

PARADIGM HOLDINGS, INC

FORM 8-K

(Current report filing)

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|-------------|---|
| Address | 9715 KEY WEST AVE., 3RD FLOOR ROCKVILLE, MD 20850 |
| Telephone | (301) 468-1200 |
| CIK | 0000313353 |
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| Sector | Technology |
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)
November 11, 2009

PARADIGM HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Wyoming
(State or other jurisdiction of
incorporation)

000-09154
(Commission File No.)

83-0211506
(I.R.S. Employer
Identification No.)

9715 Key West Avenue, 3rd Floor, Rockville, Maryland
(Address of principal executive offices)

20850
(Zip Code)

(301) 468-1200
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item Results of Operations and Financial Condition.
2.02.

On November 11, 2009, Paradigm Holdings, Inc. issued a press release reporting its results for the third fiscal quarter ended September 30, 2009. The press release is furnished herewith as Exhibit 99.1 and is incorporated herein by reference.

This information shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, and it shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item Financial Statements and Exhibits.
9.01.

- (a) Not applicable
- (b) Not applicable
- (c) Not applicable
- (d) Exhibits.

99.1 Press Release of Paradigm Holdings, Inc. dated November 11, 2009.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PARADIGM HOLDINGS, INC.

By: /s/ Richard Sawchak
Richard Sawchak
Chief Financial Officer

Date: November 11, 2009

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u> |
|---------------------------|--|
| Exhibit 99.1 | Press Release of Paradigm Holdings, Inc. dated November 11, 2009 |

Contact:

Richard Sawchak
Paradigm Solutions Corporation
Tel: (240) 283-3404

For Immediate Release

**Paradigm Holdings Provides Business Update and
Reports Financial Results for the Third Quarter of 2009**

Rockville, Maryland – November 11, 2009 – Paradigm Holdings, Inc. (OTCBB: PDHO) (“Paradigm” or the “Company”), a provider of comprehensive information technology and cyber security solutions for federal government enterprises, today provided an update for the third quarter ended September 30, 2009.

Third Quarter 2009 Highlights:

- Revenues of \$8.0 million
- Gross profit of \$1.9 million, with gross margin expansion of 228 basis points to 23.4%
- EBITDA of \$0.4 million
- Net income of \$0.02 per basic share, resulting from the non-cash change in the fair value of put warrants; net loss of \$0.01 per diluted share without non-cash change in fair value of put warrants

Peter B. LaMontagne, Paradigm President and CEO, stated, “We believe that our strategy of focusing on higher-margin national and homeland security contracts is enabling us to make additional positive progress toward becoming a leading provider of specialized cyber security services. The transition away from our Small Business Program status has been a long process, but we believe we have begun to stabilize: revenues have been in the \$8 million per quarter range for three quarters; our book-to-bill ratio for the quarter increased to 3.4x; and our total backlog grew to approximately \$92 million. In addition, approximately 18% of our total revenues for 2009 are directly focused on cyber security and nearly 40% are derived from national and homeland security agencies. As we look toward 2010, we will focus sharply on cyber security and related programs.”

Richard Sawchak, Chief Financial Officer, stated, “We are pleased that our disciplined cash management enabled us to once again generate positive operating cash flow during the quarter and reduce our debt balance to \$3.1 million. As we continue to focus on operating profitability and positive cash flow during the remainder of 2009 and beyond, we intend to continue to take the necessary steps to expand gross margins, reduce expenses and manage our working capital position.”

