

KEYW HOLDING CORP
Form 10-K
March 15, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from

to

Commission file number 001-34891

THE KEYW HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

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

27-1594952

(I.R.S. Employer
Identification No.)

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

Title of each class

Common Stock, \$0.001 par value per share

Name of each exchange on which registered

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 ☐ No ☒

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 ☐ No ☒

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

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

Indicate by check mark 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

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if smaller reporting company) Smaller reporting company ☐

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

The aggregate market value of the registrant’s Common Stock held by non-affiliates of the registrant as of June 30, 2015 was approximately \$341.0 million.

As of March 7, 2016 there were 39,853,217 shares of the registrant’s Common Stock, \$0.001 par value per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference information from certain portions of the registrant’s definitive proxy statement for the 2016 annual meeting of shareholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year.

A list of the Exhibits and Financial Statement Schedules in this Report on Form 10-K begins on page 53.

TABLE OF CONTENTS

Table of Contents

FORM 10-K

The KEYW Holding Corporation

Item No.

Page

PART I

| | | |
|------------|----------------------------------|-----------|
| — | <u>Introductory Statement</u> | <u>1</u> |
| <u>1.</u> | <u>Business</u> | <u>1</u> |
| <u>1A.</u> | <u>Risk Factors</u> | <u>12</u> |
| <u>1B.</u> | <u>Unresolved Staff Comments</u> | <u>28</u> |
| <u>2.</u> | <u>Properties</u> | <u>29</u> |
| <u>3.</u> | <u>Legal Proceedings</u> | <u>29</u> |
| <u>4.</u> | <u>Mine Safety Disclosures</u> | <u>29</u> |

PART II

| | | |
|------------|---|-----------|
| <u>5.</u> | <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>30</u> |
| <u>6.</u> | <u>Selected Financial Data</u> | <u>32</u> |
| <u>7.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u> | <u>36</u> |
| <u>7A.</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>47</u> |
| <u>8.</u> | <u>Financial Statements and Supplementary Data</u> | <u>47</u> |
| <u>9.</u> | <u>Changes in and Disagreements with Accountants and Financial Disclosure</u> | <u>48</u> |
| <u>9A.</u> | <u>Controls and Procedures</u> | <u>48</u> |
| <u>9B.</u> | <u>Other Information</u> | <u>50</u> |

PART III

| | | |
|------------|---|-----------|
| <u>10.</u> | <u>Directors, Executive Officers and Corporate Governance</u> | <u>51</u> |
| <u>11.</u> | <u>Executive Compensation</u> | <u>51</u> |
| <u>12.</u> | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | <u>52</u> |
| <u>13.</u> | <u>Certain Relationships and Related Transactions, and Director Independence</u> | <u>52</u> |
| <u>14.</u> | <u>Principal Accounting Fees and Services</u> | <u>52</u> |

PART IV

| | | |
|------------|--|-----------|
| <u>15.</u> | <u>Exhibits, Financial Statement Schedules</u> | <u>53</u> |
|------------|--|-----------|

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.

You are cordially invited to attend the Annual Meeting of Stockholders of KEYW to be held at KEYW’s Corporate Headquarters, 7740 Milestone Parkway, Hanover, MD 21076, on Wednesday, May 18, 2016 at 10:00 a.m. Eastern Time. We invite you to arrive at 9:30 a.m. to visit with KEYW management. A continental breakfast will be served.

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”, “plan”, “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 Intelligence Process (collection, processing, analysis and dissemination of intelligence 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. 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

TABLE OF CONTENTS

KEYW's primary areas of expertise include:

- providing sophisticated engineering services and solutions that help our customers solve discreet and complex cybersecurity, cyber superiority, and geospatial and other intelligence challenges;
- using multiple intelligence collection techniques to collect data and information in cyberspace, encompassing the entire electromagnetic spectrum;
- processing data and information from cyberspace to make it accessible to a wide range of analytical needs and resources;
- analyzing data and information that have been collected, processed, correlated, and made easily accessible to transform them into usable information for our customers;
- providing end to end capabilities that enable our customers to man, train, and equip cyber warriors;
- designing, architecting and developing secure information technology infrastructure on premise and in the cloud;
- 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, 2015, KEYW had 1,173 employees. For the year ended December 31, 2015, we derived 94% 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 2015, 2014 and 2013 our revenue reflected that of KEYW and our acquisitions, from the date of acquisition, of \$312 million, \$291 million and \$299 million, respectively, based on accounting principles generally accepted in the United States of America ("US GAAP"). Our 2015 revenue is derived from over 200 contracts (a combination of prime contracts and subcontracts), the ten largest of which accounted for approximately 51% of our 2015 actual revenue, with no individual contract accounting for greater than 15% of our 2015 revenue. For the year ended December 31, 2015, 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

TABLE OF CONTENTS

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 added 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 offered a broad range of cyber solutions and support including aerospace software engineering, cybersecurity, independent verification and validation, systems engineering, and risk management. Everest offered 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 offered a broad range of mission critical cyber superiority solutions and support including network engineering, information assurance, and systems and software engineering. FASI offered 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 was 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 the assets of Diligent Solutions, LLC, or Diligent. Poole provides systems engineering, software development, program management, and technical support to the intelligence community in addition to having several prime contracts. Sensage provided incident event management software as well as commercial software experience. The Rsignia and Diligent acquisitions provided additional product related revenue streams within the intelligence customer base.

In January 2013, we acquired IDEAL Technology Corporation or IDEAL. The IDEAL acquisition provided 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). Hexis's 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 its 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.

In 2015, we acquired Milestone Intelligence Group, Inc., or Milestone, Ponte Technologies, LLC, or PonteTec, and certain assets of Innovative Engineering Solutions, Inc. or IESI. Milestone is a systems engineering and software development firm offering a broad range of services including cybersecurity, software engineering and development, system engineering, test and evaluation engineering, acquisition support, process management, and project and program management. PonteTec is a services-based company focused on developing operational IT security solutions, crafting IT security strategies, and deploying advanced cybersecurity capabilities. IESI is an information technology consulting firm systems engineering, software development, security engineering, knowledge management, and project/program management.

In February 2016, following a strategic review of our business, we announced we had entered into a definitive agreement to sell our systems engineering and technical assistance (SETA) business. The transaction is expected to close in the first quarter of 2016.

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

TABLE OF CONTENTS

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.

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, 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 cyber intelligence as one of six mission objectives that must be accomplished by the Intelligence Community.

For national security reasons, there is limited detailed information published on intelligence spending or the amount of intelligence spending dedicated for cyber warfare. In February 2016, the DNI disclosed that the National Intelligence Program Budget request for FY 2017 was \$53.5 billion and the Military Intelligence Budget request for FY 2017 was \$16.8 billion, for a combined Intelligence Budget of \$70.3 billion. According to a recent study by Market Research Ltd, US Federal Cybersecurity spending is expected to grow from \$18 billion in 2017 to \$22 billion by 2022, with this market growing steadily at an estimated annual growth rate of 4.4% 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 a September 2015 market research report by Gartner, global cybersecurity spending in 2015 is expected to be \$75.4 billion (an increase of 5% versus 2014) and is expected to grow at a compound annual growth rate of 7.4% through 2019.

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

TABLE OF CONTENTS

•adversaries focused on exploiting increased dependence on technology-driven infrastructure through cyber attacks.

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 and in some cases, our solutions are capable of supporting the end-to-end 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 customers' 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 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 eight Beechcraft King Air 100s 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

TABLE OF CONTENTS

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 Commercial Cyber Solutions revenue has been generated through our HawkEye AP analytics software packages and related maintenance and services. Since 2013 we have added additional revenue streams including our Hawkeye G product. 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. 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.

Management has decided that our Commercial Cyber Solutions segment will not continue to operate under the same dynamic that it has in 2015 and prior years. While our HawkEye products, being sold through our Hexis subsidiary, consistently demonstrates impressive capabilities in its product suites, and have gained some commercial traction in the marketplace, the progress to date has not been sufficient for us to continue to operate Hexis in the current way we have operated it in the past. We have been exploring strategic alternatives for our Hexis business. Those alternatives include an investment in or outright sale of our Commercial Cyber Solutions business in one or more transactions to unrelated buyers. We have engaged in discussions with several candidates interested in purchasing one or both of our HawkEye products, as part of a sale of this segment.

If we are unable to, or believe the combination of valuation and potential deal structure is not in our best interests, we will retain all or part of our Commercial Cyber Security business. We will reduce the level of funding from its KEYW parent to a range of \$5 million to \$7 million in 2016, requiring that the business run on that investment and its own free cash flow. During January of 2016 we have reduced our costs by approximately \$10 million annually through a reduction in personnel and other costs.

We determined our activity with respect to our Commercial Cyber Security business to be a triggering event, as that term is defined in GAAP, and determined that, at December 31, 2015, the fair value of our Commercial Cyber Segment was less than its historic carrying costs and recorded an impairment of approximately \$8 million.

US Federal Government Contracts

We derive substantially all of our revenue from US Government customers. In fiscal years 2015, 2014, and 2013, we generated approximately 94%, 91%, and 93%, 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 42% of our revenue in 2015, and prime contracts accounted for the other 58%. In 2014 subcontracts accounted for approximately 46% of our revenue and prime contracts accounted for approximately 54% 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

TABLE OF CONTENTS

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.

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, 2015 and December 31, 2014, we derived revenue from such contracts on an actual basis as follows:

| Contract Type | Year ended December 31, 2015 | | |
|------------------|------------------------------|--------------|---|
| | (in millions) | (percentage) | |
| Time & Materials | \$67.7 | 21.7 | % |

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| | | | |
|---|------|------|---|
| Fixed-Price-Level-of-Effort | 64.3 | 20.6 | % |
| Firm-Fixed-Price | 79.5 | 25.5 | % |
| Cost Reimbursement | 86.4 | 27.7 | % |
| Commercial Software License & Related Service | 13.9 | 4.5 | % |

7

TABLE OF CONTENTS

| | Year ended December 31, 2014 | | |
|---|------------------------------|--------------|---|
| Contract Type | (in millions) | (percentage) | |
| Time & Materials | \$71.6 | 24.6 | % |
| Fixed-Price-Level-of-Effort | 57.9 | 19.9 | % |
| Firm-Fixed-Price | 78.6 | 27.0 | % |
| Cost Reimbursement | 71.2 | 24.5 | % |
| Commercial Software License & Related Service | 11.3 | 3.9 | % |

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 December 31, 2015, our total backlog was \$524 million, of which \$103 million was funded and \$421 million was unfunded. As of December 31, 2014, our total backlog was \$506 million, of which \$120 million was funded and \$386 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 with US Government agencies involved with national security missions. In 2015, 48% of our revenue was derived from contracts with the NSA, 15% of our revenue was

derived from contracts with the US Army, 12% of our revenue was derived from contracts with the NGA, 12% of our revenue was derived from contracts with other elements of the DoD excluding the NSA, the US Army and the NGA, 6% of revenue was derived from work for other major intelligence agencies and other intelligence, defense, homeland security and law enforcement organizations, and 7% was derived from commercial customers.

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.

TABLE OF CONTENTS

Our Competitive Strengths

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

Ability to develop, field, and operate end-to-end intelligence solutions. Through a combination of acquisitions and organic technology development, KEYW has assembled a collection of capabilities that when combined are capable of supporting our customer's end-to-end intelligence mission in airborne, ground, and cyber domains. We intend to leverage these customer proven capabilities to extend our market penetration to other organizations and agencies, foreign and domestic, to drive organic growth.

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.

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, 2015, 77% of our employees have US Government security clearances, with 71% 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 sensor collection and processing. Our integrated airborne collection solutions are lower cost than traditional ISR platforms and 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:

TABLE OF CONTENTS

Leverage Intelligence Community experience in certain agencies to address new growth markets in the Intelligence Community. KEYW has a meaningful presence in two of the 17 organizations that make up the U.S. Intelligence Community (including the Office of the Director of National Intelligence) and a nominal presence in three other agencies. A key growth strategy is to leverage the unique capabilities we have developed in our core customers to expand into the agencies where KEYW does not have a significant presence. We believe the capabilities we have developed for current customers will be attractive to other members of the Intelligence Community, enabling a significant growth opportunity for KEYW.

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.

Explore Strategic Options for Commercial Cyber Solutions business. As announced in February 2016, we are exploring strategic options for our Commercial Cyber Solutions business, with a view toward maximizing its value outside of KEYW or continuing as part of KEYW. Potential outcomes from this process include a sale to or investment by a third party or parties with respect to all or part of the business. As announced, in the event we determine to maintain the Commercial Cyber Solutions business within KEYW, we intend to limit the amount of investment in the business and to operate the business in a disciplined manner consistent with such investment.

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 Leidos Inc., Booz Allen Hamilton 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.

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, 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.

TABLE OF CONTENTS

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. Research and development costs totaled \$19.0 million, \$18.6 million and \$7.5 million for years ended December 31, 2015, 2014 and 2013, respectively. As a percent of revenue R&D was 6.1%, 6.4% and 2.5% for the years ended December 31, 2015, 2014 and 2013. Looking forward to 2016, 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.

Intellectual Property

We own eleven patents and have four pending patent applications. We have fifteen federally registered trademarks, one pending federal trademark registration applications, and four 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

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.

TABLE OF CONTENTS

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, 2015, 2014, and 2013, we generated 94%, 91% and 93%, 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 2015, on a GAAP basis, 48% of our revenue was derived from contracts for the NSA, 15% of our revenue was derived from contracts for the US Army, 12% of our revenue was derived from contracts for the NGA, 12% of our revenue was derived from contracts with other elements of the DoD excluding the NSA, the US Army and the NGA, 6% of revenue was derived from work for other major intelligence agencies and other intelligence, defense, homeland security and law enforcement organizations, and 7% 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.

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, 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 federal government sequestration (automatic spending cuts);
- 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

TABLE OF CONTENTS

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 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 as revenue the full amounts reflected in our backlog, which could adversely affect our future revenue and growth prospects.

As of December 31, 2015, our total backlog was \$524 million, which included \$421 million in unfunded backlog. As of December 31, 2014, our total backlog was \$506 million, which included \$386 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,

TABLE OF CONTENTS

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 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, and 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,

TABLE OF CONTENTS

intellectual property, know-how or other revenue-generating aspects of our business or our acquisitions to the fullest extent in the commercial sector and/or foreign markets and customers.

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 and negatively impact cash flows.

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.

For the year ended December 31, 2015, and the year ended December 31, 2014, our 10 largest programs accounted for a total of \$158 million and \$174 million, respectively, or 51% and 60% 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 under which we are not a contractor, 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.

