

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.

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. Through the fourth quarter of 2013, the Company operated in two segments. These segments were Services and Integrated Solutions (ISP).

Management evaluated the Company’s segment disclosure during the fourth quarter of 2013, as a result of the increasing importance and focus on our commercial software group and the changing mix of our government contracting business. We reviewed the internal reports used by our chief operating decision makers, the methodology under which we are allocating capital and measuring performance, the growing financial impact of our commercial software group and the macro environment under which the Company operates. Based on that evaluation, we changed our segments from the previously identified Services and ISP to Government Solutions and Commercial Cyber Solutions. The Commercial Cyber Solutions group had been part of ISP beginning with the fourth quarter 2012 acquisition of Sensage, as prior to that time we had no commercial software operations.

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, 2016, and early adoption is not 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 acquisitions completed since January 1, 2013 are outlined below:

IDEAL

On January 31, 2013 the Company acquired IDEAL Technology Corporation ("IDEAL") for $7.0 million in cash and 157,655 shares of KEYW stock valued at $12.69 per share for a total purchase price of $9.1 million. IDEAL is not considered material to the financial results of KEYW.

2014 Acquisitions

During 2014, the Company acquired the assets of NetClarity, Inc. ("NetClarity") and certain assets of Architecture Technology Corporation ("ATC") in two separate asset 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 material to the financial results of KEYW.

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

	IDEAL	NetClarity/ATC
Cash	$301	$—
Current assets, net of cash acquired	894	63
Fixed assets	70	24
Intangibles	2,056	3,928
Goodwill	6,623	—
Total Assets Acquired	9,944	4,015
Current liabilities	865	59
Total Liabilities Assumed	865	59
Net Assets Acquired	$9,079	$3,956
Net Cash Paid	$6,751	$2,890
Equity Issued	2,027	1,066
Actual Cash Paid	$7,052	$2,890

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

Pro forma income statements are not presented for 2014 and 2013 as there have been no material acquisitions during the twelve months ended December 31, 2014 or 2013.

TABLE OF CONTENTS

Revision of Prior Period Financial Statements

During the quarter ended December 31, 2014, the Company identified and corrected an error related to the acquisition accounting of an acquisition in 2012. The unbilled receivables, related to the acquisition were understated, which led to a corresponding overstatement of goodwill. As a result, at December 31, 2013 unbilled accounts receivable was increased and goodwill was reduced by $1.5 million, respectively.

The Company evaluated this error and determined that the impact was not material to its financial position, and had no impact on the results of operations or cash flows of previously issued financial statements. The financial information for all prior periods presented has retrospectively been revised to reflect this correction.

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 December 31, 2014 and 2013, 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.

4. ACCOUNTS RECEIVABLES

Accounts receivable consist of the following:

	(In thousands)	
Accounts Receivable	December 31, 2014	December 31, 2013
Billed AR	$35,294	$35,757
Unbilled AR	21,667	16,941
Total AR	$56,961	$52,698

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 December 31, 2014 and December 31, 2013, 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.

TABLE OF CONTENTS

5. INVENTORIES

Inventories at December 31, 2014 and 2013, 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 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 December 31, 2014 and 2013, we had reserved $0.2 million and $0 respectively, for certain inventory items where the market has not developed as expected.

Inventory Reserve (In Thousands)	
Balance - January 1, 2013	$963
Additions	—
Write-offs	(963)
Balance - December 31, 2013	$—
Additions	628
Write-offs	(457)
Balance - December 31, 2014	$171

6. PREPAID EXPENSES

Prepaids at December 31, 2014 and 2013, primarily consist of prepaid insurance, deferred financing costs and software licenses.

7. PROPERTY AND EQUIPMENT

Property and equipment are as follows:

	(In thousands)	
Property and Equipment	December 31, 2014	December 31, 2013
Aircraft	$10,490	$9,163
Leasehold	15,618	13,753
Manufacturing Equipment	4,402	4,064
Software Development Costs	5,752	4,263
Office Equipment	13,219	8,528
Total	$49,481	$39,771
Accumulated Depreciation	(20,140)	(12,945)
Property and Equipment, net	$29,341	$26,826

Depreciation expense charged to operations was $7.2 million, $6.0 million, and $4.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

TABLE OF CONTENTS

8. AMORTIZATION OF INTANGIBLE ASSETS
The following tables summarize the components of gross and net intangible asset balances for the acquisitions noted below. Intangible assets that have been fully amortized as of the respective tables balance dates have not been included below.