The Company’s EBITDA was \$0.4 million during the quarter ended September 30, 2009, as compared to approximately \$0.3 million for the same period of 2008. The Company defines EBITDA as earnings before interest, taxes, changes in the fair value of put warrants, depreciation and amortization, stock compensation and restructuring expenses which include the basket allowed under our senior credit facility and other actual restructuring costs. EBITDA is not a measure of performance calculated in accordance with accounting principles generally accepted in the United States (“GAAP”), and should not be considered in isolation of, or as a substitute for, earnings as an indicator of operating performance or cash flows from operating activities as a measure of liquidity. The Company believes the presentation of EBITDA is relevant and useful by enhancing the readers’ ability to understand the Company’s operating performance. The Company’s management utilizes EBITDA as a means to measure performance. The Company’s measurements of EBITDA may not be comparable to similar titled measures reported by other companies. The table below reconciles EBITDA, a non-GAAP measure, to net income (loss) for the three and nine months ended September 30, 2009 and 2008.

| | Quarter Ended September 30 | | Nine Months Ended September 30 | |
|--------------------------------|----------------------------|-------------------|--------------------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net Income (Loss) | \$ 957,679 | \$ (224,147) | \$ (1,140,669) | \$ (627,313) |
| Adjustments: | | | | |
| Interest Expense, net | 536,943 | 230,593 | 1,385,690 | 733,877 |
| Income Tax Provision (Benefit) | 135,069 | (105,263) | (88,624) | (255,505) |
| Change in FV of Put Warrants | (1,463,910) | -- | (463,085) | -- |
| Depreciation & Amortization | 109,720 | 142,844 | 351,923 | 468,824 |
| Stock Compensation | 91,570 | 140,032 | 487,175 | 420,095 |
| Restructuring Expense | -- | 67,390 | 325,000 | 431,978 |
| EBITDA | \$ 367,071 | \$ 251,449 | \$ 857,410 | \$ 1,171,956 |

Revenue for the third quarter of 2009 was \$8.0 million, compared to \$9.6 million for the third quarter of 2008. The decline in revenue for the three months is attributable to a decrease in federal repair and maintenance services and the completion of certain small business set-aside programs during 2008. Net income for the third quarter of 2009 was \$957,679 or \$0.02 per basic share and (\$0.01) per diluted share, versus a net loss of \$269,147 or (\$0.01) per basic and diluted share in the third quarter of 2008. The increase in net income for the three months is attributable to the gain from the changes in the fair value of put warrants and the lower SG&A expenses which is partially offset by the decrease in revenue and an increase in interest expense.

The Company had a \$0.8 million working capital deficit and approximately \$3.1 million outstanding on its line of credit with Silicon Valley Bank as of September 30, 2009.

For additional details, please refer to the Company's quarterly report on Form 10-Q as filed with the SEC.

About Paradigm Holdings, Inc.

Paradigm Holdings, Inc., (www.paradigmsolutions.com) is a provider of information technology (IT) and cyber security solutions for U.S. Federal Government enterprises. Paradigm specializes in comprehensive information assurance solutions involving cyber security and digital forensics as well as continuity of operations and disaster recovery planning. The Company also provides systems engineering and IT infrastructure support solutions. Headquartered in Rockville, Maryland, the Company currently employs approximately 200 people.

Safe Harbor Statement

This press release may contain forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the safe harbor created by those sections. Paradigm assumes no obligation to update the information contained in this press release. Future results for Paradigm may be affected by its ability to continue to implement its government technology solutions, its dependence on the federal government and state and local governments and other federal government contractors as its major customers, timely passage of components of the federal budget, timely obligations of funding by the federal and state governments, its dependence on procuring, pricing and performing short-term government contracts, its dependence on hiring and retaining qualified professionals, potential fluctuations in its quarterly operating results, including seasonal impacts, its dependence on certain key employees and its ability to timely and effectively integrate the businesses it may acquire. For further information about forward-looking statements and other Paradigm specific risks and uncertainties please refer to recent SEC filings for Paradigm, which are available at www.sec.gov.