TABLE OF CONTENTS

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, 2015 and December 31, 2014, we derived revenue from such contracts on an actual basis as follows:

| | Year ended December 31, 2015 | | |
|---|------------------------------|--------------|---|
| Contract Type | (in millions) | (percentage) | |
| Time & Materials | \$67.7 | 21.7 | % |
| Fixed-Price-Level-of-Effort | 64.3 | 20.6 | % |
| Firm-Fixed-Price | 79.5 | 25.5 | % |
| Cost Reimbursement | 86.4 | 27.7 | % |
| Commercial Software License & Related Service | 13.9 | 4.5 | % |
| | Year ended December 31, 2014 | | |
| Contract Type | (in millions) | (percentage) | |
| Time & Materials | \$71.6 | 24.6 | % |
| Fixed-Price-Level-of-Effort | 57.9 | 19.9 | % |

| | | | |
|---|------|------|---|
| Firm-Fixed-Price | 78.6 | 27.0 | % |
| Cost Reimbursement | 71.2 | 24.5 | % |
| Commercial Software License & Related Service | 11.3 | 3.9 | % |

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

TABLE OF CONTENTS

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.

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, 2015, goodwill accounted for \$305 million, or 67% 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 reporting unit level, which for us is the same as our segments. 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. At December 31, 2015, the fair value of our Commercial Cyber Segment

TABLE OF CONTENTS

was determined to be less than its historic carrying costs and we recorded an estimated impairment of approximately \$8 million. If goodwill became further 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

TABLE OF CONTENTS

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, 2015 and 2014, on an actual basis, was 15% and 17%, respectively.

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, 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.

TABLE OF CONTENTS

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 cash interest coverage ratio 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.

TABLE OF CONTENTS

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;
- 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 such systems 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

TABLE OF CONTENTS

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.

Reducing the level of funding our Commercial Cyber Solutions segments operating loss will have an impact on its financial results.

We have historically funded the operating losses of our Commercial Cyber Solutions segment out of the operating cash flow of the Company. We are planning to reduce the historic levels of funding to between \$5 million and \$7 million annually. We have, in January 2016, reduced the annualized operating costs of this segment by approximately \$10 million through a reduction in personnel and other costs. Should this segment's products not gain sufficient market acceptance and generate sufficient cash flows, we may be required to further reduce costs in this segment, which may adversely affect its operations and business.

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.

TABLE OF CONTENTS

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, 2015, our research and development costs totaled \$19.0 million, a 2% increase over our total research and development costs for the year ended December 31, 2014. 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.

TABLE OF CONTENTS

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.

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.

Our efforts to implement strategic alternatives for our Commercial Cyber Solutions business may not be successful.

In February 2016, we announced we were exploring strategic alternatives for our Commercial Cyber Solutions business, which may include a sale of, or outside investment in, all or part of the business. There is no guarantee that our strategic alternatives process will result in the receipt of offers for, or in transactions with respect to, the Commercial Cyber Solutions business at acceptable valuation levels or at all, or which investors will view favorably. There also is no guarantee that any transaction with respect to the business will be completed in a timely manner or at all. We also announced that in the event we determine to keep the Commercial Cyber Solutions business within KEYW, we plan to limit the amount of future investment in the business. There is no guarantee that such measures will result in improved financial performance of the business. The results of our strategic

TABLE OF CONTENTS

alternatives process for the Commercial Cyber Solutions business may have an adverse impact on our results of operations or on the market price for our common stock.

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

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;

TABLE OF CONTENTS

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. Failures 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.

As described under Item 9A, "Controls and Procedures," we have identified material weaknesses in our internal control over financial reporting related to controls with respect to the design and operation of a long-term forecast used to support our valuation of long-lived assets, monitoring activities for identification of errors in inventory valuation, and the design and operation of software revenue recognition in accordance with US GAAP. Under standards established by the Public Company Accounting Oversight Board, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

As of the date of this filing we have initiated remedial measures, but these new and enhanced controls have not operated for a sufficient amount of time to conclude that the material weaknesses have been remediated. To implement these remedial measures, we may need to commit significant resources, hire additional staff, and provide additional management oversight. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Further, if our remedial measures are insufficient to address the material weaknesses, our consolidated financial statements may contain material misstatements, and we could be required to restate our financial results. In addition, if we are unable to successfully remediate these material weaknesses and if we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements.

We may, in the future, discover other 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

TABLE OF CONTENTS

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 to maintain the listing of our securities. Although we seek to reduce these risks through 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.

TABLE OF CONTENTS

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;
- 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, 2015, 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 150-500* Hanover, Maryland 21076 | 122,312 | 5/31/2022 | Government Solutions and Commercial Cyber Solutions |
| 7880 Milestone Parkway, Suites 100-300 Hanover, Maryland 21076 | 88,490 | 10/31/2025 | Government 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 |
| 7471 Candlewood Road, Suites 104R-112 Hanover, Maryland 21076 | 10,998 | 1/31/2018 | Government Solutions |
| 250 Clarke Street North Andover, Massachusetts 01845 | 19,280 | 3/31/2023 | Government Solutions |
| 2900 Fairview Park Drive, Suite 300 Falls Church, Virginia 22042 | 18,051 | 12/15/2018 | Government Solutions |
| 1415 Research Park Drive, Beavercreek, Ohio 45432 | 5,000 | 2/28/2020 | Government Solutions |

*Headquarters

Item 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings as of March 15, 2016.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

TABLE OF CONTENTS

PART II

Item MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. 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, 2015: | | |
| First Quarter | \$10.68 | \$7.01 |
| Second Quarter | \$12.59 | \$6.78 |
| Third Quarter | \$10.29 | \$5.95 |
| Fourth Quarter | \$8.44 | \$5.23 |
| 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 |

On March 7, 2016, the last reported sale price for our common stock on the Nasdaq Global Select Market was \$7.19 per share.

Holders

As of March 7, 2016, there were approximately 447 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.

Recent Sales of Unregistered Securities

On October 1, 2015, pursuant to the commencement of William J. Weber's employment as our CEO, and in accordance with the terms of the Employment Agreement, dated as of August 25, 2015, between The KEYW Corporation and Mr. Weber, we issued Mr. Weber (i) 100,000 restricted shares of the Company's common stock as a sign-on inducement, and (ii) the right to acquire up to an aggregate of 400,000 shares of the Company's common stock as a long-term incentive inducement, which shares will be granted during the five year period following October 1, 2015, in the amounts set forth below, provided the Company's stock price exceeds the applicable target share prices set forth below for at least 30 consecutive trading days.

| Target Price Per Share | Long-Term Incentive Shares |
|------------------------|----------------------------|
| \$13.00 | 50,000 |
| \$16.00 | 50,000 |
| \$20.00 | 100,000 |
| \$25.00 | 100,000 |
| \$30.00 | 100,000 |

Mr. Weber's sign-on shares will vest as follows: (i) 50,000 shares on October 1, 2016; (ii) 25,000 shares on October 1, 2018, and (iii) 25,000 shares on October 1, 2019. The long-term incentive shares will be subject to a two-year holding period following the grant date. The granting and vesting of the above-described inducement shares will be contingent upon Mr. Weber's continued employment with KEYW, subject to acceleration upon certain events.

The securities described above were offered and sold pursuant to Section 4(2) of the Securities Act of 1933, as amended, which provides an exemption for transactions by an issuer not involving any public offering.

TABLE OF CONTENTS

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2015 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 | 2,332,889 | \$ 11.61 | 991,990 |
| Equity compensation plans not approved by security holders) | — | | — |
| TOTAL | 2,332,889 | | 991,990 |

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

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, 2015, 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.

TABLE OF CONTENTS

Item 6. SELECTED FINANCIAL DATA

The following tables contain selected historical financial data for us for the years ended December 31, 2015, 2014, 2013, 2012 and 2011.

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.

| | Year ended Dec. 31, 2015 | Year ended Dec. 31, 2014 ⁽¹⁾ | Year ended Dec. 31, 2013 ⁽¹⁾ | Year ended Dec. 31, 2012 ⁽¹⁾ | Year ended Dec. 31, 2011 |
|----------------------------|--------------------------------|---|---|---|--------------------------------|
| (In thousands) | | | | | |
| Cash and Cash Equivalents | \$21,227 | \$39,601 | \$2,480 | \$5,639 | \$1,294 |
| Working Capital (Deficit) | 62,951 | 85,353 | 15,802 | 17,777 | (16,344) |
| Total Assets | 453,405 | 466,653 | 428,052 | 447,464 | 264,090 |
| Long-Term Obligations | 164,972 | 133,771 | 71,236 | 86,492 | 15,383 |
| Total Stockholders' Equity | 251,825 | 299,218 | 299,491 | 300,867 | 180,659 |

| | Year ended Dec. 31, 2015 | Year ended Dec. 31, 2014 ⁽¹⁾ | Year ended Dec. 31, 2013 ⁽¹⁾ | Year ended Dec. 31, 2012 ⁽¹⁾ | Year ended Dec. 31, 2011 |
|---|--------------------------------|---|---|---|--------------------------------|
| (In thousands, except per share data) | | | | | |
| Revenue | \$311,810 | \$290,574 | \$298,732 | \$243,520 | \$190,587 |
| Gross Profit | 99,590 | 95,173 | 99,512 | 83,793 | 56,637 |
| Net Operating (Loss) Income | (26,766) | (13,353) | (10,816) | 2,925 | 1,828 |
| Net (Loss) Income | (58,622) | (13,535) | (11,219) | 854 | 535 |
| (Loss) Earnings per Share of Common Stock-basic | (1.51) | (0.36) | (0.31) | 0.03 | 0.02 |
| (Loss) Earnings per Share of Common Stock-diluted | (1.51) | (0.36) | (0.31) | 0.03 | 0.02 |
| Adjusted EBITDA | 9,286 | 13,184 | 26,477 | 32,710 | 20,569 |

(1) Certain amounts have been adjusted for the correction of immaterial errors. See Note 1, of the Consolidated Financial Statements included in Item 15 of this Annual Report for more information.

Adjusted EBITDA as defined by us 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 below 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;

32

TABLE OF CONTENTS

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

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

Adjusted EBITDA Reconciliation

| | Year ended Dec. 31, 2015 | Year ended Dec. 31, 2014 ⁽¹⁾ | Year ended Dec. 31, 2013 ⁽¹⁾ | Year ended Dec. 31, 2012 ⁽¹⁾ | Year ended Dec. 31, 2011 |
|---|--------------------------------|---|---|---|--------------------------------|
| | (In thousands) | | | | |
| Net (Loss) Income | \$(58,622) | \$(13,535) | \$(11,219) | \$854 | \$535 |
| Depreciation | 8,400 | 7,461 | 6,275 | 4,369 | 2,082 |
| Intangible Amortization | 11,449 | 12,162 | 24,658 | 21,411 | 13,410 |
| Stock Based Compensation | 5,524 | 6,421 | 5,731 | 3,024 | 2,829 |
| Interest Expense, net | 10,299 | 8,934 | 3,508 | 2,307 | 907 |
| Income Tax Expense (Benefit) ⁽²⁾ | 21,598 | (8,622) | (9,389) | (193) | 218 |
| Public Offering, Acquisition and Other Nonrecurring Costs ⁽³⁾ | 10,638 | 363 | 6,913 | 938 | 588 |
| Adjusted EBITDA | \$9,286 | \$13,184 | \$26,477 | \$32,710 | \$20,569 |

(1) Certain amounts have been adjusted for the correction of immaterial errors. See Note 1, of the Consolidated Financial Statements included in Item 15 of this Annual Report for more information.

(2) The income tax expense (benefit) for 2015 included a valuation allowance for deferred tax assets.

(3) The other non-recurring items include the following: for 2015 a preliminary non-cash pre-tax goodwill impairment charge to the Commercial Cyber Solutions segment and for 2013 a legal settlement.

TABLE OF CONTENTS

The following tables contain selected historical financial data by quarter for the years ended December 31, 2015 and 2014.

| | 2015 | | | | 2014 | | | |
|---|---|----------------------------|-----------------------------|----------------------------|---|---|--|---|
| | Three Months Ended Mar. 31 ⁽³⁾ | Three Months Ended June 30 | Three Months Ended Sept. 30 | Three Months Ended Dec. 31 | Three Months Ended Mar. 31 ⁽³⁾ | Three Months Ended June 30 ⁽³⁾ | Three Months Ended Sept. 30 ⁽³⁾ | Three Months Ended Dec. 31 ⁽³⁾ |
| (In thousands, except per share data and unaudited) | | | | | | | | |
| Revenue | \$71,634 | \$78,387 | \$81,098 | \$80,691 | \$63,807 | \$74,229 | \$78,969 | \$73,569 |
| Gross Profit | 22,043 | 25,786 | 25,657 | 26,104 | 21,492 | 23,849 | 26,494 | 23,338 |
| Net Operating Loss | (6,805) | (3,902) | (5,545) | (10,514) | (4,350) | (1,683) | (1,898) | (5,422) |
| Net Loss | (5,847) | (31,676) | (8,004) | (13,095) | (3,346) | (1,840) | (3,133) | (5,216) |
| Loss per Share of Common Stock-basic | (0.15) | (0.83) | (0.20) | (0.33) | (0.09) | (0.05) | (0.08) | (0.14) |
| Loss per Share of Common Stock-diluted | (0.15) | (0.83) | (0.20) | (0.33) | (0.09) | (0.05) | (0.08) | (0.14) |
| Adjusted EBITDA | 562 | 4,489 | 672 | 3,563 | 2,222 | 4,896 | 4,852 | 1,214 |

Adjusted EBITDA Reconciliation

| | 2015 | | | | 2014 | | | |
|---|---|---|-----------------------------|----------------------------|---|---|--|---|
| | Three Months Ended Mar. 31 ⁽³⁾ | Three Months Ended June 30 ⁽³⁾ | Three Months Ended Sept. 30 | Three Months Ended Dec. 31 | Three Months Ended Mar. 31 ⁽³⁾ | Three Months Ended June 30 ⁽³⁾ | Three Months Ended Sept. 30 ⁽³⁾ | Three Months Ended Dec. 31 ⁽³⁾ |
| (In thousands and unaudited) | | | | | | | | |
| Net Loss | \$(5,847) | \$(31,676) | \$(8,004) | \$(13,095) | \$(3,346) | \$(1,840) | \$(3,133) | \$(5,216) |
| Depreciation | 1,944 | 2,004 | 2,159 | 2,293 | 1,820 | 1,916 | 1,812 | 1,913 |
| Intangible Amortization | 3,070 | 3,062 | 2,944 | 2,373 | 3,125 | 2,934 | 3,029 | 3,074 |
| Stock Compensation Amortization | 1,189 | 2,110 | 1,090 | 1,135 | 1,624 | 1,678 | 1,751 | 1,368 |
| Interest Expense | 2,543 | 2,566 | 2,582 | 2,608 | 858 | 1,220 | 4,348 | 2,508 |
| Income Tax (Benefit) Expense ⁽¹⁾ | (3,501) | 25,225 | (103) | (23) | (1,861) | (1,041) | (3,006) | (2,714) |
| Acquisition and Other Nonrecurring Costs ⁽²⁾ | 1,164 | 1,198 | 4 | 8,272 | 2 | 29 | 51 | 281 |
| Adjusted EBITDA | \$562 | \$4,489 | \$672 | \$3,563 | \$2,222 | \$4,896 | \$4,852 | \$1,214 |

(1) The income tax expense (benefit) for the three months ended June 30, 2015 included a valuation allowance for deferred tax assets.