	December 31, 2014 (In thousands)			
Acquisition	Intangible	Gross Book Value	Accumulated Amortization	Net Book Value
Everest	Contracts	4,690	3,830	860
FASI	Contracts	2,775	2,544	231
Poole	Contract rights	20,914	9,412	11,502
Sensage	Intellectual Property	4,567	3,425	1,142
Sensage	Customer Relationships	3,682	1,657	2,025
Rsignia	Intellectual Property	5,001	3,473	1,528
Dilijent	Intellectual Property	1,000	694	306
IDEAL	Intellectual Property	2,056	1,970	86
NetClarity	Intellectual Property	692	135	557
NetClarity	Customer Relationships	876	102	774
ATC	Intellectual Property	$2,360	$262	$2,098
		$48,613	$27,504	$21,109

	December 31, 2013 (In thousands)			
Acquisition	Intangible	Gross Book Value	Accumulated Amortization	Net Book Value
S&H	Contracts – Fixed Price Level of Effort	$1,606	$1,403	$203
ESD	Contracts	1,207	1,073	134
Everest	Contracts	4,690	2,892	1,798
JKA	Contracts	2,680	2,456	224
FASI	Contracts	2,775	1,849	926
Poole	Contract rights	20,914	5,229	15,685
Sensage	Intellectual Property	4,567	1,903	2,664
Sensage	Customer Relationships	3,682	921	2,761
Rsignia	Intellectual Property	5,001	1,806	3,195
Dilijent	Intellectual Property	1,000	361	639
IDEAL	Contracts	2,056	942	1,114
		$50,178	$20,835	$29,343

Estimated future intangible amortization expense by year as of December 31, 2014, (In thousands):

2015	2016	2017	2018	2019
$10,264	$6,112	$4,485	$175	$73

The Company recorded amortization expense of $12.2 million, $24.7 million, and $21.4 million for the years ended December 31, 2014, 2013, and 2012, respectively. As of December 31, 2014, the remaining weighted-average amortization period for acquired intangible assets is 2.4 years.

TABLE OF CONTENTS

9. DEBT
2.5% Convertible Senior Notes
In July 2014, the Company 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 stock 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 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.

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 the 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 December 31, 2014, the outstanding principal of the Notes was $149.5 million, the unamortized debt discount was $25.2 million, and the carrying amount of the liability component was $124.3 million, which was recorded as long-term debt within the Company’s condensed consolidated balance sheet. As of December 31, 2014, the fair value of the liability component relating to the Notes, based on a market approach, was approximately $126.0 million and represents a Level 2 valuation.

During the twelve months ended December 31, 2014, the Company recognized $4.3 million of interest expense relating to the Notes, which included $2.2 million for noncash interest expense relating to the debt discount and $0.4 million relating to amortization of deferred financing costs. The Company is estimated to incur $1.1 million, $1.1 million, $1.1 million, $1.1 million and $0.5 million in future amortization of deferred financing costs for the subsequent years ending December 31, 2015 - 2019 respectively.

TABLE OF CONTENTS

Capped Call

During 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 2014.

2014 Revolving Credit Facility

In July 2014, the Company, as a guarantor, entered into a senior credit agreement, (the “2014 Credit Agreement”), by and among itself, the KEYW Corporation, as the borrower (the “Borrower”), the domestic direct and indirect subsidiary guarantors of KEYW (the “Subsidiary Guarantors”)) 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 2014 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.

The Company is required to comply with certain financial covenants contained in the 2014 Credit Agreement. As of December 31, 2014, the Company was in compliance with all covenants under the 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 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.

2012 Credit Facility

In the fourth quarter of 2012, the Company entered into a 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 entering into 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 $4.5 million, $3.5 million and $1.0 million during 2014, 2013 and 2012, respectively. The Company recognized $0.4 million, $0.6 million and $0.2 million in amortization expense relating to deferred financing costs for the twelve months ended December 31, 2014, 2013 and 2012, 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.

2011 Credit Facility

In February 2011, the Company entered into a $50 million credit facility that included an accordion feature allowing for an additional $25 million in borrowing. The credit facility was a three year agreement multi-bank facility with Bank of America as lead bank. In conjunction with the FLD acquisition, the Company increased the credit facility to $65 million and reloaded the accordion to $25 million. On September 28, 2012 the Company terminated, satisfied, and discharged all of its obligations under the Bank of America credit facility. Interest expense recognized related to this agreement was approximately $1.3 million for the year ended December 31, 2012.

10. SHARE-BASED COMPENSATION

At December 31, 2014, KEYW had stock-based compensation awards outstanding under the following plans: The 2008 Stock Incentive Plan (2008 Plan), The 2009 Stock Incentive Plan (2009 Plan) and The 2013 Stock Incentive Plan (2013 Plan).

TABLE OF CONTENTS

On August 15, 2012, the shareholders approved the 2013 Plan. The 2013 Plan, which took effect on January 1, 2013, replaced the 2009 Plan and provides for the issuance of restricted stock, stock options, and restricted stock units with a maximum of 2,000,000 shares available for issuance.

On December 29, 2009, the Company, in conjunction with the corporate reorganization, adopted the 2009 Plan. The 2009 Plan's terms were similar to the Company's previous 2008 Plan, except that the 2009 Plan had a maximum amount of shares available for issuance of 12,000,000 with a soft cap of 12% of the outstanding shares available for issuance. The 2009 plan provided for the issuance of stock options, restricted stock and restricted stock units.

