

HANOVER, Md., Oct. 30, 2013 (GLOBE NEWSWIRE) -- The KEYW Holding Corporation (Nasdaq:KEYW) announces Q3 2013 revenue of \$73.8 million, an increase of 29% versus Q3 2012. GAAP earnings per share (EPS) were (\$0.15) in Q3 2013 on a fully diluted basis, versus GAAP EPS of \$0.01 in Q3 2012. Recently, the Company settled litigation initiated in Q2 2013 by Exelis Inc., which resulted in a one-time charge of \$0.13 per share (after tax) to earnings per share. Amortization associated with acquisition related intangibles further reduced EPS by \$0.09 per share on an after tax basis. Adjusted EBITDA for Q3 2013 was \$6.8 million, compared to \$7.8 million in Q3 2012. Adjusted EBITDA margin was 9.2% in Q3 2013, a decrease from 13.5% in Q3 2012. Net cash provided from operations in Q3 2013 was a solid \$10 million. In Q3 2013, KEYW was awarded new funding actions of \$81 million and ended the quarter with 1,126 employees.

"Clearly, the impact of sequestration continued to take its toll in the third quarter. However, we also experienced some notable high points, including the launch of our commercial cyber security products subsidiary, Hexis Cyber Solutions, and the announcement of two large prime contract wins for advanced cyber training and software development. In October, we also announced commercial availability of HawkEye G, our flagship commercial cyber defense product," commented Len Moodispaw, CEO and President of KEYW. "While the impacts of the U.S. government shutdown and budget uncertainty will be felt in our fourth quarter, we continue to be encouraged by the growing pipeline of opportunities in both our government and commercial businesses and in particular, for HawkEye G. We look forward to seeing strong sales contributions in 2014 from this exciting new product."

Revenue for Q3 2013 increased 29% versus Q3 2012 from \$57.4 million to \$73.8 million. The main drivers of this increase were the contributions of Poole & Associates and Sensage, Inc., both acquired in Q4 2012, partially offset by the negative impact of sequestration. Consolidated gross margin decreased from 34% in Q3 2012 to 33% in Q3 2013 primarily due to increased revenue contributions from lower margin subcontract labor in the Services segment. Research and development expenses rose from \$1.7 million in Q3 2012 to \$2.3 million in Q3 2013. On a pro forma basis, increased infrastructure spending in the commercial cyber business (including R&D) accounted for \$3.1 million in growth in operating expenses versus Q3 2012.

Adjusted EBITDA, as defined by KEYW, is a non-GAAP measure that is calculated as GAAP net income plus other non-recurring expense, interest expense, income taxes, stock compensation, depreciation, and amortization. We have provided Adjusted EBITDA because we use the measurement internally to evaluate performance and we believe it is a commonly used measure of financial performance in comparable companies. It is provided to help investors evaluate companies on a consistent basis, as well as to enhance an understanding of our operating results. In addition, our board of directors and management use Adjusted EBITDA:

- As a measure of operating performance;
- To determine a significant portion of management's incentive compensation;
- For planning purposes, including the preparation of our annual operating budget; and
- To evaluate the effectiveness of our business strategies.

Adjusted EBITDA is not a recognized term under U.S. GAAP and does not purport to be an alternative to net income as a measure of operating performance or the cash flows from operating activities as a measure of liquidity. Please refer to the table below that reconciles GAAP net income to Adjusted EBITDA.