(2) The other non-recurring items include for the three months ended December 31, 2015 a preliminary non-cash pre-tax goodwill impairment charge to the Commercial Cyber Solutions segment.

(3) Certain amounts have been adjusted for the correction of immaterial errors. See Note 1, of the Consolidated Financial Statements included in Item 15 of this Annual Report for more information. The effects of the revision on our quarterly information were as follows:

TABLE OF CONTENTS

| | First Quarter 2015 | | | Second Quarter 2015 | | |
|---|------------------------------|------------|---------------|------------------------------|-------------------|---------------|
| | As Previously Reported | Adjustment | As Revised | As Previously Reported | Adjustment (4) | As Revised |
| (In thousands, except per share data and unaudited) | | | | | | |
| Revenue | \$71,634 | \$— | \$71,634 | \$78,387 | \$— | \$78,387 |
| Gross Profit | 22,043 | — | 22,043 | 23,849 | — | 23,849 |
| Net Operating Loss | (7,230) | 425 | (6,805) | (3,902) | — | (3,902) |
| Net Loss | (6,102) | 255 | (5,847) | (35,267) | 3,591 | (31,676) |
| Loss per Share of Common Stock-basic | (0.16) | — | (0.16) | (0.92) | 0.09 | (0.83) |
| Loss per Share of Common Stock-diluted | (0.16) | — | (0.16) | (0.92) | 0.09 | (0.83) |
| Adjusted EBITDA (3) | 137 | 425 | 562 | 4,489 | — | 4,489 |
| | First Quarter 2014 | | | Second Quarter 2014 | | |
| | As Previously Reported | Adjustment | As Revised | As Previously Reported | Adjustment | As Revised |
| (In thousands, except per share data and unaudited) | | | | | | |
| Revenue | \$63,807 | \$— | \$63,807 | \$74,229 | \$— | \$74,229 |
| Gross Profit | 21,492 | — | 21,492 | 23,849 | — | 23,849 |
| Net Operating Loss | (3,888) | (462) | (4,350) | (1,487) | (196) | (1,683) |
| Net Loss | (3,076) | (270) | (3,346) | (1,730) | (110) | (1,840) |
| Loss per Share of Common Stock-basic | (0.08) | (0.01) | (0.09) | (0.05) | — | (0.05) |
| Loss per Share of Common Stock-diluted | (0.08) | (0.01) | (0.09) | (0.05) | — | (0.05) |
| Adjusted EBITDA (3) | 2,418 | (196) | 2,222 | 5,092 | (196) | 4,896 |
| | Third Quarter 2014 | | | Fourth Quarter 2014 | | |
| | As Previously Reported | Adjustment | As Revised | As Previously Reported | Adjustment | As Revised |
| (In thousands, except per share data and unaudited) | | | | | | |
| Revenue | \$78,969 | \$— | \$78,969 | \$73,525 | \$44 | \$73,569 |
| Gross Profit | 26,494 | — | 26,494 | 23,294 | 44 | 23,338 |
| Net Operating Loss | (1,702) | (196) | (1,898) | (5,111) | (311) | (5,422) |
| Net Loss | (3,022) | (111) | (3,133) | (5,036) | (180) | (5,216) |
| Loss per Share of Common Stock-basic | (0.08) | — | (0.08) | (0.13) | (0.01) | (0.14) |
| Loss per Share of Common Stock-diluted | (0.08) | — | (0.08) | (0.13) | (0.01) | (0.14) |
| Adjusted EBITDA (3) | 5,048 | (196) | 4,852 | 1,525 | (311) | 1,214 |

(3) Our previously reported quarterly Adjusted EBITDA was impacted by our corrections of immaterial errors as follows:

| | First Quarter 2015 | Second Quarter 2015 | First Quarter 2014 | Second Quarter 2014 | Third Quarter 2014 | Fourth Quarter 2014 |
|---|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| (In thousands, except per share data and unaudited) | | | | | | |
| Net Loss | 255 | 3,591 | (270) | (110) | (111) | (180) |
| Intangible Amortization | — | — | 266 | — | — | — |
| Income Tax (Benefit) Expense | 170 | (3,591) | (192) | (86) | (86) | (131) |
| Adjusted EBITDA | 425 | — | (196) | (196) | (197) | (311) |

(4) In the second quarter of 2015, the Company recorded an addition to its deferred tax valuation allowance of \$3.6 million.

TABLE OF CONTENTS

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 2015 to 2014 and comparing 2014 to 2013.

• **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, 2015.

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 2015, 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. We intend to continue our acquisition strategy as we find the right complementary companies at the right price.

Our 2016 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. KEYW has a meaningful presence in two of the 17 organizations that make up the U.S. Intelligence Community

to include the Officer of the Director of National Intelligence and a nominal presence in three other agencies. A key growth strategy for the company is to leverage the unique capabilities we have developed in our core customers to expand into the agencies where KEYW does not have a significant presence. We believe the capabilities we have developed for current customers will be attractive to a large percentage of the Intelligence Community, enabling a significant growth opportunity for KEYW.

TABLE OF CONTENTS

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

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"). The Company determines VSOE for each element based on historical stand-alone sales to third parties for the elements contained in the initial agreement. In determining VSOE, the Company requires that a substantial majority of the selling process fall within a fairly narrow pricing range. The Company has established VSOE of fair value for maintenance and professional services. If VSOE of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until such time as VSOE of fair value exists or until all elements of the arrangement are delivered, except in those circumstances in which the residual method may be used as described below.

TABLE OF CONTENTS

Some 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 relative selling price method, as noted above, for arrangements in which the software is sold with maintenance and/or professional services. When software is licensed on a subscription basis, revenue is recognized ratably over the length of the subscription, typically one to three years.

Software arrangements that also include hardware where the relative hardware and software components are both essential to the functionality are accounted for under ASC 605-25, "Multiple Element Arrangements". As such, we allocate revenue to each unit of accounting based on an estimated selling price at the arrangement inception. The estimated selling price for each element is based upon the following hierarchy: VSOE of selling price, if available, third-party evidence ("TPE") of selling price if VSOE of selling price is not available, or best estimate of selling price ("BESP") if neither VSOE of selling price nor TPE of selling price are available. The total arrangement consideration is allocated to each separate unit of accounting using the relative estimated selling prices of each unit based on the aforementioned selling price hierarchy. We limit the amount of revenue recognized for delivered elements to an amount that is not contingent upon future delivery of additional products or services or meeting of any specified performance conditions.

To determine the estimated selling price in multiple element arrangements, the Company determines VSOE for each element based on historical stand-alone sales to third parties for the elements contained in the initial agreement, as noted above. If VSOE of selling price cannot be established for a deliverable, we establish TPE of selling price by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated partners. However, as our products contain a significant element of proprietary technology and offer substantially different features and functionality from our competitors, we are unable to obtain comparable pricing of our competitors' products with similar functionality on a stand-alone basis. Therefore, we have not been able to obtain reliable evidence of TPE of selling price. If neither VSOE nor TPE of selling price can be established for a deliverable, we establish BESP primarily based on our pricing model and our go-to-market strategy.

All revenue is net of intercompany adjustments.

Inventories

Inventories are valued at the lower of cost or market. Our inventory consists of specialty products that we manufacture on a limited quantity basis for our customers. As of December 31, 2015 and 2014, we had inventory reserve balances of \$0.1 million and \$0.2 million 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 is recorded as goodwill. In accordance with FASB ASC Topic 350-20, Goodwill, the Company tests for impairment at least annually. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The Company operates two reporting units, Government Solutions and Commercial Cyber Solutions. 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 at the beginning of the fourth quarter of fiscal year 2015 and determined there was no impairment to the carrying value of goodwill.

Determining the fair value of a reporting unit is a judgment involving significant estimates and assumptions. These estimates and assumptions include revenue growth rates, operating margins and working capital requirements used to calculate projected future cash flows, risk-adjusted discount rates, selected multiples, control premiums and future economic and market conditions. We have based our fair value estimates on assumptions that we believe to be reasonable, but that are unpredictable and inherently

TABLE OF CONTENTS

uncertain. Items that could reasonably be expected to negatively affect key assumptions used in estimating fair value include but are not limited to:

- sustained decline in our stock price due to a decline in our financial performance due to the loss of key customers, loss of key personnel, emergence of new technologies or new competitors;
- decline in overall market or economic conditions leading to a decline in our stock price; and
- decline in observed control premiums paid in business combinations involving comparable companies.

The Government Solutions reporting unit used a discount rate of 12%, a residual growth rate of 5%, a tax rate of 40% and an applied control premium was 30%. Actual future results may differ from those estimates. Based on these estimates management determined for the evaluation performed during the beginning of the fourth quarter of 2015 that the estimated fair value of our Government Solutions reporting unit exceeded its carrying value by approximately 8%. However as future results may differ from those used in our estimates, goodwill related to our Government Solutions reporting unit may be impaired in a future period and the amount of such impairment may be material. Late in the fourth quarter of 2015, management began to evaluate strategic alternatives related to its Commercial Cyber Solutions segment. The Company began exploring the possibility of minority investments into this segment, the sale of the entire segment or the possibility of altering the level of investment going forward. The Company also implemented cost reductions subsequent to December 31, 2015 in this segment to reduce the funding required to cover operating losses and further committed to a reduced level of internal funding targeted to a range of \$5 million to \$7 million for 2016. Management believes these activities represented a triggering event and further believes that it is more likely than not that as a result of these activities and information, which came to light subsequent to December 31, 2015, relative to indications from prospective parties, that the fair value of the segment had fallen below the carrying value. As such the Company completed a Step 1 analysis of goodwill, which indicated the fair value was lower than the segment's carrying value. In accordance with ASC 350-20-35-18 management has elected to make an estimate of the goodwill impairment charge as of December 31, 2015, subject to finalizing a Step 2 analysis during the first quarter of 2016. The estimate was based on a number of factors including the estimated fair value of working capital assets, fixed assets, customer relationships, deferred revenue and developed technology as well as relevant market related data. The estimated impairment to goodwill for the Commercial Cyber Solutions segment as of December 31, 2015 is \$8.0 million.

The amount of goodwill allocated to Government Solutions and Commercial Cyber Solutions reporting units at December 31, 2015 was \$297.2 million and \$7.5 million, respectively.

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.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enacted date. In evaluating our ability to realize our deferred tax assets, we consider all available positive and negative evidence, including cumulative historic earnings, reversal of deferred tax liabilities, projected taxable income, and tax planning strategies. The assumptions utilized in evaluating both positive and negative evidence require the use of significant judgment concerning our business plans surrounding both our Government Solutions segment and our Commercial Solutions segment.

For a tax position that meets the more-likely-than-not recognition threshold, the Company initially and subsequently measures the tax liability or benefit as the largest amount that it judges to have a greater than 50% likelihood of being

realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax obligations or benefits and subsequent adjustments as considered appropriate by management. The Company's policy is to record interest and penalties as an increase in the liability for uncertain tax obligations or benefits and a corresponding increase to the income tax provision. No material adjustments were recorded as of December 31, 2015, 2014, or 2013.

TABLE OF CONTENTS

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. The Company had originally adopted a stock option plan in 2008. The Company applies the fair value method that requires all share-based payments to employees and non-employee directors, including grants of employee stock options, to be expensed over their requisite service period based on their fair value at the grant date, using a prescribed option-pricing model. The expense recognized is based on the straight-line amortization of each individually vesting piece of a grant. The calculated expense is required to be based upon awards that ultimately vest and we have accordingly reduced the expense by estimated forfeitures.

The following assumptions were used for options granted.

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

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

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

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, 2015 | | | Year ended December 31, 2014 (1) | | | Year ended December 31, 2013 (1) | | |
|-----------------------------------|---------------------------------|-----|---|--|-----|---|--|-----|---|
| Revenue | \$311,810 | 100 | % | \$290,574 | 100 | % | \$298,732 | 100 | % |
| Gross Margin | 99,590 | 32 | % | 95,173 | 33 | % | 99,512 | 33 | % |
| Operating Expenses | 106,907 | 34 | % | 96,364 | 33 | % | 85,670 | 29 | % |
| Intangible Amortization | 11,449 | 4 | % | 12,162 | 4 | % | 24,658 | 8 | % |
| Non-Operating Expense | 10,258 | 3 | % | 8,804 | 3 | % | 9,792 | 3 | % |
| Income Tax Expense (Benefit), net | 21,598 | 7 | % | (8,622) | (3) | % | (9,389) | (3) | % |

(1) Certain amounts have been adjusted for the correction of immaterial errors. See Note 1, of the Consolidated Financial Statements included in Item 15 of this Annual Report for more information.

Revenue

Revenue increased by \$21.2 million or 7%, for 2015 as compared to 2014. The increase in revenue in 2015 from 2014 was a result of Government Solutions segment revenue increasing by \$18.7 million and a \$2.6 million increase in our Commercial Cyber Solutions segment revenue. The increase in Government Solutions revenue was driven primarily by the growth in its products business and the two acquisitions made during the first quarter of 2015.

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 certain programs especially during the first half of

2014 and lower run rates on certain government professional services contracts.

40

TABLE OF CONTENTS**Gross Margin**

Gross margin increased in total dollars by \$4.4 million, but decreased slightly as a percentage of revenue from 2014 to 2015. The increase in dollars related to the increase in revenue in 2015 from 2014. The decrease in gross margin as a percentage of revenue related to certain services contract rate reductions, increased costs in our aviation services operation and higher sales of lower margin products on a year-over-year basis.