Stock Options

The Company generally issues stock option awards that vest over varying periods, ranging from three to five years, and have a ten-year life. We estimate the fair value of stock options using the Black-Scholes option-pricing model. Because our common stock did not have a sufficient trading history, we did not use historical data to determine volatility of our stock until the fourth quarter of 2012. Prior to that, we determined volatility by using the historical stock volatility of public companies in our industry with similar characteristics. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards. All option awards terminate within ninety days or sooner after termination of service with the Company except as provided in certain circumstances with regard to our senior executive employment agreements.

The option grants during 2014, 2013 and 2012 consist of options issued to new hires, employees acquired through acquisitions, board members and discretionary awards. All equity issuances have an exercise price at market value or higher based upon our publicly-traded share price on the date of grant.

The Black-Scholes model requires certain inputs related to dividend yield, risk-free interest rate, expected volatility and forfeitures in order to price the option values. During 2014, 2013 and 2012 our assumptions related to these inputs were as follows:

	2014	2013	2012
Dividend yield	—%	—%	—%
Risk-free interest rate	1.47% - 1.66%	0.65% - 1.75%	0.62% - 1.03%
Expected volatility	36.35% - 48.65%	29.54% - 51.37%	28.35% - 52.82%
Forfeitures	11.00% - 37.00%	11.00% - 39.00%	15.00% - 39.00%

TABLE OF CONTENTS

A summary of stock option activity is as follows:

	Number of Shares		Option Exercise Price	Weighted Average Exercise Price
Options Outstanding 01/01/2012	2,238,673			
Options Exercisable 01/01/2012	1,086,677			
Granted	1,393,700		$7.06 - $13.00	$10.62
Exercised	(81,674	)	$5.00 - $12.28	$6.22
Forfeited	(364,285	)	$5.00 - $14.57	$9.50
Options Outstanding 12/31/2012	3,186,414			
Options Exercisable 12/31/2012	1,543,284			
Granted	512,700		$11.18 - $16.08	$12.18
Exercised	(224,973	)	$5.00 - $14.57	$8.10
Forfeited	(392,467	)	$5.00 - $16.08	$11.94
Options Outstanding 12/31/2013	3,081,674			
Options Exercisable 12/31/2013	1,911,565			
Granted	645,670		$13.16 - $17.71	$17.10
Exercised	(501,400	)	$5.00 - $14.88	$8.19
Forfeited	(277,070	)	$5.00 - $17.11	$13.52
Options Outstanding 12/31/2014	2,948,874			
Options Exercisable 12/31/2014	1,934,215			

As of December 31, 2014, 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	475,950	$2,362,461	475,950	$2,362,461	4.65
$6.90 - $7.66	289,280	856,071	215,115	637,526	7.08
$7.96 - $8.14	71,150	170,860	69,002	166,048	6.88
$9.17 - $10.98	252,457	164,552	220,907	152,019	6.39
$11.18 - $11.99	345,374	—	223,541	—	7.44
$12.28 - $12.97	446,022	—	268,643	—	7.63
$13.00 - $13.48	179,310	—	111,028	—	8.13
$14.03 - $14.88	336,361	—	323,697	—	6.11
$16.08 - $17.71	552,970	—	26,332	—	9.06
	2,948,874	$3,553,944	1,934,215	$3,318,054	

2013 STOCK INCENTIVE PLAN	
Total equity available to issue	2,000,000
Total equity outstanding or exercised	1,444,407
Total equity remaining	555,593

Restricted Stock Awards

During 2014, the Company issued restricted stock for employee incentive plans and new hires. The Company issued 153,580 shares of restricted common stock to existing employees under the long-term incentive plan and an additional 21,000 shares of restricted common stock to board members. The Company also issued 77,205 shares of restricted common stock to new hires. An

TABLE OF CONTENTS

additional 27,338 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.

During 2013, the Company issued restricted stock for employee incentive plans and strategic hires. The Company issued 66,000 shares of restricted common stock to existing employees under the long-term incentive plan and an additional 17,500 shares of restricted common stock to board members. These shares cliff vest in three years. The Company issued an additional 37,750 restricted shares to employees from the Sensage acquisition. These shares vest 75% on February 8, 2014 and 25% on August 8, 2014. The Company also issued 98,800 shares of restricted common stock to 46 founding employees of KEYW for recognition of their continued service and loyalty going into our fifth year of business. Of these shares 40,800 cliff vest in one year and 58,000 cliff vest in three years. An additional 38,200 shares were issued to strategic hires and 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 restricted stock awards have no exercise price.

A summary of the outstanding unvested restricted stock awards is as follows:

	Unvested Shares	
Outstanding 01/01/2012	403,546	
Granted	314,700	
Vested	(221,263	)
Forfeited	(44,400	)
Outstanding 12/31/2012	452,583	
Granted	258,250	
Vested	(52,033	)
Forfeited	(55,300	)
Outstanding 12/31/2013	603,500	
Granted	279,123	
Vested	(171,481	)
Forfeited	(24,137	)
Outstanding 12/31/2014	687,005	

All stock based compensation has been recorded as part of operating expenses. Accounting standards require forfeitures to be estimated at the time an award is granted and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeiture estimates are disclosed in the information with respect to the option grants. For the periods ended December 31, 2014, 2013, and 2012 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 $6.4 million, $5.7 million and $3.0 million for the years ended December 31, 2014, 2013, and 2012, respectively. The total unrecognized stock compensation expense at December 31, 2014 is approximately $6.8 million which will be recognized over the next three years.