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	(Unaudited and in thousands)			
Net (Loss) Income	\$ (5,502)	\$ 341	\$ (10,124)	\$ 835
Depreciation	1,471	1,085	4,311	3,140
Intangible Amortization	5,984	4,869	18,995	14,607
Acquisition and Other One Time Charges	6,507	338	7,486	386
Stock Compensation Amortization	1,494	722	4,314	2,068
Interest Expense, net	849	418	2,674	1,284
Tax (Benefit) Expense	(4,045)	(13)	(7,080)	253
Adjusted EBITDA	\$ 6,758	\$ 7,760	\$ 20,576	\$ 22,573

The KEYW Holding Corporation Financial Highlights
Condensed Consolidated Statements of Operations
(in thousands except share and per share amounts)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues				
Services	\$ 52,600	\$ 39,665	\$ 166,943	\$ 118,596
Integrated Solutions	21,173	17,688	62,961	50,688
Total	73,773	57,353	229,904	169,284
Costs of Revenues, excluding amortization				
Services	38,455	28,634	123,824	85,623
Integrated Solutions	10,891	9,232	31,990	26,312
Total	49,346	37,866	155,814	111,935
Gross Profit				
Services	14,145	11,031	43,119	32,973

Integrated Solutions	10,282	8,456	30,971	24,376
Total	24,427	19,487	74,090	57,349
Operating Expenses				
Operating expenses	20,669	13,914	63,404	40,415
Intangible amortization expense	5,984	4,869	18,995	14,607
Total	26,653	18,783	82,399	55,022
Operating (Loss) Income	(2,226)	704	(8,309)	2,327
Non-Operating Expense, net	7,321	376	8,895	1,239
(Loss) Income before Income Taxes	(9,547)	328	(17,204)	1,088
Income Tax (Benefit) Expense, net	(4,045)	(13)	(7,080)	253
Net (Loss) Income	\$ (5,502)	\$ 341	\$ (10,124)	\$ 835
<u>Weighted Average Common Shares Outstanding</u>				
Basic	36,708,835	25,883,556	36,554,964	25,744,453
Diluted	36,708,835	29,357,193	36,554,964	28,548,768
<u>(Loss) Earnings per Share</u>				
Basic	\$ (0.15)	\$ 0.01	\$ (0.28)	\$ 0.03
Diluted	\$ (0.15)	\$ 0.01	\$ (0.28)	\$ 0.03

Condensed Consolidated Balance Sheet
(in thousands except share amounts)

	September 30, 2013	December 31, 2012
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,618	\$ 5,639
Receivables	50,206	58,482
Inventories, net	10,813	8,739
Prepaid expenses	2,883	1,880
Income tax receivable	—	96
Deferred tax asset, current	4,089	3,149
Total current assets	<u>74,609</u>	<u>77,985</u>
Property and equipment, net	27,779	23,860
Goodwill	297,484	290,861
Other intangibles, net	35,006	53,799
Deferred tax asset	15,683	13,608
Other assets	2,366	2,562
TOTAL ASSETS	<u>\$ 452,927</u>	<u>\$ 462,675</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Revolver	\$ 20,000	\$ 21,000
Accounts payable	8,066	7,254
Accrued expenses	9,341	5,488

Accrued salaries & wages	15,190	17,770
Term note – current portion	7,000	5,688
Deferred revenue	2,988	2,905
Deferred income taxes	1,429	1,429
Total current liabilities	<u>64,014</u>	<u>61,534</u>
Long-term liabilities:		
Term note – non-current portion	57,750	63,000
Non-current deferred tax liability	25,029	29,700
Other non-current liabilities	7,434	7,413
TOTAL LIABILITIES	<u>154,227</u>	<u>161,647</u>
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, 36,751,619 and 36,135,542 shares issued and outstanding	37	36
Additional paid-in capital	300,510	292,715
(Accumulated deficit) Retained earnings	(1,847)	8,277
Total stockholders' equity	<u>298,700</u>	<u>301,028</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 452,927</u>	<u>\$ 462,675</u>

Condensed Consolidated Statements of Cash Flows
(in thousands)

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	(Unaudited)	(Unaudited)
Net (loss) income	\$ (10,124)	\$ 835
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Stock compensation	4,314	2,068
Depreciation/Amortization	23,306	17,747
Non-cash impact of TI earn-out reduction	(146)	—
Deferred taxes	(5,310)	(2,389)
Changes in operating assets and liabilities:		
Receivables	8,580	(5,262)
Inventories, net	(1,497)	(1,824)
Prepaid expenses	(990)	162
Income tax receivable	96	—
Accounts payable	247	(724)
Accrued expenses	702	3,643
Other balance sheet changes	195	163
Net cash provided by operating activities	<u>19,373</u>	<u>14,419</u>
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(6,751)	—
Purchases of property and equipment	(5,443)	(5,922)