Gross margin decreased in total dollars by \$4.3 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.

Operating Expenses

Cost of operations increased in total dollars by \$10.5 million and slightly as a percentage of revenue from 2014 to 2015. This was due to increased infrastructure within the Commercial Cyber segment, the 2015 acquisitions and related acquisition costs and the new Milestone facility, which we moved into during the third quarter of 2015.

Our cost of operations for 2014 increased by \$10.7 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.

Intangible Amortization

Intangible amortization expense decreased by \$0.7 million in 2015 as compared to 2014. The decrease was primarily a result of certain intangibles from prior acquisitions becoming fully amortized during 2014 and throughout 2015, partially offset by the 2015 acquisitions.

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.

Non-Operating Expense

2015 non-operating expense consists primarily of interest expense. Interest expense totaled \$10.3 million in 2015. The increase in interest expense from 2014 is primarily due to the full year impact of our increased level of debt due to the issuing of our convertible notes during the third quarter of 2014.

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.

Income Tax Expense (Benefit), net

The effective tax rate was (74.7%), 38.7% and 45.7% for 2015, 2014 and 2013, respectively. The provision for income tax for 2015 includes the recording of a net valuation allowance of \$19.6 million as a discrete item. The valuation allowance was established due to the uncertainty of the utilization of deferred tax assets in future periods. In evaluating the Company's ability to realize the deferred tax assets we considered all available positive and negative evidence. The Company's negative evidence currently outweighs its positive evidence therefore it is more-likely-than-not that we will not realize a significant portion of our deferred tax assets. The amount of the deferred tax asset to be realized in the future could however be adjusted if objective negative evidence is no longer present.

| GOVERNMENT SOLUTIONS SEGMENT RESULTS (In thousands) | Year ended December 31, 2015 | | | Year ended December 31, 2014 (1) | | | Year ended December 31, 2013 (1) | | |
|--|---------------------------------|-----|---|--|-----|---|--|-----|---|
| Revenue | \$297,935 | 100 | % | \$279,250 | 100 | % | \$288,909 | 100 | % |
| Gross Margin | 89,729 | 30 | % | 86,342 | 31 | % | 91,529 | 32 | % |
| Operating Expenses | 63,387 | 21 | % | 56,862 | 20 | % | 66,011 | 23 | % |
| Intangible Amortization | 7,087 | 2 | % | 7,737 | 3 | % | 20,533 | 7 | % |

(1) Certain amounts have been adjusted for the correction of immaterial errors. See Note 1, of the Consolidated Financial Statements included in Item 15 of this Annual Report for more information.

TABLE OF CONTENTS**Revenue**

Revenue increased by \$18.7 million, or \$6.7% in 2015 as compared to 2014. The increase in year-over-year revenue was due to increased government product sales, the 2015 acquisitions and the continued expansion of our government cyber training initiative, which were partially offset by lower revenue on certain services contracts.

Revenue decreased by \$9.7 million in 2014 as compared to 2013. 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.

Gross Margin

Gross margin increased in dollars and decreased slightly as a percentage of revenue for 2015 as compared to 2014. The decrease in gross margin as a percentage of revenue is due to certain services contract rate reductions, increased costs in our aviation services operation and higher sales of lower margin products on a year-over-year basis.

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.

Operating Expense

Operating expense increased \$6.5 million and was basically flat as a percentage of revenue for 2015, as compared to 2014. The increase in year-over-year operating expense was due to the 2015 acquisitions and related acquisition costs and the new Milestone facility, which we moved into during the third quarter of 2015.

Operating expense decreased \$9.1 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.

Intangible Amortization

Intangible amortization expense has decreased by \$0.7 million in 2015 as compared to 2014. The decrease was primarily a result of certain intangibles from prior acquisitions becoming fully amortized during 2014 and throughout 2015, partially offset by intangibles resulting from the 2015 acquisitions.

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.

| COMMERCIAL CYBER SOLUTIONS SEGMENT RESULTS (In thousands) | Year ended December 31, 2015 | | | Year ended December 31, 2014 (1) | | | Year ended December 31, 2013 (1) | | |
|--|---------------------------------|-----|---|--|-----|---|--|-----|---|
| Revenue | \$13,875 | 100 | % | \$11,324 | 100 | % | \$9,823 | 100 | % |
| Gross Margin | 9,861 | 71 | % | 8,831 | 78 | % | 7,983 | 81 | % |
| Operating Expenses | 43,520 | 314 | % | 39,502 | 349 | % | 19,659 | 200 | % |
| Intangible Amortization | 4,362 | 31 | % | 4,425 | 39 | % | 4,125 | 42 | % |

(1) Certain amounts have been adjusted for the correction of immaterial errors. See Note 1, of the Consolidated Financial Statements included in Item 15 of this Annual Report for more information.

Revenue

Revenue for 2015 increased by \$2.6 million, or 23%, on a year-over-year basis. Revenue is derived primarily from Hawkeye AP and Hawkeye G sales. Hawkeye AP sales accounted for 82% or \$11.3 million, of total Commercial Cyber Solutions revenue and Hawkeye G sales accounted for \$2.4 million or 17%. The increase in revenue was driven primarily by increased HawkEye AP revenue.

TABLE OF CONTENTS

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.

Gross Margin

Gross margin increased in dollars and decreased as a percentage of revenue for 2015, as compared to 2014. The decrease in gross margin relates to increased costs for Hawkeye G product delivery including materials and personnel. 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.

Operating Expense

Operating expense increased \$4.0 million during 2015, on year-over-year basis. The main drivers for the increase was the loss on disposal of certain long-lived assets and additional investment in infrastructure related to our new software platform. During 2015 we increased our sales team, continued investment in our customer delivery infrastructure and continued to build out our technical team.

Operating expense increased \$19.8 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.

Intangible Amortization

Intangible amortization decreased slightly in 2015 compared to 2014 as a result of certain intangibles from prior acquisitions becoming fully amortized, partially offset by the full year impact of the 2014 acquisitions.

Intangible amortization increased slightly in 2014 compared to 2013 as a result of the 2014 acquisitions, partially offset by certain intangibles from prior acquisitions becoming fully amortized.

Liquidity and Capital Resources

At December 31, 2015, we had approximately \$21.2 million in cash and cash equivalents. During 2015 we had several significant cash events including warrant holders exercising approximately 1.8 million warrants, the acquisitions of Milestone Intelligence Group, Inc., Ponte Technologies, LLC and certain assets of Innovative Engineering Solutions, Inc. and continued infrastructure spending to establish our Commercial Cyber Solutions business.

Cash from Operations

Operations provided approximately \$12.3 million in cash during 2015. This amount primarily consisted of our net loss plus non-cash adjustments for depreciation, amortization, goodwill impairment charges, stock compensation and deferred taxes, partially offset by cash used for increased working capital needs. 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.

We had a number of non-cash adjustments to our net loss in 2015, including intangible amortization, depreciation, goodwill impairment charges, stock compensation expense, amortization of convertible debt discount and changes in our deferred taxes. Intangible amortization was approximately \$11.4 million in 2015 and is expected to decrease in 2016 due to the reduction from fully amortized intangibles from earlier acquisitions. We expect intangible amortization, without any additional acquisitions, to be approximately \$7.4 million in 2016. Stock compensation expense was \$5.5 million in 2015. Depreciation expense for 2015 was \$8.4 million. The goodwill impairment charge for 2015 was \$8.0 million.

TABLE OF CONTENTS

Investing and Financing

During 2015, we spent approximately \$21.0 million in cash and equity consideration to complete three 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.

TABLE OF CONTENTS

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.

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.

TABLE OF CONTENTS

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.

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).

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.

In February 2016, the Company amended the Credit Agreement by adjusting the minimum cash interest coverage ratio covenant effective for the quarters ended December 31, 2015, and March 31, 2016 to 2.25:1.00 and 3.25:1.00, respectively, and increasing the applicable interest rates with respect to the Credit Agreement’s consolidated senior secured leverage ratio pricing tiers. The amendment permanently decreases the amount available under the revolver to \$20.0 million. At December 31, 2015, we were in compliance with all of our debt 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.

As of December 31, 2015, we had \$20 million available under our Revolver.

Outlook

We expect cash on hand, operating cash flow, and access to our line of credit will provide sufficient liquidity for fiscal 2016. We expect that our 2016 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

TABLE OF CONTENTS

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 may 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 and the amount of equity we include in any 2016 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 2016 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 2016 with regard to these instruments. The total potential cash inflows from these instruments, if all exercised for cash, would be approximately \$29 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 | \$61,460 | \$8,801 | \$17,142 | \$14,407 | \$21,110 |
| Office equipment | 181 | 81 | 100 | — | — |
| Total Operating Leases | 61,641 | 8,882 | 17,242 | 14,407 | 21,110 |
| Debt | 149,500 | — | — | 149,500 | — |
| Total Contractual Obligations | \$211,141 | \$8,882 | \$17,242 | \$163,907 | \$21,110 |

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, 2015, we had \$149.5 million aggregate principal amount of 2.5% convertible senior notes due 2019 (the "Notes"). As the Notes are fixed rate instruments, as of December 31, 2015, 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.

TABLE OF CONTENTS

Item CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL
9. DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings and submissions to the Securities and Exchange Commission (the “SEC”) under the Exchange Act is recorded, processed, and reported within the time periods specified in the SEC’s rules and forms. Such controls include those designed to ensure that information is accumulated and communicated to management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosures.

An evaluation was conducted under the supervision and with the participation of management, including the CEO and CFO, on the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, the CEO and CFO concluded that as of December 31, 2015, our disclosure controls and procedures were not effective because of the material weaknesses described below under Management's Annual Report on Internal Control Over Financial Reporting.

In light of the material weaknesses in internal control over financial reporting, we engaged significant internal and external resources to perform supplemental procedures prior to filing this Annual Report on Form 10-K. These additional procedures have allowed us to conclude that, notwithstanding the material weaknesses in our internal control over financial reporting, the consolidated financial statements included in this report fairly present, in all material respects, the Company’s financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

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, 2015, 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. Based on this evaluation, management concluded that material weaknesses in internal control over financial reporting existed as of December 31, 2015, as described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Based on our assessment, management has concluded that the deficiencies stated below represent material weaknesses in our internal control over financial reporting as of December 31, 2015. We reviewed the results of management's

assessment with the audit committee of our board of directors.

As part of its evaluation of internal control over financial reporting described above, management concluded a failure to establish an effective control environment and monitoring activities in three separate areas. Management has determined that the Company did not design and maintain effective internal controls over the following three items:

Accounting for goodwill and other indefinite-lived intangible assets. Specifically, the Company did not maintain 1. effective controls related to the preparation or review of the long-term forecasts and related assumptions, data and calculations used in its annual impairment tests and for the maintenance of related documentation.

TABLE OF CONTENTS

Accounting for the valuation of inventory. Specifically, our processes lacked adequate levels of monitoring and

2. review controls to identify and correct inventory errors in a timely manner, including the capitalization of general and administrative costs into our ending inventory.

Evaluation of, and accounting for, complex multiple element revenue arrangements. Specifically, our controls are not appropriately designed internal controls to analyze contracts to determine if they should be accounted for in

3. accordance with software revenue accounting (FASB Accounting Standards Codification ("ASC") 985, Software) or as a multiple element arrangement (ASC 605-25, Revenue Recognition: Multiple-Element Arrangements), and to evaluate the proper revenue recognition policy to apply.

Plan for Remediation of Material Weaknesses on Internal Control Over Financial Reporting

The Company has begun to implement a number of remediation steps to address the material weaknesses described above, led by our chief financial officer and corporate controller. The following actions have begun and will be further developed during 2016:

We are enhancing our procedures to better formalize our process over the creation of long term forecasts, and to improve the level of documentation that exists with respect to the development of our annual long-term forecast. Specific enhancements will include procedures to improve our process of retaining documentation throughout forecast creation, along with the documentation of management's review.

We are augmenting our internal controls over financial reporting related to inventory to include controls designed specifically to assess costs capitalized into inventory at a higher level of precision. Management has completed a change in its internal processes and has enhanced monitoring activities designed to review and conclude proper accounting treatment for inventory and related period costs is applied consistently.

We are enhancing our internal controls over financial reporting to properly assess the revenue recognition of individual multiple element sales in our Commercial Cyber Segment which may include software, hardware, training and professional services to ensure they are properly recognizing revenue in accordance with GAAP. Controls will be enhanced to capture and document the impact of complex transactions that are unique in nature and require additional consideration prior to concluding on the proper revenue recognition.

As a global approach to addressing these material weaknesses, management will enhance their approach to evaluating complex transactions at a level of precision that minimizes the risk of material misstatement to an acceptable level and document these conclusions.

The Company is committed to maintaining a strong internal control environment and believes that these remediation efforts will represent significant improvements in our controls. The Company has started to implement these steps, however, some of these steps will take time to be fully integrated and confirmed to be effective and sustainable.

Additional controls may also be required over time. Until the remediation steps set forth above are fully implemented and tested, the material weakness described above will continue to exist.

Attestation Report of the Independent Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2015, 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 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting; other than the Company enhancing the controls around the quarterly and annual tax provision calculations by adding an additional level of management review at a more precise level.

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,

TABLE OF CONTENTS

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.

50

TABLE OF CONTENTS

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be included in and is incorporated herein by reference from our 2016 Proxy Statement.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item will be included in and is incorporated herein by reference from our 2016 Proxy Statement.

51

TABLE OF CONTENTS

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

The information required by this Item will be included in and is incorporated herein by reference from our 2016 Proxy Statement.

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.

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

The information required by this Item will be included in and is incorporated herein by reference from our 2016 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item will be included in and is incorporated herein by reference from our 2016 Proxy Statement.

TABLE OF CONTENTS

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm

F-1 – F-3

Consolidated Balance Sheets

F-4

Consolidated Statements of Operations

F-5

Consolidated Statements of Changes in Stockholders' Equity

F-6

Consolidated Statements of Cash Flows

F-7

Notes to Consolidated Financial Statements

F-8 – F-30

Financial Statement Schedules — All financial statement schedules required by Item 8 and Item 15 of Form 10-K (2) 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, 2015, 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.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment: (i) accounting for goodwill and other indefinite-lived intangible assets. Specifically, the Company did not maintain effective controls related to the preparation or review of the long-term forecasts and related assumptions, data and calculations used in the Company's annual impairment tests and for the maintenance of related documentation; (ii) accounting for the valuation of inventory. Specifically, the Company's processes lacked adequate levels of monitoring and review controls to identify and correct inventory errors in a timely manner, including the capitalization of general and administrative costs into the Company's ending inventory; (iii) evaluation of, and accounting for, complex multiple element revenue arrangements. Specifically, the Company's controls are not appropriately designed internal controls to analyze contracts to determine if they should be accounted for in accordance with software revenue accounting (FASB Accounting Standards Codification ("ASC") 985, Software) or as a multiple element arrangement (ASC 605-25, Revenue Recognition: Multiple-Element

Arrangements), and to evaluate the proper revenue recognition policy to apply.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO.