Employee Stock Purchase Plan

Effective January 1, 2011, the Company offered an Employee Stock Purchase Plan (“ESPP”) to employees. Under the terms of the ESPP, employees may purchase up to 1,000 shares of common stock per quarter at a 15% discount to the market price on the last trading day of the quarter. The Company has elected to use open market purchases for all shares issued under the ESPP. In 2014, 2013 and 2012 the Company recognized expense of $0.4 million, $0.2 million and $0.2 million, respectively, under the plan.

11. WARRANTS

During 2014, warrant holders exercised 31,830 warrants, with 29,550 exercised for cash and 2,280 exercised cashlessly. The warrants exercised for cash consisted of 20,000 warrants exercised at $4.00 per share and 9,550 warrants exercised at $5.50 per share. The total cash received from these exercises was $133,000. Under our warrant agreements, warrants may be exercised cashlessly based on the average price of the Company's common stock for the 5 trading days prior to exercise. Under this methodology the warrants that were exercised cashlessly were exchanged for 1,547 shares of the Company's common stock.

TABLE OF CONTENTS

During 2013, warrant holders exercised 304,455 warrants, with 9,000 exercised for cash and 295,455 exercised cashlessly. The warrants exercised for cash consisted of 4,000 warrants exercised at $4.00 per share and 5,000 warrants exercised at $5.50 per share. The total cash received from these exercises was $43,500. Under our warrant agreements, warrants may also be exercised cashlessly based on the average price of the Company's common stock for 5 trading days prior to exercise. Under this methodology the warrants that were exercised cashlessly were exchanged for 195,610 shares of the Company's common stock.

During 2012, warrant holders exercised 109,205 warrants, with 19,773 exercised for cash and 89,432 exercised cashlessly. The warrants exercised for cash consisted of 12,500 warrants exercised at $4.00 per share and 7,273 warrants exercised at $5.50 per share. The total cash received from these exercises was approximately $90,000. The warrants that were exercised cashlessly were exchanged for 54,896 shares of the Company's common stock.

In conjunction with the Rsignia acquisition, the Company issued 158,116 warrants to purchase KEYW common stock at $12.65 per share. These warrants vested immediately and expire seven years from issuance.
As of December 31, 2014, outstanding warrants were as follows:

Exercise Price	Warrants Outstanding	Warrants Vested	Weighted Average Remaining Life (Years)
$4.00	1,749,250	1,749,250	0.64
$5.50	2,184,495	2,184,495	1.38
$9.25	210,000	210,000	2.21
$12.65	158,116	158,116	4.90
	4,301,861	4,301,861	

12. COMMITMENTS AND CONTINGENCIES

The Company leases certain office equipment and operating facilities under non-cancellable operating leases that expire at various dates through 2023. Certain leases contain renewal options. Rental payments on certain leases are subject to annual increases based on escalation clauses and increases in the lessor's operating expenses. For the leases that require fixed rental escalations during their lease terms, rent expense is recognized on a straight-line basis resulting in deferred rent. The deferred rent included in other liabilities both current and non-current totaled $7.5 million and $8.1 million at December 31, 2014 and 2013, respectively. Of which $6.2 million and $6.8 million related to the lease incentive liability at December 31, 2014 and 2013, respectively. The Company has several office facilities for which it is committed on a month-to-month basis. Total net lease expense was $5.7 million, $5.6 million and $3.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.
The schedule below shows the future minimum lease payments required under our operating leases as of December 31, 2014.

	(In Thousands)					
Type	2015	2016	2017	2018	2019	Thereafter
Facilities/Office space	$6,354	$6,070	$5,291	$4,555	$3,834	$9,384
Office equipment	47	28	5	—	—	—
Operating Leases	$6,401	$6,098	$5,296	$4,555	$3,834	$9,384

The main operating lease for our headquarters facility (Milestone) is leased from one of our former affiliates. The stockholder ceased being an affiliate of the Company effective September 29, 2011. The current Milestone lease was entered into in May 2012 and continues until May 2022. Total cash paid for the Milestone space including common area maintenance, utilities, and leasehold improvements was $3.5 million, $3.2 million and $1.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. Annual remaining lease payments under the Milestone lease approximate $3.5 million through 2022. We had previously entered into a lease with the same former affiliate. We were released from the majority of that lease upon signing the Milestone lease in May 2012, however, we continue to maintain a presence in part of that facility. Total cash paid for the former space including common area maintenance charges, utilities, and leasehold improvements was $0.7 million, $0.6 million and $0.8 million during the years ended

December 31, 2014, 2013 and 2012, respectively. There are no remaining lease payments for this lease.
The Company has entered into employment agreements with several executives providing for certain salary levels, severance and change of control provisions through the term of the agreements expiring in February 2016. These agreements have an evergreen clause that extends the agreement by one year each December unless the Company notifies the employee of non-renewal.

