

KEYW HOLDING CORP

Form 10-Q

November 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number: 001-34891

The KEYW Holding Corporation

(Exact name of registrant as specified in its charter)

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

7740 Milestone Parkway, Suite 400 21076
Hanover, Maryland
(Address of principal executive offices) (Zip Code)

(443) 733-1600
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and emerging growth 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
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No ý

There were 49,795,335 shares of our common stock (\$0.001 par value), outstanding as of October 25, 2017.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1 Financial Statements

Condensed Consolidated Balance Sheets 3

Condensed Consolidated Statements of Operations 4

Condensed Consolidated Statement of Stockholders' Equity 5

Condensed Consolidated Statements of Cash Flows 6

Notes to Condensed Consolidated Financial Statements 7

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations 26

Item 3 Quantitative and Qualitative Disclosures About Market Risk 34

Item 4 Controls and Procedures 34

PART II OTHER INFORMATION

Item 1 Legal Proceedings 36

Item 1A Risk Factors 36

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds 37

Item 6 Exhibits 37

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (unaudited)
(In thousands, except par value per share amounts)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$17,266	\$41,871
Receivables	81,607	43,141
Inventories, net	18,760	15,178
Prepaid expenses	3,069	1,350
Income tax receivable	334	318
Assets of discontinued operations	—	3,000
Total current assets	121,036	104,858
Property and equipment, net	44,034	40,615
Goodwill	491,999	290,710
Other intangibles, net	24,750	7,871
Other assets	2,971	1,399
TOTAL ASSETS	\$684,790	\$445,453
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$17,869	\$6,913
Accrued expenses	17,586	9,941
Accrued salaries and wages	33,787	15,122
Term loan – current portion	6,750	—
Deferred revenue	5,953	3,760
Liabilities of discontinued operations	—	1,185
Total current liabilities	81,945	36,921
Convertible senior notes, net of discount	137,347	132,482
Term loan – non-current portion, net of discount	122,069	—
Non-current deferred tax liability, net	35,376	30,409
Other non-current liabilities	11,973	12,705
TOTAL LIABILITIES	388,710	212,517
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, 49,796 and 40,977 shares issued and outstanding	50	41
Additional paid-in capital	421,730	333,883
Accumulated deficit	(125,700)	(100,988)
Total stockholders' equity	296,080	232,936
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$684,790	\$445,453

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

3

THE KEYW HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (unaudited)

(In thousands, except per share amounts)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue	\$122,394	\$72,111	\$314,708	\$219,099
Cost of revenue	93,116	48,312	235,186	148,576
Operating expenses	24,408	18,031	80,551	51,815
Intangible amortization expense	2,431	1,528	6,570	4,463
Operating income (loss)	2,439	4,240	(7,599)	14,245
Non-operating expense, net	4,583	2,612	11,977	6,776
(Loss) earnings before income taxes from continuing operations	(2,144)	1,628	(19,576)	7,469
Income tax expense (benefit), net on continuing operations	2,012	(1,876)	5,136	2,491
Net (loss) income from continuing operations	(4,156)	3,504	(24,712)	4,978
Loss before income taxes from discontinued operations				