F-1

TABLE OF CONTENTS

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, 2015. The material weakness identified above was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2015 consolidated financial statements, and this report does not affect our report dated March 15, 2016, which expressed an unqualified opinion on those financial statements.

We do not express an opinion or any other form of assurance on management's remediation plans for the identified material weaknesses.

/s/ GRANT THORNTON LLP

Baltimore, Maryland
March 15, 2016

F-2

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, 2015 and 2014, 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, 2015. 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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, 2015, 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 15, 2016, expressed an adverse opinion.

/s/GRANT THORNTON LLP

Baltimore, Maryland

March 15, 2016

F-3

TABLE OF CONTENTSTHE KEYW HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

| | December 31, 2015 | December 31, 2014 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$21,227 | \$39,601 |
| Receivables | 58,367 | 57,005 |
| Inventories, net | 17,780 | 13,375 |
| Prepaid expenses | 1,883 | 2,207 |
| Income tax receivable | 302 | 3,951 |
| Deferred tax assets, current | — | 2,878 |
| Total current assets | 99,559 | 119,017 |
| Property and equipment, net | 34,091 | 28,634 |
| Goodwill | 304,690 | 295,984 |
| Other intangibles, net | 13,557 | 21,109 |
| Other assets | 1,508 | 1,909 |
| TOTAL ASSETS | \$453,405 | \$466,653 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$11,607 | \$10,266 |
| Accrued expenses | 9,582 | 7,337 |
| Accrued salaries & wages | 11,014 | 11,573 |
| Deferred revenue | 3,441 | 4,488 |
| Deferred income taxes | 964 | — |
| Total current liabilities | 36,608 | 33,664 |
| Long-term liabilities: | | |
| Convertible senior notes, net of discount | 126,188 | 120,107 |
| Non-current deferred tax liabilities | 26,890 | 7,045 |
| Other non-current liabilities | 11,894 | 6,619 |
| TOTAL LIABILITIES | 201,580 | 167,435 |
| Commitments and contingencies | — | — |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; 5 million shares authorized, none issued | — | — |
| Common stock, \$0.001 par value; 100 million shares authorized, 39,940,667 and 37,601,474 shares issued and outstanding | 40 | 38 |
| Additional paid-in capital | 327,045 | 315,818 |
| Accumulated deficit | (75,260) | (16,638) |
| Total stockholders' equity | 251,825 | 299,218 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$453,405 | \$466,653 |

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

TABLE OF CONTENTSTHE KEYW HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

| | Year ended December 31, 2015 | Year ended December 31, 2014 | Year ended December 31, 2013 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Revenues | | | |
| Government Solutions | \$297,935 | \$279,250 | \$288,909 |
| Commercial Cyber Solutions | 13,875 | 11,324 | 9,823 |
| Total | 311,810 | 290,574 | 298,732 |
| Costs of Revenues, excluding amortization | | | |
| Government Solutions | 208,206 | 192,908 | 197,380 |
| Commercial Cyber Solutions | 4,014 | 2,493 | 1,840 |
| Total | 212,220 | 195,401 | 199,220 |
| Gross Profit | | | |
| Government Solutions | 89,729 | 86,342 | 91,529 |
| Commercial Cyber Solutions | 9,861 | 8,831 | 7,983 |
| Total | 99,590 | 95,173 | 99,512 |
| Operating Expenses | | | |
| Operating expenses | 106,907 | 96,364 | 85,670 |
| Impairment of goodwill | 8,000 | — | — |
| Intangible amortization expense | 11,449 | 12,162 | 24,658 |
| Total | 126,356 | 108,526 | 110,328 |
| Operating Loss | (26,766) |) (13,353 |) (10,816) |
| Non-Operating Expense, net | 10,258 | 8,804 | 9,792 |
| Loss before Income Taxes | (37,024) |) (22,157 |) (20,608) |
| Income Tax Expense (Benefit), net | 21,598 | (8,622) |) (9,389) |
| Net Loss | \$(58,622) |) \$(13,535 |) \$(11,219) |
| Weighted-Average Common Shares Outstanding | | | |
| Basic | 38,722,340 | 37,442,680 | 36,618,919 |
| Diluted | 38,722,340 | 37,442,680 | 36,618,919 |
| Loss per Share | | | |
| Basic | \$(1.51) |) \$(0.36 |) \$(0.31) |
| Diluted | \$(1.51) |) \$(0.36 |) \$(0.31) |

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

F-5

TABLE OF CONTENTS

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

| | Common Stock | | Additional | (Accumulated | Total |
|---|--------------|--------|------------------------------|----------------------------------|-------------------------|
| | Shares | Amount | Paid-In Capital (APIC) | Deficit) Retained Earnings | Shareholders' Equity |
| BALANCE, JANUARY 1, 2013 | 36,135,542 | \$36 | \$292,715 | \$8,116 | \$300,867 |
| Net loss | — | — | — | (11,219 |) (11,219) |
| 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 | (3,103 |) 299,491 |
| Net loss | — | — | — | (13,535 |) (13,535) |
| Warrant exercise, net | 31,097 | — | 132 | — | 132 |
| Option exercise, net | 293,795 | 1 | 1,355 | — | 1,356 |
| Restricted stock issuances | 279,123 | — | 3,312 | — | 3,312 |
| Restricted stock forfeitures | (24,137 |) — | (164 |) — | (164) |
| Equity issued as part of acquisitions, net | 95,866 | — | 1,016 | — | 1,016 |
| Stock based compensation | — | — | 3,273 | — | 3,273 |
| Conversion feature of convertible debt, net of expenses | — | — | 22,740 | — | 22,740 |
| Purchase of capped calls | — | — | (18,403 |) — | (18,403) |
| BALANCE, DECEMBER 31, 2014 | 37,601,474 | 38 | 315,818 | (16,638 |) 299,218 |
| Net loss | — | — | — | (58,622 |) (58,622) |
| Warrant exercise, net | 1,503,859 | 2 | 4,548 | — | 4,550 |
| Option exercise, net | 73,794 | — | (463 |) — | (463) |
| Restricted stock issuances | 591,015 | — | 4,165 | — | 4,165 |
| Restricted stock forfeitures | (47,800 |) — | (283 |) — | (283) |
| Equity issued as part of an acquisition | 242,250 | — | 1,858 | — | 1,858 |
| Equity canceled related to a previous acquisition | (23,925 |) — | (240 |) — | (240) |
| Stock based compensation | — | — | 1,642 | — | 1,642 |
| BALANCE, DECEMBER 31, 2015 | 39,940,667 | \$40 | \$327,045 | \$(75,260 |) \$251,825 |

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

TABLE OF CONTENTSTHE KEYW HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | Year ended December 31, 2015 | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|------------------------------------|------------------------------------|------------------------------------|
| Net loss | \$(58,622 |) \$(13,535 |) \$(11,219 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Share-based compensation | 5,524 | 6,421 | 5,731 |
| Depreciation/amortization | 19,849 | 19,623 | 30,933 |
| Impairment of goodwill | 8,000 | — | — |
| Amortization of discount of convertible debt | 5,149 | 2,209 | — |
| Write-off of deferred financing costs | — | 1,976 | — |
| Loss on disposal of long-lived assets | 1,186 | — | 20 |
| Non-cash impact of TI earn-out reduction | — | — | (146 |
| Shortfall (windfall) tax benefit from option exercise | 823 | (1,044 |) (219 |
| Deferred taxes | 22,428 | (6,379 |) (7,329 |
| Changes in balance sheet items: | | | |
| Receivables | 1,368 | (4,307 |) 7,587 |
| Inventory | (4,441 |) (2,977 |) (1,286 |
| Prepaid expenses | 356 | (583 |) (114 |
| Income tax receivable | 2,827 | 1,896 | (4,283 |
| Accounts payable | 1,341 | 2,262 | 184 |
| Accrued expenses | 5,134 | 2,158 | (4,262 |
| Other balance sheet changes | 1,336 | 714 | (477 |
| Net cash provided by operating activities | 12,258 | 8,434 | 15,120 |
| Cash flows from investing activities: | | | |
| Acquisitions, net of cash acquired | (20,991 |) (2,940 |) (6,751 |
| Purchase of property and equipment | (13,286 |) (8,022 |) (6,236 |
| Capitalized software development costs | (456 |) (1,489 |) (2,716 |
| Proceeds from sale of equipment | — | — | 28 |
| Net cash used in investing activities | (34,733 |) (12,451 |) (15,675 |
| 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 revolver | — | 46,000 | 60,000 |
| Repayment of debt | — | (131,000 |) (64,688 |
| (Shortfall) windfall tax benefit from option exercise | (823 |) 1,044 | 219 |
| Proceeds from option and warrant exercises, net | 4,924 | 443 | 1,865 |
| Net cash provided by (used in) financing activities | 4,101 | 41,138 | (2,604 |
| Net (decrease) increase in cash and cash equivalents | (18,374 |) 37,121 | (3,159 |
| Cash and cash equivalents at beginning of period | 39,601 | 2,480 | 5,639 |
| Cash and cash equivalents at end of period | \$21,227 | \$39,601 | \$2,480 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | \$3,914 | \$1,734 | \$3,555 |
| Cash (refunded) paid for taxes | \$(3,601 |) \$84 | \$2,646 |

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| | | | |
|-------------------------------------|---------|---------|---------|
| Equity issued for acquisitions, net | \$1,618 | \$1,016 | \$2,027 |
| Non-cash fixed asset additions | \$5,652 | \$— | \$— |

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

F-7

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.

Prior Period Financial Statement Correction of Immaterial Errors, Reclassifications, and Accounting Changes

In 2015, we determined that certain selling general and administrative costs were not properly accounted for and had been capitalized as part of inventory and property and equipment, net. This resulted in an overstatement of inventory and property and equipment, net while understating cumulative historical expenses. Additionally, we identified certain long lived assets that were placed into service during the fourth quarter of 2013, but with respect to which amortization was not recognized until the second quarter of 2014, which resulted in an overstatement of property and equipment, net and an understatement of cumulative historical expenses. We determined that our 2014 accrual for medical self-insurance cost that were incurred but not recorded ("IBNR") was underestimated resulting in an understatement of accrued expense and cumulative historical expenses. We determined that certain software sales from 2014 had not been accounted for properly resulting in an understatement of revenue and receivables. Also we identified an error related to recording a deferred tax liability and the related impact on additional paid in capital in connection with our 2.5% Convertible Senior Notes issued in the third quarter of 2014.

We assessed the materiality of these errors on our financial statements for prior periods in accordance with United States Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 99, Materiality, codified in Accounting Standards Codification ("ASC") 250, Presentation of Financial Statements, and concluded that they were not material to any prior annual or interim periods. However, the aggregate amount of the prior period corrections of immaterial errors in addition to the current year correction of approximately \$1.1 million would have been material to the quarterly amounts within our current Consolidated Statements of Operations. Consequently, in accordance with ASC 250 (specifically SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), we have corrected these errors for all prior years presented by revising the consolidated financial statements and other financial information included herein. We also corrected the timing of immaterial previously recorded out-of-period adjustments and reflected them in the revised prior period financial statements, where applicable. Periods not presented herein will be revised, as applicable, in future filings.

Additionally, as further discussed in "Recently Issued Accounting Pronouncements" below, we adopted the provisions of an accounting standard amendment earlier than required, resulting in the retrospective reclassification of debt issuance costs from other assets to a reduction of long-term debt. The effects on the Consolidated Balance Sheets are included in the information below.

TABLE OF CONTENTS

The effects of the revisions and adoption of accounting standard on our Consolidated Balance Sheets were as follows (in thousands):

| | As Previously Reported December 31, 2014 | Debt Issuance Cost Reclassification | Adjustment | As Revised December 31, 2014 |
|---|---|---|-----------------|------------------------------------|
| Receivables | \$56,961 | \$— | \$44 | \$57,005 |
| Inventories, net | 14,861 | — | (1,486) | 13,375 |
| Prepaid expenses | 3,139 | (932) | — | 2,207 |
| Total current assets | 121,391 | (932) | (1,442) | 119,017 |
| Property and equipment, net | 29,341 | — | (707) | 28,634 |
| Other assets | 5,208 | (3,299) | — | 1,909 |
| TOTAL ASSETS | 473,033 | (4,231) | (2,149) | 466,653 |
| Accrued expenses | 7,009 | — | 328 | 7,337 |
| Accrued salaries & wages | 11,648 | — | (75) | 11,573 |
| Total current liabilities | 33,411 | — | 253 | 33,664 |
| Convertible senior notes, net of discount | 124,338 | (4,231) | — | 120,107 |
| Non-current deferred tax liability | 4,294 | — | 2,751 | 7,045 |
| TOTAL LIABILITIES | 168,662 | (4,231) | 3,004 | 167,435 |

The effects of the correction of immaterial errors on our Consolidated Statements of Operations were as follows (in thousands except per share amounts):

| | Year ended December 31, 2014 | | | Year ended December 31, 2013 | | |
|---|------------------------------|------------|---------------|------------------------------|------------|---------------|
| | As Previously Reported | Adjustment | As Revised | As Previously Reported | Adjustment | As Revised |
| Revenues – Commercial Cyber Solutions | \$11,280 | \$44 | \$11,324 | \$9,823 | \$— | \$9,823 |
| Total Revenues | 290,530 | 44 | 290,574 | 298,732 | — | 298,732 |
| Gross Profit – Commercial Cyber Solutions | 8,787 | 44 | 8,831 | 7,983 | — | 7,983 |
| Total Gross Profit | 95,129 | 44 | 95,173 | 99,512 | — | 99,512 |
| Operating Expenses | 95,155 | 1,209 | 96,364 | 84,701 | 969 | 85,670 |
| Operating Loss | (12,188) | (1,165) | (13,353) | (9,847) | (969) | (10,816) |
| Loss before Income Taxes | (20,992) | (1,165) | (22,157) | (19,639) | (969) | (20,608) |
| Income Tax Benefit, net | (8,128) | (494) | (8,622) | (9,005) | (384) | (9,389) |
| Net Loss | (12,864) | (671) | (13,535) | (10,634) | (585) | (11,219) |
| Loss per Share | | | | | | |
| Basic | (0.34) | (0.02) | (0.36) | (0.29) | (0.02) | (0.31) |
| Diluted | (0.34) | (0.02) | (0.36) | (0.29) | (0.02) | (0.31) |