TABLE OF CONTENTS

In the normal course of business, the Company is involved in various legal matters. It is the opinion of management that none of the current legal matters would have a material adverse effect on the Company's financial statements.

13. RETIREMENT PLANS

The Company currently has one qualified defined contribution retirement plan. The KEYW Corporation Employee 401(k) Plan (KEYW Plan), which includes a contributory match 401(k) feature for KEYW employees. As of January 1, 2010, the KEYW Plan calls for an employer matching contribution of up to 10% of eligible compensation. Total authorized contributions under the matching contribution feature of the KEYW Plan were $9.7 million, $10.4 million and $7.8 million, in 2014, 2013 and 2012, respectively. There were no discretionary contributions during these periods.

The Company previously had a qualified contribution retirement plan, the FASI 401(k) Plan (FASI Plan), which included a contribution match for former FASI employees. The FASI Plan called for a fixed 3% Safe Harbor non-elective employer contribution plus a discretionary employer profit sharing contribution. All employer contributions vested immediately. Total authorized contributions under the FASI Plan were $0.9 million in 2012 subsequent to being acquired.

The Company previously had a qualified contribution retirement plan, the Poole & Associates, Inc. 401(k) Plan (Poole Plan), which included a contribution match for former Poole employees. The Poole Plan called for a fixed 3% Safe Harbor non-elective employer contribution plus a discretionary employer profit sharing contribution. All employer contributions vested immediately. Total authorized contributions under the Poole Plan were $0.3 million in 2012 subsequent to being acquired.

The Company previously had a qualified contribution retirement plan, the Sensage, Inc. 401(k) Retirement Trust (Sensage Plan), which had no contribution match for former Sensage employees. There were no authorized contributions under the Sensage Plan in 2012 subsequent to being acquired.

The Company converted to the KEYW Plan the FASI 401(k) Plan effective January 1, 2013, the Pool & Associates, Inc. 401(k) Plan effective February 2013 and the Sensage, Inc. 401(k) Retirement Trust effective March 1, 2013.

14. INCOME TAX PROVISION

Applicable income tax (benefit) expense provision is as follows:

	(In thousands)		
	2014	2013	2012
Current:			
Federal	$(2,537)	$(1,596)	$5,446
State	155	1	137
	(2,382)	(1,595)	5,583
Deferred	(5,746)	(7,410)	(5,669)
Total provision for income taxes	$(8,128)	$(9,005)	$(86)

Deferred income taxes are provided for temporary differences between the financial reporting basis and the tax basis of the Company’s assets and liabilities. At December 31, 2014 and 2013, the net deferred tax liability was $1.4 million and $7.0 million respectively. Deferred tax assets and liabilities, shown as the sum of the appropriate tax effect for each significant type of temporary differences as of December 31, 2014 and 2013, are as follows:

TABLE OF CONTENTS

	(In thousands)			
	2014 Deferred Tax		2013 Deferred Tax	
	Asset	Liability	Asset	Liability
Net operating loss	$9,103	$—	$8,133	$—
Accrued compensation	2,541	—	1,001	—
Stock based compensation	5,560	—	4,459	—
Tenant improvement allowance	322	—	276	—
Litigation loss reserve	—	—	700	—
Inventory reserves	227	—	532	—
Other deferred tax assets	1,320	—	1,127	—
Other deferred tax liabilities	—	—	—	(11)
Tax credits	1,435	—	215	—
Deferred revenue – current	—	(375)	—	(1,267)
Deferred revenue – non-current	—	—	628	—
Prepaid expenses	—	(63)	—	(156)
Depreciation	—	(1,531)	—	(2,677)
Intangible assets amortization – Definite Lived	5,681	—	2,043	—
Intangible assets amortization – Indefinite Lived	—	(25,126)	—	(21,304)
Internally developed software	—	(1,331)	—	(1,586)
Capitalized R&D 59(e)	821	—	925	—
	$27,010	$(28,426)	$20,039	$(27,001)
Net deferred liability		$(1,416)		$(6,962)

The Company has recorded a deferred tax asset reflecting the benefit of $20.5 million of federal net operating loss carry-forwards, $1.7 million of federal tax credits for research and development and alternative minimum tax, as well as $39.6 million of state net operating loss carry-forwards, and $0.2 million of state tax credits for research and development. In connection with the acquisition of Sensage, a portion of the net operating loss carryforward is limited under section 382 of the Internal Revenue Code. The annual limitation is equal to approximately $2.1 million and the total net operating loss available for use during the carryforward period is $18.5 million. Deferred tax assets are set to expire between 2016 and 2034.