Capitalized software development costs	(2,716)	—
Net cash used in investing activities	(14,910)	(5,922)
Cash flows from financing activities:		
Proceeds from stock issuance, net	—	94,451
Proceeds from revolver, net	(1,000)	(49,500)
Repayment of debt	(3,938)	—
Repurchase of stock	—	(2,948)
Proceeds from option and warrant exercises	1,454	370
Net cash (used in) provided by financing activities	(3,484)	42,373
Net increase in cash and cash equivalents	979	50,870
Cash and cash equivalents at beginning of period	5,639	1,294
Cash and cash equivalents at end of period	\$ 6,618	\$ 52,164
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 2,711	\$ 1,304
Cash paid for taxes	\$ 2,625	\$ 4,227

Pro Forma Revenue Reconciliation

The tables below summarize the unaudited pro forma statement of operations for the three and nine months ended September 30, 2012, assuming the Poole and Sensage acquisitions had been completed on January 1, 2012. Pro forma income statements are not presented for 2013 as there have been no material acquisitions during the nine months ended September 30, 2013. These pro forma statements do not include any adjustments that may have resulted from synergies between the acquisitions, eliminations of intercompany transactions or from amortization of intangibles other than during the period the acquired entities were part of the Company. The 2012 activity for Poole and Sensage represents the financial activity in 2012 prior to acquisition. Activity for the Rsignia, Diligent and IDEAL acquisitions are not included for any period presented due to their immateriality individually and in aggregate.

For the Three Months Ended September 30, 2012 (In thousands)				
	Poole	Sensage	KEYW	Total
Revenues	\$ 18,050	\$ 2,253	\$ 57,353	\$ 77,656
For the Nine Months Ended September 30, 2012 (In thousands)				
	Poole	Sensage	KEYW	Total
Revenues	\$ 42,321	\$ 6,622	\$ 169,284	\$ 218,227

KEYW has scheduled a conference call to discuss these results today, October 30, 2013, at 5:00 p.m. (EDT). Interested parties will be able to connect to our Webcast via the Investor page on our website, <http://investors.keywcorp.com>. Interested parties may also listen to the conference call by calling 1-877-853-5645. The International Dial-In access number will be 1-408-940-3868. The conference ID for this event is 91002257.

An archive of the Webcast will be available on our webpage following the call. In addition, a podcast of our conference call will be available for download from our Investors page of our website at approximately the same time as the webcast replay.

About KEYW

KEYW provides agile cyber superiority, cybersecurity, and geospatial intelligence solutions for U.S. Government intelligence and defense customers and commercial enterprises. We create our solutions by combining our services and expertise with hardware, software, and proprietary technology to meet our customers' requirements. For more information contact KEYW Corporation, 7740 Milestone Parkway, Suite 400, Hanover, Maryland 21076; Phone 443-733-1600; Fax 443-733-1601; E-mail investors@keywcorp.com; or on the Web at www.keywcorp.com.

Forward-Looking Statements: Statements made in this press release that are not historical facts constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include but are not limited to statements regarding the impacts of the U.S. government shutdown and budget uncertainty in the fourth quarter of 2013, statements about our future expectations, plans and prospects, and other statements containing the words "estimates," "believes," "anticipates," "plans," "expects," "will," "potential," "opportunities", and similar expressions. Our actual results, performance or achievements or industry results may differ materially from those expressed or implied in these forward-looking statements. These statements involve numerous risks and uncertainties, including but not limited to those risk factors set forth in our Annual Report on Form 10-K, dated and filed March 12, 2013 with the Securities and Exchange Commission (SEC) as required under the Securities Act of 1934, and other filings that we make with the SEC from time to time. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements. KEYW is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

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