TABLE OF CONTENTS

The effects of the correction of immaterial errors on our Consolidated Statements of Changes in Stockholders' Equity were as follows (in thousands except per share amounts):

| | Additional Paid-In Capital (APIC) | (Accumulated Deficit) Retained Earnings | Total Shareholders' Equity |
|--|---|--|----------------------------------|
| As Previously Reported January 1, 2013 | \$292,715 | \$8,277 | \$301,028 |
| Adjustment | — | (161) | (161) |
| As Revised January 1, 2013 | \$292,715 | \$8,116 | \$300,867 |
| As Previously Reported December 31, 2013 | \$302,557 | \$(2,357) | \$300,237 |
| Adjustment | — | (746) | (746) |
| As Revised December 31, 2013 | \$302,557 | \$(3,103) | \$299,491 |
| As Previously Reported December 31, 2014 | \$319,554 | \$(15,221) | \$304,371 |
| Adjustment | (3,736) | (1,417) | (5,153) |
| As Revised December 31, 2014 | \$315,818 | \$(16,638) | \$299,218 |

The effects of the correction of immaterial errors on our Consolidated Statements of Cash Flows were as follows (in thousands):

| | Year ended December 31, 2014 | | | Year ended December 31, 2013 | | |
|---|------------------------------|------------|---------------|------------------------------|------------|---------------|
| | As Previously Reported | Adjustment | As Revised | As Previously Reported | Adjustment | As Revised |
| Net Loss | \$(12,864) |) \$(671) |) \$(13,535) | \$(10,634) |) \$(585) |) \$(11,219) |
| Depreciation and amortization expense | 19,357 | 266 | 19,623 | 30,667 | 266 | 30,933 |
| Windfall tax benefit from option exercise | (1,189) |) 145 | (1,044) | (219) |) — | (219) |
| Deferred taxes | (5,545) |) (834) | (6,379) | (7,191) |) (138) | (7,329) |
| Receivables | (4,263) |) (44) | (4,307) | 7,587 | — | 7,587 |
| Inventory, net | (3,492) |) 515 | (2,977) | (1,989) |) 703 | (1,286) |
| Income tax receivable | 1,556 | 340 | 1,896 | (4,037) |) (246) | (4,283) |
| Accrued expenses | 1,905 | 253 | 2,158 | (4,262) |) — | (4,262) |
| Net cash provided by operating activities | 8,464 | (30) | 8,434 | 15,120 | — | 15,120 |
| Purchase of property and equipment | (8,197) |) 175 | (8,022) | (6,236) |) — | (6,236) |
| Net cash used in investing activities | (12,626) |) 175 | (12,451) | (15,675) |) — | (15,675) |
| Windfall tax benefit from option exercise | 1,189 | (145) | 1,044 | 219 | — | 219 |
| Net cash provided by (used in) financing activities | 41,283 | (145) | 41,138 | (2,604) |) — | (2,604) |
| 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

F-10

TABLE OF CONTENTS

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"). The Company determines VSOE for each element based on historical stand-alone sales to third parties for the elements contained in the initial agreement. In determining VSOE, the Company requires that a substantial majority of the selling process fall within a fairly narrow pricing range. The Company has established VSOE of fair value for maintenance and professional services. If VSOE of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until such time as VSOE of fair value exists or until all elements of the arrangement are delivered, except in those circumstances in which the residual method may be used as described below.

Some 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 relative selling price method, as noted above, for arrangements in which the software is sold with maintenance and/or professional services. When software is licensed on a subscription basis, revenue is recognized ratably over the length of the subscription, typically one to three years.

Software arrangements that also include hardware where the relative hardware and software components are both essential to the functionality are accounted for under ASC 605-25, "Multiple Element Arrangements". As such, we allocate revenue to each unit of accounting based on an estimated selling price at the arrangement inception. The estimated selling price for each element is based upon the following hierarchy: VSOE of selling price, if available, third-party evidence ("TPE") of selling price if VSOE of selling price is not available, or best estimate of selling price ("BESP") if neither VSOE of selling price nor TPE of selling price are available. The total arrangement consideration is allocated to each separate unit of accounting using the relative estimated selling prices of each unit based on the aforementioned selling price hierarchy. We limit the amount of revenue recognized for delivered elements to an amount that is not contingent upon future delivery of additional products or services or meeting of any specified

performance conditions.

To determine the estimated selling price in multiple element arrangements, the Company determines VSOE for each element based on historical stand-alone sales to third parties for the elements contained in the initial agreement, as noted above. If VSOE of selling price cannot be established for a deliverable, we establish TPE of selling price by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated partners. However, as our products contain a significant element of proprietary technology and offer substantially different features and functionality from our competitors, we are unable to obtain comparable pricing of our competitors' products with similar functionality on a stand-alone basis. Therefore, we have not been able to obtain reliable evidence of TPE of selling price. If neither VSOE nor TPE of selling price can be established for a deliverable, we establish BEBP primarily based on our pricing model and our go-to-market strategy. All revenue is net of intercompany adjustments.

F-11

TABLE OF CONTENTS

Cost of Revenues

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

Inventories

Inventories are valued at the lower of cost or market. Our inventory consists of specialty products that we manufacture on a limited quantity basis for our customers. As of December 31, 2015 and 2014, we had inventory reserve balances of \$0.1 million and \$0.2 million respectively, for certain products where the market has not developed as expected.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Invoice terms range from net 10 days to net 90 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, 2015, 2014 and 2013 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 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, 2015 and 2014, we had capitalized \$6.2 million and \$5.8 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 years ended December 31, 2015, 2014 and 2013, the Company recorded related amortization of \$1.1 million, \$1.1 million and \$0.3 million, respectively.

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.

F-12

TABLE OF CONTENTS**Goodwill**

Purchase price in excess of the fair value of tangible assets and identifiable intangible assets acquired and liabilities assumed in a business combination is recorded as goodwill. In accordance with FASB ASC Topic 350-20, Goodwill, the Company tests for impairment at least annually. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The Company operates 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. Determining the fair value of a reporting unit is a judgment involving significant estimates and assumptions. These estimates and assumptions include revenue growth rates, operating margins and working capital requirements used to calculate projected future cash flows, risk-adjusted discount rates, selected multiples, control premiums and future economic and market conditions. We have based our fair value estimates on assumptions that we believe to be reasonable, but that are unpredictable and inherently uncertain. The Company evaluated goodwill at the beginning of the fourth quarter of fiscal years 2015, 2014 and 2013 and found no impairment to the carrying value of goodwill of either of its reporting units.

Late in the fourth quarter of 2015, management began to evaluate strategic alternatives related to its Commercial Cyber Solutions segment. The Company began exploring the possibility of minority investments into this segment, the sale of the entire segment or the possibility of altering the level of investment going forward. The Company also implemented cost reductions subsequent to December 31, 2015 in this segment to reduce the funding required to cover operating losses and further committed to a reduced level of internal funding targeted to a range of \$5 million to \$7 million for 2016. Management believes these activities represented a triggering event and further believes that it is more likely than not that as a result of these activities and information, which came to light subsequent to December 31, 2015, relative to indications from prospective parties, that the fair value of the segment had fallen below the carrying value. As such the Company completed a Step 1 analysis of goodwill, which indicated the fair value was lower than the segment's carrying value. In accordance with ASC 350-20-35-18 management has elected to make an estimate of the goodwill impairment charge as of December 31, 2015, subject to finalizing a Step 2 analysis during the first quarter of 2016. The estimate was based on a number of factors including the estimated fair value of working capital assets, fixed assets, customer relationships, deferred revenue and developed technology as well as relevant market related data. The estimated impairment to goodwill for the Commercial Cyber Solutions segment as of December 31, 2015 is \$8.0 million.

A summary of the carrying amount of goodwill attributable to each segment, as well as the changes in such amounts, is as follows (in thousands):

| | Government Solutions | Commercial Cyber Solutions | Consolidated |
|----------------------------------|-------------------------|-------------------------------|--------------|
| Goodwill as of December 31, 2014 | \$280,517 | \$15,467 | \$295,984 |
| Acquisition | 16,706 | — | 16,706 |
| Impairment charges | — | (8,000 |) (8,000) |
| Goodwill as of December 31, 2015 | 297,223 | 7,467 | 304,690 |

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, 2015 and 2014 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

F-13

TABLE OF CONTENTS

of completion revenue, VSOE, TPE, BESP, inventory obsolescence reserves, medical self-insurance IBNR, 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 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 notes, the fair value of is estimated using a market approach with Level 2 inputs.

Research and Development

Internally funded research and development expenses are expensed as incurred and are included in cost of operations in the accompanying consolidated statement of operations. In accordance with FASB ASC Topic 730, Research and Development, such costs consist primarily of payroll, materials, subcontractor and an allocation of overhead costs related to product development. Research and development costs totaled \$19.0 million, \$18.6 million and \$7.5 million for years ended December 31, 2015, 2014 and 2013, respectively, and are included as operating expenses in the consolidated statement of operations.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enacted date. In evaluating our ability to realize our deferred tax assets, we consider all available positive and negative evidence, including cumulative historic earnings, reversal of deferred tax liabilities, projected taxable income, and tax planning strategies. The assumptions utilized in evaluating both positive and negative evidence require the use of significant judgment concerning our business plans surrounding both our Government Solutions segment and our Commercial Solutions segment.

For a tax position that meets the more-likely-than-not recognition threshold, the Company initially and subsequently measures the tax liability or benefit as the largest amount that it judges to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax obligations or benefits and subsequent adjustments as considered appropriate by management. The Company's policy is to record interest and penalties as an increase in the liability for uncertain tax obligations or benefits and a corresponding increase to the income tax provision. No material adjustments were recorded as of December 31, 2015, 2014, or 2013.

Earnings (Loss) per Share

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

TABLE OF CONTENTS

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

| | December 31, 2015 | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|----------------------|
| Net loss | \$(58,622) | \$(13,535) | \$(11,219) |
| Weighted-average shares – basic | 38,722 | 37,443 | 36,619 |
| Effect of dilutive potential common shares | — | — | — |
| Weighted-average shares – diluted | 38,722 | 37,443 | 36,619 |
| Net loss per share – basic | \$(1.51) | \$(0.36) | \$(0.31) |
| Net loss per share – diluted | \$(1.51) | \$(0.36) | \$(0.31) |
| Anti-dilutive share-based awards, excluded | 5,281 | 7,251 | 7,415 |
| Outstanding Anti-dilutive share-based awards, total | 5,281 | 7,251 | 7,415 |

Employee equity share options, restricted shares, and warrants granted by the Company are treated as potential common shares outstanding in computing diluted loss per share. Diluted shares outstanding include the dilutive effect of in-the-money options and in-the-money warrants and unvested restricted stock. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible, are collectively assumed to be used to repurchase shares. As we incurred a net loss for the years ended December 31, 2015, 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, 2015, 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 years ended December 31, 2015 and 2014, and the Company had a net loss for the years ended December 31, 2015 and 2014.

Stock Based Compensation

As discussed in Note 10, the shareholders approved the 2013 KEYW Holding Corporation Stock Incentive Plan in August 2012. The 2013 Stock Incentive Plan, which took effect on January 1, 2013, replaced the 2009 Stock Incentive Plan. The Company 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. The expense recognized is based on the straight-line amortization of each individually vesting piece of a grant. The calculated expense is required to be based upon awards that ultimately vest and we have accordingly reduced the expense by estimated forfeitures.

The following assumptions were used for options granted.

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

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

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

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

F-15

TABLE OF CONTENTS

and a projection of expected results over the following twelve month period based on projected levels of operations and headcount levels at various classification levels with the Company.

Segment Reporting

FASB ASC Section 280, Segment Reporting, establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that these enterprises report selected information about operating segments in interim financial reports. The guidance also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company operates two segments. These segments are Government Solutions and Commercial Cyber Solutions.

Recently Issued Accounting Pronouncements

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

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (FASB ASC Subtopic 835-30). The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. This pronouncement is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. In August 2015 the FASB issued an amendment, which addresses the presentation and subsequent measurement of debt issuance costs associated with line of credit arrangements. We elected to early adopt this standard for our fiscal year 2015 retrospectively. The impact of this adoption is presented above in "Prior Period Financial Statement Revision, Reclassifications, and Accounting Changes." We continue to present debt issuance costs related to our revolving credit facility as Prepaid expenses and Other assets in the Consolidated Balance Sheets, as allowed under the guidance.

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

In November 2015, the FASB issued ASU 2015-17, Income Taxes, amending the accounting for income taxes and requiring all deferred tax assets and liabilities to be classified as non-current on the consolidated balance sheet. The ASU is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The ASU may be adopted either prospectively or retrospectively. We are currently evaluating the method of adoption and the impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. 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

F-16

TABLE OF CONTENTS

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, 2014 are outlined below:

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.

2015 Acquisitions

During the first and second quarters of 2015, the Company acquired Milestone Intelligence Group, Inc. ("Milestone"), Ponte Technologies, LLC ("Ponte Tech") and certain assets of Innovative Engineering Solutions, Inc. in three separate transactions. The total consideration paid for these three acquisitions was \$21.4 million in cash and 242,250 shares of KEYW stock valued at \$1.9 million. These acquisitions individually and combined are not considered material to the financial results of KEYW.

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

| | 2014 Acquisitions | 2015 Acquisitions |
|--------------------------------------|-------------------|-------------------|
| Cash | \$— | \$643 |
| Current assets, net of cash acquired | 63 | 1,533 |
| Fixed assets | 24 | 155 |
| Intangibles | 3,928 | 5,059 |
| Goodwill | — | 16,706 |
| Total Assets Acquired | 4,015 | 24,096 |
| Current liabilities | 59 | 844 |
| Total Liabilities Assumed | 59 | 844 |
| Net Assets Acquired | \$3,956 | \$23,252 |
| Net Cash Paid | \$2,890 | \$20,751 |
| Equity Issued | 1,066 | 1,858 |
| Actual Cash Paid | \$2,890 | \$21,394 |

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 2015 and 2014 as there have been no material acquisitions during the twelve months ended December 31, 2015 or 2014.

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.