As a result of certain realization requirements of ASC 718, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets as of December 31, 2014 that arose directly from tax deductions related to equity compensation greater than compensation recognized for financial reporting. Equity will be increased by $0.2 million and $0.1 million for federal and state purposes respectively if and when such deferred tax assets are ultimately realized. The Company uses tax law ordering when determining when excess tax benefits have been realized. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carry-forwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized.

The Company's federal income tax receivable relating to its carry back of its 2014 federal net operating loss includes tax benefits generated from stock options and restricted stock awards. For stock options, the Company receives an income tax benefit calculated as the difference between the fair market value of the stock issued at the time of exercise and the exercise price. For restricted stock awards, the Company receives an income tax benefit upon the award vesting equal to the tax effect of the underlying stock's fair market value. The Company also reduced its state income taxes payable for the same tax benefits described above. Both of these excess tax benefits were recorded to equity as increases to additional paid in capital in the amount of $1.2 million for 2014 and $0.3 million for 2013.

TABLE OF CONTENTS

The net deferred tax liabilities shown on the balance sheet as of December 31, 2014 and 2013 are as follows:

	(In thousands)	
	2014	2013
Deferred taxes – current liability	$(437)	$(1,423)
Deferred taxes – long term liability	(27,989)	(25,578)
Deferred taxes – current assets	3,315	2,556
Deferred taxes – long term assets	23,695	17,483
Net Deferred Tax Liability	$(1,416)	$(6,962)

A reconciliation of the difference between the statutory federal income tax rate and the effective tax rate for the Company for the years ended December 31, 2014, 2013 and 2012 is as follows:

	Percent of Pre-tax Income		
	2014	2013	2012
Tax computed at statutory rate	35.0 %	35.0 %	35.0 %
State income taxes net of federal income tax benefit	4.5 %	6.3 %	(60.8)%
Meals and entertainment – non-deductible	(0.9)%	(0.9)%	14.4 %
Non-deductible acquisition costs	— %	(0.3)%	18.4 %
ESPP Expense	(0.4)%	(0.2)%	— %
Other permanent items	0.1 %	(0.3)%	— %
Provision to return	(1.4)%	5.1 %	(2.2)%
Prior year tax credit	1.8 %	1.0 %	(13.8)%
Effective tax rate	38.7 %	45.7 %	(9.0)%

Effective, January 1, 2009, we adopted Financial Accounting Standards Board ASC 740 ("ASC 740") which provides a comprehensive model for the recognition, measurement and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return. Under ASC 740, a company can recognize the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit can be recognized. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws.

The following table represents a reconciliation of the Company's total unrecognized tax benefits balance for the year ended December 31, 2014:

	(In thousands)
	Activity
January 1, 2014	$200
Increases as a result of tax positions taken in a prior period	158
Increases as a result of tax positions taken during the current period	50
December 31, 2014	$408

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statement of operations. Accrued interest and penalties are deemed immaterial and are not included in the above table or within the financial statements.

On September 13, 2013, the U.S. Treasury Department and the IRS issued final regulations that address costs incurred in acquiring, producing, or improving tangible property (the "tangible property regulations"). The tangible property regulations are generally effective for tax years beginning on or after January 1, 2014 and may require the Company to make additional tax accounting method changes as of January 1, 2014; however, management does not anticipate the impact of these changes to be material to the Company's consolidated financial position, results of operations, or both.

As of December 31, 2014, the following tax years remained subject to examination by the major tax jurisdictions indicated:

TABLE OF CONTENTS

Major Jurisdictions	Open Years
United States	2001 through 2013
California	2001 through 2013
Florida	2011 through 2013
Maryland	2010 through 2013
Massachusetts	2011 through 2013
Virginia	2011 through 2013

The statute of limitations is open for the years 2001 through 2008 only in connection with the net operating loss carry forwards of an acquired subsidiary.

15. SEGMENT INFORMATION

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.

	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	$10,644	$7,393	$9,815	
Depreciation Expense	3,091	1,867	2,237	
Operating Expense	55,844	39,311	—	(1)
Intangible Amortization	7,737	4,425	—	
	December 31, 2013 (In thousands)			
	Government Solutions	Commercial Cyber Solutions	Corporate	
Goodwill	$280,517	$15,467	$—	
Intangibles, net	20,723	8,620	—	
Property and Equipment, net	9,959	5,470	11,397	
Depreciation Expense	3,477	279	2,253	
Operating Expense	65,308	19,393	—	(1)
Intangible Amortization	20,533	4,125	—	

(1) Corporate Operating Expense is fully allocated to the segments.

The Company does not identify interest or tax expense with individual segments as the cash is managed at corporate and tax returns are filed on a consolidated basis. All assets, with the exceptions of goodwill, intangibles, and fixed assets, are not segregated by segment.

16. SUBSEQUENT EVENTS

In connection with the preparation of its financial statements for the year ended December 31, 2014, the Company has evaluated events that occurred subsequent to December 31, 2014 to determine whether any of these events required recognition or disclosure in the 2014 financial statements. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

TABLE OF CONTENTS

EXHIBIT INDEX

Exhibit No.	Exhibit Description	
1.1	Underwriting Agreement among the Company and RBC Capital Markets, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives, dated July 16, 2014.	(15)
2.1	Agreement and Plan of Merger, dated as of July 27, 2011, by and among The KEYW Corporation (“Purchaser”), FLD Acquisition Corporation, a wholly-owned subsidiary of Purchaser, Flight Landata Inc., and Jill Mann of Mann & Mann, P.C., as the Stockholder Representative.	(4)
2.2	Stock Purchase Agreement, dated September 10, 2012, by and among The KEYW Corporation, The KEYW Holding Corporation, Poole & Associates, Inc., the stockholders of Poole & Associates, Inc. and the Representative of the Sellers.	(7)
2.3	Agreement and Plan of Merger, dated September 13, 2012, by and among SenSage, Inc., The KEYW Corporation, The KEYW Holding Corporation, SSI Acquisition Corporation, and Fortis Advisors LLC as Representative of SenSage, Inc.'s shareholders.	(8)
3.1	Amended and Restated Articles of Incorporation of the Company, as filed on October 6, 2010.	(2)
3.2	Certificate of Correction of Articles of Amendment and Restatement.	(9)
3.3	Amended and Restated Bylaws of the Company, effective as of August 13, 2014.	(16)
4.1	Specimen of Common Stock Certificate.	(1)
4.2	Indenture, dated July 21, 2014, between the Company and Wilmington Trust, National Association, as trustee.	(15)
4.3	First Supplemental Indenture, dated July 21, 2014, between the Company and Wilmington Trust, National Association, as trustee.	(15)
4.4	Form of 2.50% Convertible Senior Note due 2019 (incorporated by reference to Exhibit 4.2 hereto).	(15)
10.1*	The KEYW Corporation 2008 Stock Incentive Plan	(1)
10.2*	Form of Incentive Stock Option Agreement for grants pursuant to The KEYW Corporation 2008 Stock Incentive Plan	(1)
10.3*	Form of Non-Qualified Stock Option Agreement for grants pursuant to The KEYW Corporation 2008 Stock Incentive Plan	(1)
10.4*	Form of Restricted Stock Agreement for grants pursuant to The KEYW Corporation 2008 Stock Incentive Plan	(1)
10.5*	The KEYW Holding Corporation 2009 Stock Incentive Plan	(1)
10.6*	Form of Incentive Stock Option Agreement for grants pursuant to The KEYW Holding Corporation 2009 Stock Incentive Plan	(11)
10.7*	Form of Non-Qualified Stock Option Agreement for grants pursuant to The KEYW Holding Corporation 2009 Stock Incentive Plan	(11)
10.8*	Form of Restricted Stock Agreement for grants pursuant to The KEYW Holding Corporation 2009 Stock Incentive Plan	(11)
10.9*	Form of The KEYW Corporation Non-Qualified Stock Options Agreement for non-plan grants	(1)
10.10*	Form of The KEYW Corporation Restricted Stock Agreement for non-plan grants	(1)
10.11*	Long-Term Incentive Plan	(1)
10.12*	Annual Incentive Plan	(1)
10.13*	Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Kimberly J. DeChello	(1)
10.14*		(10)

	Employment Agreement, dated June 16, 2010, between The KEYW Corporation and John E. Krobath	
10.15*	Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Leonard E. Moodispaw	(10)
10.16*	Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Mark A. Willard	(10)
10.17	Form of Amended and Restated Warrant	(10)
10.18*	The KEYW Holding Corporation 2010 Employee Stock Purchase Plan	(1)