TABLE OF CONTENTS

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, 2015 and 2014, we did not have any assets or liabilities recorded at fair value on a recurring basis that would require disclosure based on the fair value hierarchy of valuation techniques.

4. RECEIVABLES

Receivables consist of the following:

| | (In thousands) | |
|----------------------|----------------------|----------------------|
| Receivables | December 31, 2015 | December 31, 2014 |
| Billed Receivables | \$41,603 | \$35,338 |
| Unbilled Receivables | 16,764 | 21,667 |
| Total Receivables | \$58,367 | \$57,005 |

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

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

5. INVENTORIES

Inventories at December 31, 2015 and 2014, consisted of work in process at various stages of production and finished goods. This inventory, which consists primarily of mobile communications devices, aeropic 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, 2015 and 2014, we had reserved \$0.1 million and \$0.2 million respectively, for certain inventory items where the market has not developed as expected.

Activity in our Inventory Reserve is as follows (In Thousands):

| | | |
|-----------------------------|--------|---|
| Balance - January 1, 2014 | \$— | |
| Additions | 628 | |
| Write-offs | (457 |) |
| Balance - December 31, 2014 | 171 | |
| Additions | 1,110 | |
| Write-offs | (1,210 |) |
| Balance - December 31, 2015 | \$71 | |

6. PREPAID EXPENSES

Prepaid expenses at December 31, 2015 and 2014, primarily consist of prepaid insurance, deferred financing costs related to the revolving credit facility and software licenses.

TABLE OF CONTENTS

7. PROPERTY AND EQUIPMENT

Property and equipment are as follows:

| | (In thousands) | |
|-----------------------------|----------------------|----------------------|
| Property and Equipment | December 31, 2015 | December 31, 2014 |
| Aircraft | \$11,296 | \$10,490 |
| Leasehold | 22,706 | 15,618 |
| Manufacturing Equipment | 6,037 | 4,402 |
| Software Development Costs | 6,205 | 5,577 |
| Office Equipment | 16,496 | 13,219 |
| Total | 62,740 | 49,306 |
| Accumulated Depreciation | (28,649) | (20,672) |
| Property and Equipment, net | \$34,091 | \$28,634 |

Depreciation and amortization expense charged to operations was \$8.4 million, \$7.5 million, and \$6.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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 sheet dates have not been included below.

| December 31, 2015 (In thousands) | | | | |
|-------------------------------------|------------------------|---------------------|-----------------------------|-------------------|
| Acquisition | Intangible | Gross Book Value | Accumulated Amortization | Net Book Value |
| Poole | Contract rights | \$20,914 | \$13,595 | \$7,319 |
| Milestone | Contracts | 2,170 | 693 | 1,477 |
| Innovative Engineering Solutions | Contracts | 1,225 | 289 | 936 |
| Ponte Tech | Customer Relationships | 1,664 | 439 | 1,225 |
| Sensage | Customer Relationships | 3,682 | 2,393 | 1,289 |
| ATC | Intellectual Property | 2,360 | 1,049 | 1,311 |
| | | \$32,015 | \$18,458 | \$13,557 |
| 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 | Contracts | 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 |

TABLE OF CONTENTS

Estimated future intangible amortization expense by year as of December 31, 2015, (In thousands):

| 2016 | 2017 | 2018 |
|---------|---------|-------|
| \$7,392 | \$5,900 | \$265 |

The Company recorded amortization expense of \$11.4 million, \$12.2 million, and \$24.7 million for the years ended December 31, 2015, 2014, and 2013, respectively. As of December 31, 2015, the remaining weighted-average amortization period for acquired intangible assets is 1.8 years.

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.

F-20

TABLE OF CONTENTS

As of December 31, 2015, the outstanding principal of the Notes was \$149.5 million, the unamortized debt discount was \$20.0 million, the unamortized deferred financing costs were \$3.3 million and the carrying amount of the liability component was \$126.2 million, which was recorded as long-term debt within the Company's consolidated balance sheet. As of December 31, 2015, the fair value of the liability component relating to the Notes, based on a market approach, was approximately \$130.9 million and represents a Level 2 valuation.

During the twelve months ended December 31, 2015, the Company recognized \$9.8 million of interest expense relating to the Notes, which included \$5.1 million for noncash interest expense relating to the debt discount and \$0.9 million relating to amortization of deferred financing costs. 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 \$0.9 million, \$0.9 million, \$0.9 million and \$0.5 million in future amortization of deferred financing costs for the subsequent years ending December 31, 2016 - 2019 respectively.

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, 2015, 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.

In February 2016, the Company amended the 2014 Credit Agreement by adjusting the minimum cash interest coverage ratio covenant effective for the quarters ended December 31, 2015, and March 31, 2016 and increasing the applicable interest rates with respect to the Credit Agreement's consolidated senior secured leverage ratio pricing tiers. The amendment permanently decreases the amount available under the revolver to \$20.0 million. At December 31, 2015, we were in compliance with all of our debt covenants under the 2014 Credit Agreement.

2012 Credit Facility

In the fourth quarter of 2012, the Company entered into 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

F-21

TABLE OF CONTENTS

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 and \$3.5 million during 2014 and 2013, respectively. The Company recognized \$0.4 million and \$0.6 million in amortization expense relating to deferred financing costs for the twelve months ended December 31, 2014 and 2013, which was included as part of interest expense. In July 2014 as a result of the termination of the 2012 Credit Agreement, the Company wrote off \$2.0 million of unamortized deferred financing costs, which were included as part of interest expense.

10. SHARE-BASED COMPENSATION

At December 31, 2015, 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").

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

Stock Options

The Company generally issues stock option awards that vest over varying periods, ranging from three to five years, and have a ten-year life. We estimate the fair value of stock options using the Black-Scholes option-pricing model. We use historical data to determine volatility of our stock. 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.

No stock options were granted during 2015. The option grants during 2014 and 2013 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 and 2013 our assumptions related to these inputs were as follows:

| | 2014 | 2013 |
|-------------------------|-----------------|-----------------|
| Dividend yield | —% | —% |
| Risk-free interest rate | 1.47% - 1.66% | 0.65% - 1.75% |
| Expected volatility | 36.35% - 48.65% | 29.54% - 51.37% |
| Forfeitures | 11.00% - 37.00% | 11.00% - 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 01/01/2013 | 3,186,414 | | |
| Options Exercisable 01/01/2013 | 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 | | |
| Granted | — | \$— | \$— |
| Exercised | (139,270) |) \$5.00 - \$10.00 | \$5.65 |
| Forfeited | (476,715) |) \$5.50 - \$17.11 | \$13.00 |
| Options Outstanding 12/31/2015 | 2,332,889 | | |
| Options Exercisable 12/31/2015 | 1,965,633 | | |

As of December 31, 2015, outstanding stock options were as follows:

| Exercise Price | Options Outstanding | Intrinsic Value | Options Vested | Intrinsic Value | Weighted-Average Remaining Life (Years) |
|-------------------|------------------------|-----------------|----------------|-----------------|---|
| \$5.00 - \$5.50 | 341,950 | \$215,639 | 341,950 | \$215,369 | 3.59 |
| \$6.90 - \$7.66 | 258,448 | — | 258,448 | — | 6.08 |
| \$7.96 - \$8.14 | 69,250 | — | 69,250 | — | 5.87 |
| \$9.17 - \$10.98 | 188,388 | — | 188,388 | — | 5.24 |
| \$11.18 - \$11.99 | 245,750 | — | 205,113 | — | 6.34 |
| \$12.28 - \$12.97 | 384,473 | — | 314,755 | — | 6.77 |
| \$13.00 - \$13.48 | 155,686 | — | 135,121 | — | 7.15 |
| \$14.03 - \$14.88 | 225,674 | — | 219,779 | — | 5.24 |
| \$16.08 - \$17.71 | 463,270 | — | 232,829 | — | 8.09 |
| | 2,332,889 | \$215,639 | 1,965,633 | \$215,369 | |

EQUITY UNDER THE 2013 STOCK INCENTIVE PLAN

| | |
|---------------------------------------|-----------|
| Total equity available to issue | 2,700,000 |
| Total equity outstanding or exercised | 1,708,010 |
| Total equity remaining | 991,990 |
| Restricted Stock Awards | |

During 2015, the Company issued a total of 491,015 shares of restricted stock under the 2013 Plan. The Company issued 344,415 shares of restricted common stock to existing employees under the long-term incentive plan, 48,000 shares of restricted common stock to board members, 60,750 shares of restricted common stock to new employees and 37,850 shares of restricted common

TABLE OF CONTENTS

stock 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 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 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.

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

| | Unvested Shares |
|------------------------|-----------------|
| Outstanding 01/01/2013 | 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 |
| Granted | 591,015 |
| Vested | (270,487) |
| Forfeited | (47,800) |
| Outstanding 12/31/2015 | 959,733 |
| 2015 CEO Grant | |

In October 2015, pursuant to the commencement of William J. Weber's employment as our CEO, and in accordance with the terms of the Employment Agreement, we issued Mr. Weber (i) 100,000 restricted shares of the Company's common stock as a sign-on inducement, and (ii) the right to acquire 400,000 shares of our common stock as a long-term incentive inducement. Mr. Weber's sign-on inducement and long-term incentive rights were granted outside the 2013 Plan, in accordance with Section 4(2) of the Securities Act of 1933.

Mr. Weber's sign-on shares will vest as follows: (i) 50,000 shares on October 1, 2016; (ii) 25,000 shares on October 1, 2018, and (iii) 25,000 shares on October 1, 2019.

The long-term incentive shares will be subject to a two-year holding period following the grant date. The granting and vesting of the above-described inducement shares will be contingent upon Mr. Weber's continued employment with KEYW, subject to acceleration upon certain events. Mr. Weber's long-term incentive grant consists of four vesting tranches, which will vest at any time prior to the fifth anniversary of October 1, 2015 ("the Commencement Date") the closing market price of the Company's common stock over any 30 consecutive trading days is at or greater than the target price, set forth in the table below.

| Target Price Per Share | Long-Term Incentive Shares |
|------------------------|----------------------------|
| \$13.00 | 50,000 |
| \$16.00 | 50,000 |
| \$20.00 | 100,000 |
| \$25.00 | 100,000 |

\$30.00

100,000

F-24

TABLE OF CONTENTS

We measured the fair value of the CEO's long-term incentive grant using a Monte Carlo simulation approach with the following assumptions: risk-free interest rate of 1.67%, weighted-average derived service period of 4.7 years, expected volatility of 59.8% and dividend yield of 0%. The weighted-average grant-date fair value of this grant is \$2.96 per share. The expense for this grant will be recognized over the derived service period of each individual tranche.

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, 2015, 2014, and 2013 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 \$5.5 million, \$6.4 million and \$5.7 million for the years ended December 31, 2015, 2014, and 2013, respectively. The total unrecognized stock compensation expense at December 31, 2015 is approximately \$6.5 million, which will be recognized over the next five years.

As a result of the June 2015 death of Len Moodispaw, our former Chairman and CEO, and in accordance with his equity grant

agreements, all of his unvested equity grants immediately vested. As such the corresponding unrecognized stock compensation

expense of \$0.9 million, was recorded during the second quarter of 2015.

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 2015, 2014 and 2013 the Company recognized expense of \$0.3 million, \$0.4 million and \$0.2 million, respectively, under the plan.

11. WARRANTS

During 2015, warrant holders exercised 1,750,841 warrants, with 1,137,500 exercised for cash and 613,341 exercised cashlessly. The 1,137,500 warrants exercised for cash were exercised at \$4.00 per shares. The total cash received from these exercises was \$4,550,000. Under our warrant agreements, warrants may also be exercised cashlessly based on the average price of the Company's common stock for the 5 days prior to exercise. Under this methodology the warrants that were exercised cashlessly were exchanged for 366,359 shares of the Company's common stock.

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.

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 the 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.

As of December 31, 2015, outstanding warrants were as follows:

| Exercise Price | Warrants Outstanding | Warrants Vested | Weighted-Average Remaining Life (Years) |
|----------------|----------------------|-----------------|--|
| \$5.50 | 2,179,904 | 2,179,904 | 0.38 |

| | | | |
|---------|-----------|-----------|------|
| \$9.25 | 210,000 | 210,000 | 1.21 |
| \$12.65 | 158,116 | 158,116 | 3.90 |
| | 2,548,020 | 2,548,020 | |

12. COMMITMENTS AND CONTINGENCIES

The Company leases certain office equipment and operating facilities under non-cancellable operating leases that expire at various dates through 2025. Certain leases contain renewal options. Rental payments on certain leases are subject to annual increases based

F-25

TABLE OF CONTENTS

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 \$13.3 million and \$7.5 million at December 31, 2015 and 2014, respectively, of which \$10.7 million and \$6.2 million related to the lease incentive liability at December 31, 2015 and 2014, respectively. Total net lease expense was \$7.1 million, \$5.7 million and \$5.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The schedule below shows the future minimum lease payments required under our operating leases as of December 31, 2015.

| Type | (In Thousands) | | | | | |
|-------------------------|----------------|---------|---------|---------|---------|------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter |
| Facilities/Office space | \$8,801 | \$8,890 | \$8,252 | \$7,249 | \$7,158 | \$21,110 |
| Office equipment | 81 | 58 | 42 | — | — | — |
| Operating Leases | \$8,882 | \$8,948 | \$8,294 | \$7,249 | \$7,158 | \$21,110 |

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 2017.

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 \$11.3 million, \$9.7 million and \$10.4 million, in 2015, 2014 and 2013, respectively. There were no discretionary contributions during these periods.