TABLE OF CONTENTS

10. 19*	Amendment, dated March 12, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Kimberly J. DeChello	(3)
10.20*	Amendment, dated March 12, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and John E. Krobath	(3)
10.21*	Amendment, dated March 12, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Leonard E. Moodispaw	(3)
10. 22*	Amendment, dated March 12, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Mark A. Willard	(3)
10.23*	Second Amendment, dated June 29, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Leonard Moodispaw	(5)
10.24*	Second Amendment, dated June 29, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and John E. Krobath	(5)
10.25*	Second Amendment, dated June 29, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Mark A. Willard	(5)
10.26*	Second Amendment, dated June 29, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Kimberly J. DeChello	(5)
10.27*	The KEYW Holding Corporation 2013 Stock Incentive Plan	(6)
10.28*	Form of Incentive Stock Option Agreement for grants pursuant to The KEYW Holding Corporation 2013 Stock Incentive Plan	(11)
10.29*	Form of Non-Qualified Stock Option Agreement for grants pursuant to The KEYW Holding Corporation 2013 Stock Incentive Plan	(11)
10.30*	Form of Restricted Stock Agreement for grants pursuant to The KEYW Holding Corporation 2013 Stock Incentive Plan	(11)
10.31*	Third Amendment to Employment Agreement, dated March 20, 2014, between The KEYW Corporation and John E. Krobath.	(13)
10.32	Hexis Executive Incentive Plan.	(14)
10.33	Base Call Option Transaction Confirmation, dated as of July 16, 2014, between the Company and Royal Bank of Canada.	(15)
10.34	Base Call Option Transaction Confirmation, dated as of July 16, 2014, between the Company and Bank of America, NA.	(15)
10.35	Credit Agreement, dated as of July 21, 2014, among The KEYW Corporation, as the Borrower, certain subsidiaries of the Borrower and the Company, as Guarantors, the lenders identified in the Credit Agreement and Royal Bank of Canada, as Administrative Agent.	(15)
10.36*	Employment Agreement, dated August 11, 2014, between Hexis Cyber Solutions, Inc. and Philip L. Calamia.	(16)
10.37	Additional Call Option Transaction Confirmation, dated as of August 12, 2014, between the Company and Royal Bank of Canada.	(12)
10.38	Additional Call Option Transaction Confirmation, dated as of August 12, 2014, between the Company and Bank of America, NA.	(12)
12.1	Computation of Ratio of Earnings to Fixed Charges.	(15)
14.1	Code of Ethics	(2)
21.1	Subsidiaries of the Registrant	x
23.1	Consent of Grant Thornton LLP	x
31.1	Certification of the Chief Executive Officer pursuant to R Rule 13a-14(a)/15d-14(a)	x
31.2	Certification of the Chief Financial Officer pursuant to R Rule 13a-14(a)/15d-14(a)	x
32.1**	Certification of the Chief Executive Officer and the Chief Financial Officer and Principal Accounting Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18	x

	U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002	
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

TABLE OF CONTENTS

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	x

x Filed herewith
* Indicates management contract of compensatory agreements
** These exhibits are 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.
(1) Incorporated by reference to the corresponding Exhibit number to the Registrant's Registration Statement on Form S-1, as amended (File No. 333-16768).
(2) Filed as Exhibits 3.1 and 14.1, respectively, to Registrant's Form 10-K filed March 29, 2011, File No. 001-34891.
(3) Filed as Exhibits 10.36, 10.37. 10.38 and 10.39, respectively, to the Registrant's Annual Report on Form 10-K, filed March 15, 2012, File No. 001-34891.
(4) Filed as Exhibit 2.1 to Registrant's Form 8-K filed August 10, 2011, File No. 001-34891.
(5) Filed as Exhibits 10.1, 10.2, 10.3 and 10.4, respectively, to Registrant's Current Report on Form 8-K filed July 3, 2012, File No. 001-34891.
(6) Filed as Annex A to Registrant's Definitive Proxy Statement on Schedule 14A filed July 13, 2012.
(7) Filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K filed September 12, 2012, File No. 001-34891.
(8) Filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K filed September 19, 2012, File No. 001-34891.
(9) Filed as Exhibit 3.1 to Registrant's Current Report on Form 8-K filed July 15, 2014, File No. 001-34891.
(10) Filed as Exhibits 10.16, 10.17, 10.18 and 10.20, respectively, to the Registrant's Registration Statement on Form S-1, as amended (File No. 333-16768).
(11) Filed as Exhibits 10.6, 10.7, 10.8, 10.28, 10.29 and 10.30, respectively, to the Registrant's Annual Report on From 10-K for the year ended December 31, 2012, filed March 12, 2013, File No. 001-34891.
(12) Filed as Exhibits 10.1 and 10.2, respectively, to the Registrant's Form 8-K reporting under Items 2.03, 8.01, and 9.0, filed August 15, 2014, File No. 001-3489.
(13) Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed May 1, 2014, File No. 001-34891.
(14) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 7, 2014, File No. 001-34891.
(15) Filed as Exhibits 1.1, 4.1, 4.2, 4.3, 10.1, 10.2, 10.3 and 12.1, respectively to the Registrant's Current Report on Form 8-K filed July 21, 2014, File No. 001-38491.
(16) Filed as Exhibits 3.1 and 10.1 to the Registrant's Current Report on Form 8-K filed August 15, 2014, File No. 001-34891.

TABLE OF CONTENTS

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
(Registrant)

By: /s/ Leonard E. Moodispaw
Leonard E. Moodispaw
President and Chief Executive Officer;
Principal Executive Officer
March 9, 2015

By: /s/ Philip L. Calamia
Philip L. Calamia
Executive Vice President and Chief Financial Officer;
Principal Financial and Accounting Officer
March 9, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Deborah A. Bonanni Deborah A. Bonanni March 9, 2015	/s/ Kenneth A. Minihan Kenneth A. Minihan, Director March 9, 2015
/s/ William I. Campbell William I. Campbell, Director March 9, 2015	/s/ Arthur L. Money Arthur L Money, Director March 9, 2015
/s/ Pierre A. Chao Pierre Chao, Director March 9, 2015	/s/ Leonard E. Moodispaw Leonard E. Moodispaw, Director March 9, 2015
/s/ John G. Hannon John G. Hannon, Director March 9, 2015	/s/ Caroline S. Pisano Caroline S. Pisano, Director March 9, 2015