14. INCOME TAX PROVISION

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

| | (In thousands) | | |
|----------------------------------|----------------|-----------|-------------|
| | 2015 | 2014 | 2013 |
| Current: | | | |
| Federal | \$— | \$(2,343) | \$(1,842) |
| State | (7) |) 155 | 1 |
| | (7) |) (2,188) |) (1,841) |
| Deferred | 21,605 | (6,434) |) (7,548) |
| Total provision for income taxes | \$21,598 | \$(8,622) |) \$(9,389) |

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, 2015 and 2014, the net deferred tax liability was \$27.9 million and \$4.2 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, 2015 and 2014, are as follows:

TABLE OF CONTENTS

| | (In thousands) | | | |
|---|-------------------|------------|-------------------|-----------|
| | 2015 Deferred Tax | | 2014 Deferred Tax | |
| | Asset | Liability | Asset | Liability |
| Net operating loss | \$19,526 | \$— | \$9,738 | \$— |
| Accrued compensation | 2,156 | — | 2,541 | — |
| Stock based compensation | 5,822 | — | 5,560 | — |
| Tenant improvement allowance | 287 | — | 322 | — |
| Inventory reserves | 398 | — | 227 | — |
| Other deferred tax assets | 1,751 | — | 998 | — |
| Tax credits | 1,676 | — | 1,514 | — |
| Other deferred tax liabilities | — | (294) | — | — |
| Convertible Debt | — | (2,495) | — | (3,268) |
| Deferred revenue – current | — | (988) | — | (375) |
| Prepaid expenses | — | (168) | — | (63) |
| Depreciation | — | (975) | — | (1,610) |
| Intangible assets amortization – Definite Lived | 8,450 | — | 5,681 | — |
| Intangible assets amortization – Indefinite Lived | — | (28,864) | — | (25,127) |
| Internally developed software | — | (1,582) | — | (1,126) |
| Capitalized R&D 59(e) | 695 | — | 821 | — |
| Less: Valuation Allowance | (33,249) |) — | — | — |
| | \$7,512 | (35,366) | \$27,402 | (31,569) |
| Net deferred liability | | \$(27,854) | | \$(4,167) |

The Company has recorded a deferred tax asset reflecting the benefit of \$45.6 million of federal net operating loss carry-forwards, \$2.0 million of federal tax credits for research and development and alternative minimum tax, as well as \$65.8 million of state net operating loss carry-forwards, and \$0.1 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 \$1.7 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 2035.

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 \$0.4 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.

The Company has generated three years of pretax losses due to losses generated in its Commercial Cyber Solutions segment relating to the build out of its Hexis G platform. Management has reviewed both positive and negative evidence and weighted this evidence to determine the realization of its deferred tax assets. A significant portion of the negative evidence considered included the cumulative three year losses identified above and the inability to carryback 2014 and 2015 tax losses to recover taxes previously paid given all amounts have been recovered. As a result of a cumulative negative weighting, management believed during 2015 that it was more likely than not the Company's deferred tax assets will not be realized and recorded a valuation allowance on these assets. The valuation allowance recorded in the amount of \$33.2 million did not include the reversal of the deferred tax liability associated with indefinite lived intangibles due to the nature of the underlying assets. The Company's deferred tax assets will be evaluated in subsequent reporting periods by management using weighted current and future positive and negative evidence to determine if a change in the valuation allowance is required.

TABLE OF CONTENTS

The net deferred tax liabilities shown on the balance sheet as of December 31, 2015 and 2014, are as follows:

| | (In thousands) | |
|--------------------------------------|----------------|------------|
| | 2015 | 2014 |
| Deferred taxes – current liability | \$(1,450 |) \$(437 |
| Deferred taxes – long term liability | (33,916 |) (31,132 |
| Deferred taxes – current assets | 486 | 3,315 |
| Deferred taxes – long term assets | 7,026 | 24,087 |
| Net Deferred Tax Liability | \$(27,854 |) \$(4,167 |

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, 2015, 2014 and 2013 is as follows:

| | Percent of Pre-tax Income | | | | | |
|--|---------------------------|----|------|----|------|----|
| | 2015 | | 2014 | | 2013 | |
| Tax computed at statutory rate | 35.0 | % | 35.0 | % | 35.0 | % |
| State income taxes net of federal income tax benefit | 4.4 | % | 4.8 | % | 6.5 | % |
| Meals and entertainment – non-deductible | (0.7 |)% | (0.9 |)% | (0.9 |)% |
| Non-deductible acquisition costs | (0.2 |)% | — | % | (0.3 |)% |
| ESPP Expense | (0.2 |)% | (0.4 |)% | (0.2 |)% |
| Other permanent items | 0.3 | % | 0.1 | % | (0.3 |)% |
| Provision to return | 0.2 | % | (1.4 |)% | 4.8 | % |
| Tax credits | 0.6 | % | 1.7 | % | 1.0 | % |
| Goodwill Impairment | (7.6 |)% | — | % | — | % |
| Valuation Allowance | (90.1 |)% | — | % | — | % |
| Effective tax rate | (58.3 |)% | 38.9 | % | 45.6 | % |

The Company recognizes 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, 2015:

| | (In thousands) |
|--|----------------|
| | Activity |
| January 1, 2015 | \$408 |
| Increases as a result of tax positions taken in a prior period | 25 |
| Increases as a result of tax positions taken during the current period | 50 |
| December 31, 2015 | \$483 |

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.

TABLE OF CONTENTS

As of December 31, 2015, the following tax years remained subject to examination by the major tax jurisdictions indicated:

| Major Jurisdictions | Open Years |
|---------------------|-------------------|
| United States | 2011 through 2014 |
| California | 2011 through 2014 |
| Maryland | 2010 through 2014 |
| Massachusetts | 2012 through 2014 |
| Virginia | 2012 through 2014 |

During the year ended December 31, 2015, the Internal Revenue Service ('IRS') initiated an audit of the Company's Federal returns for the years ended December 31, 2013 and 2014. Management has reviewed its ASC 740-10 ('FIN 48') positions and does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months. If an issue addressed during the IRS audit is resolved in a manner inconsistent with Management expectations, the Company would adjust its net operating loss carryback and reduce its 2014 net operating loss carryforward. The Company expects the IRS review to be completed during 2016.

15. SEGMENT INFORMATION

Segment

The Company defines its reportable segments based on the way the chief operating decision maker (CODM), currently its chief executive officer, manages the operations of the Company for allocating resources and assessing performance. The Company operates two reportable segments: Government Solutions and Commercial Cyber Solutions. The Government Solutions segment primarily includes revenue from providing information solutions and services to national and military intelligence agencies. The Commercial Cyber Solutions segment primarily includes revenue from providing cybersecurity software products and services to commercial companies. The Company's reportable segments are business units that offer different products and services. They are managed separately because each business requires a different customer base.

Disclosure of segment information is on the same basis that management uses internally for evaluating segment performance and allocating resources. Transactions between segments are eliminated in consolidation. The costs of shared services, and other administrative functions managed on a common basis, are allocated to the segments based on usage or other factors based on the nature of the activity. The accounting policies of the reportable operating segments are the same as those described in Note 1, "Summary of Significant Accounting Policies."

Summarized financial information concerning the Company's reportable segments is show in the tables below:
As of and For the Year Ended December 31, 2015
(In Thousands)

| | Government Solutions | Commercial Cyber Solutions | Consolidated |
|-------------------------------|-------------------------|-------------------------------|--------------|
| Goodwill | \$297,223 | \$7,467 | \$304,690 |
| Intangibles, net | 10,957 | 2,600 | 13,557 |
| Revenues | 297,935 | 13,875 | 311,810 |
| Gross Profit | 89,729 | 9,861 | 99,590 |
| Operating Income (Loss) | 18,916 | (45,682) |) (26,766) |
| Depreciation and Amortization | 12,964 | 6,885 | 19,849 |

TABLE OF CONTENTS

| | As of and For the Year Ended December 31, 2014 (In Thousands) | | |
|-------------------------------|--|-------------------------------|--------------|
| | Government Solutions | Commercial Cyber Solutions | Consolidated |
| Goodwill | \$280,517 | \$15,467 | \$295,984 |
| Intangibles, net | 12,985 | 8,124 | 21,109 |
| Revenues | 279,250 | 11,324 | 290,574 |
| Gross Profit | 86,342 | 8,831 | 95,173 |
| Operating Income (Loss) | 21,743 | (35,096) | (13,353) |
| Depreciation and Amortization | 13,066 | 6,557 | 19,623 |

| | As of and For the Year Ended December 31, 2013 (In Thousands) | | |
|-------------------------------|--|-------------------------------|--------------|
| | Government Solutions | Commercial Cyber Solutions | Consolidated |
| Goodwill | \$280,517 | \$15,467 | \$295,984 |
| Intangibles, net | 20,723 | 8,620 | 29,343 |
| Revenues | 288,909 | 9,823 | 298,732 |
| Gross Profit | 91,529 | 7,983 | 99,512 |
| Operating Income (Loss) | 4,985 | (15,801) | (10,816) |
| Depreciation and Amortization | 26,263 | 4,670 | 30,933 |

Asset information by segment is not a key measure of performance used by the CODM. The Company does not identify interest or income taxes with individual segments as the cash is managed at the corporate level and tax returns are filed on a consolidated basis. Substantially all of the Company's revenues and tangible long-lived assets are generated by or located in the United States. As such, financial information by geographic location is not presented.

Customer

For the years ended December 31, 2015, 2014 and 2013 we earned approximately 94%, 91% and 93%, respectively, of our revenue from prime contracts with the U.S. Government or subcontracts with other contractors engaged in work for the U.S. Government. The percentage of total revenue by customer sector was as follows:

| | Year Ended | | | |
|---|----------------------|----------------------|----------------------|---|
| | December 31, 2015 | December 31, 2014 | December 31, 2013 | |
| Department of Defense | 87 | % 70 | % 73 | % |
| Other intelligence agencies and law enforcement | 6 | % 21 | % 20 | % |
| Commercial and other | 7 | % 9 | % 7 | % |

16. SUBSEQUENT EVENTS

In connection with the preparation of its financial statements for the year ended December 31, 2015, the Company has evaluated events that occurred subsequent to December 31, 2015 to determine whether any of these events required recognition or disclosure in the 2015 financial statements. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements other than those listed below.

During March 2016, the Company sold certain assets related its systems engineering and technical assistance ("SETA") business to Quantech Services, Incorporated.

F-30

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) |

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| | | |
|---------|--|------|
| | Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Leonard E. Moodispaw | |
| 10.15* | Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Mark A. Willard | (10) |
| 10.16 | Form of Amended and Restated Warrant | (10) |
| 10.17* | The KEYW Holding Corporation 2010 Employee Stock Purchase Plan | (1) |
| 10. 18* | Amendment, dated March 12, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Kimberly J. DeChello | (3) |

TABLE OF CONTENTS

| | | |
|--------|--|------|
| 10.19* | Amendment, dated March 12, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Leonard E. Moodispaw | (3) |
| 10.20* | Amendment, dated March 12, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Mark A. Willard | (3) |
| 10.21* | Second Amendment, dated June 29, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Leonard Moodispaw | (5) |
| 10.22* | Second Amendment, dated June 29, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Mark A. Willard | (5) |
| 10.23* | Second Amendment, dated June 29, 2012, to Employment Agreement, dated June 16, 2010, between The KEYW Corporation and Kimberly J. DeChello | (5) |
| 10.24* | The KEYW Holding Corporation Amended and Restated 2013 Stock Incentive Plan | (6) |
| 10.25* | Form of Incentive Stock Option Agreement for grants pursuant to The KEYW Holding Corporation 2013 Stock Incentive Plan | (11) |
| 10.26* | Form of Non-Qualified Stock Option Agreement for grants pursuant to The KEYW Holding Corporation 2013 Stock Incentive Plan | (11) |
| 10.27* | Form of Restricted Stock Agreement for grants pursuant to The KEYW Holding Corporation 2013 Stock Incentive Plan | (11) |
| 10.28 | Hexis Executive Incentive Plan. | (13) |
| 10.29 | Base Call Option Transaction Confirmation, dated as of July 16, 2014, between the Company and Royal Bank of Canada. | (14) |
| 10.30 | Base Call Option Transaction Confirmation, dated as of July 16, 2014, between the Company and Bank of America, NA. | (14) |
| 10.31 | 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. | (14) |
| 10.32* | Employment Agreement, dated August 11, 2014, between Hexis Cyber Solutions, Inc. and Philip L. Calamia. | (15) |
| 10.33 | Additional Call Option Transaction Confirmation, dated as of August 12, 2014, between the Company and Royal Bank of Canada. | (12) |
| 10.34 | Additional Call Option Transaction Confirmation, dated as of August 12, 2014, between the Company and Bank of America, NA. | (12) |
| 10.35 | Employment Agreement, dated August 25, 2015, between The KEYW Corporation and William J. Weber. | (16) |
| 10.36 | Employment Agreement, dated January 4, 2016, between The KEYW Corporation and Michele Cook. | x |
| 10.37 | Amendment No. 1, dated as of January 15, 2015, to Credit Agreement, dated as of July 21, 2014, among The KEYW Corporation, as the Borrower, certain subsidiaries of the Borrower. | (17) |
| 10.38 | Amendment No. 2, dated as of November 5, 2015, to Credit Agreement, dated as of July 21, 2014, among The KEYW Corporation, as the Borrower, certain subsidiaries of the Borrower. | (17) |
| 10.39 | Amendment No. 3, dated as of February 25, 2016, to Credit Agreement, dated as of July 21, 2014, among The KEYW Corporation, as the Borrower, certain subsidiaries of the Borrower | (18) |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges. | (14) |
| 14.1 | Code of Ethics | (2) |
| 21.1 | Subsidiaries of the Registrant | x |

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| | | |
|---------|--|---|
| 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 |
| | Certification of the Chief Executive Officer and the Chief Financial Officer and | |
| 32.1** | Principal Accounting Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | x |
| 101.INS | XBRL Instance Document | x |
| 101.SCH | XBRL Taxonomy Extension Schema Document | x |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | x |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | x |

55

TABLE OF CONTENTS

| | | |
|---------|--|---|
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | x |
| 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, 10.38 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, 10.3 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 10, 2015.

(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 10.17, 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 Form 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. 001-34891.

(13) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 7, 2014, File No. 001-34891.

(14) 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. 001-34891.

(15) 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.

(16) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed August 31, 2016, File No. 001-34891.

(17) Filed as Exhibits 10.1 and 10.2, respectively, to the Registrant's Current Report on Form 8-K, filed November 10, 2015.

(18) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed March 2, 2015.

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/ William J. Weber
William J. Weber
President and Chief Executive Officer;
Principal Executive Officer
March 15, 2016

By: /s/ Philip L. Calamia
Philip L. Calamia
Executive Vice President and Chief Financial Officer;
Principal Financial and Accounting Officer
March 15, 2016

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, Director
March 15, 2016

/s/ Kenneth A. Minihan
Kenneth A. Minihan, Director
March 15, 2016

/s/ William I. Campbell
William I. Campbell, Director
March 15, 2016

/s/ Arthur L. Money
Arthur L. Money, Director
March 15, 2016

/s/ Pierre A. Chao
Pierre Chao, Director
March 15, 2016

/s/ William J. Weber
William J. Weber, Director
March 15, 2016

/s/ John G. Hannon
John G. Hannon, Director
March 15, 2016

/s/ Caroline S. Pisano
Caroline S. Pisano, Director
March 15, 2016