(tables follow)

PARADIGM HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 134,719 | \$ 52,257 |
| Accounts receivable — contracts, net | 5,212,932 | 6,920,768 |
| Prepaid expenses | 745,685 | 1,033,837 |
| Prepaid corporate income taxes | -- | 47,092 |
| Deferred income tax assets | 34,473 | 60,269 |
| Other current assets | 432,869 | 554,610 |
| Total current assets | 6,560,678 | 8,668,833 |
| Property and equipment, net | 132,825 | 183,612 |
| Goodwill | 3,991,605 | 3,991,605 |
| Intangible assets, net | 984,136 | 1,244,591 |
| Deferred financing costs, net | 948,418 | -- |
| Deferred income tax assets, net of current portion | 443,646 | 211,326 |
| Other non-current assets | 681,914 | 172,029 |
| Total Assets | \$ 13,743,222 | \$ 14,471,996 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Note payable — line of credit | \$ 3,096,851 | \$ 5,949,983 |
| Note payable — promissory note | -- | 2,000,000 |
| Capital leases payable, current portion | -- | 1,578 |
| Accounts payable and accrued expenses | 2,155,191 | 3,498,690 |
| Accrued salaries and related liabilities | 1,578,908 | 1,474,133 |
| Corporate income tax payable | 52,827 | -- |
| Mandatorily redeemable preferred stock, current portion | 350,000 | -- |
| Other current liabilities | 86,831 | 227,200 |
| Total current liabilities | 7,320,608 | 13,151,584 |
| Long-term liabilities | | |
| Other non-current liabilities | 127,559 | 183,870 |
| Mandatorily redeemable preferred stock - \$.01 par value, 10,000,000 shares authorized, 6,206 shares issued and outstanding as of September 30, 2009 | 4,483,923 | -- |
| Put warrants | 1,465,082 | -- |
| Total liabilities | 13,397,172 | 13,335,454 |
| Commitments and contingencies | | |
| Convertible preferred stock - \$.01 par value, 10,000,000 shares authorized, 0 and 1,800 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively. Each share of convertible preferred stock has a liquidation preference of \$0.01 per share plus all accrued but unpaid dividends | -- | 18 |
| Common stock - \$.01 par value, 50,000,000 shares authorized, 41,243,027 shares and 19,148,153 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively | 412,431 | 191,482 |
| Additional paid-in capital | 3,344,646 | 3,215,400 |
| Accumulated deficit | (3,411,027) | (2,270,358) |
| Total stockholders' equity | 346,050 | 1,136,542 |
| Total liabilities and stockholders' equity | \$ 13,743,222 | \$ 14,471,996 |

PARADIGM HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------------|-----------------------|---------------------|
| | Sept. 30, 2009 | Sept. 30, 2008 | Sept. 30, 2009 | Sept. 30, 2008 |
| Contract Revenue | | | | |
| Service contracts | \$ 5,713,956 | \$ 7,079,396 | \$ 17,180,060 | \$ 21,388,614 |
| Repair and maintenance contracts | 2,322,972 | 2,485,063 | 7,235,964 | 9,593,523 |
| Total contract revenue | <u>8,036,928</u> | <u>9,564,459</u> | <u>24,416,024</u> | <u>30,982,137</u> |
| Cost of revenue | | | | |
| Service contracts | 4,353,955 | 5,324,087 | 13,244,991 | 16,394,569 |
| Repair and maintenance contracts | 1,805,342 | 2,223,919 | 5,911,417 | 8,417,479 |
| Total cost of revenue | <u>6,159,297</u> | <u>7,548,006</u> | <u>19,156,408</u> | <u>24,812,048</u> |
| Gross margin | 1,877,631 | 2,016,453 | 5,259,616 | 6,170,089 |
| Selling, general and administrative | 1,711,850 | 2,115,270 | 5,566,304 | 6,319,257 |
| Income (loss) from operations | <u>165,781</u> | <u>(98,817)</u> | <u>(306,688)</u> | <u>(149,168)</u> |
| Other income (expense) | | | | |
| Interest income | 2 | 65 | 8 | 2,772 |
| Change in fair value of put warrants | 1,463,910 | -- | 463,085 | -- |
| Interest expense – mandatorily redeemable preferred stock | (418,248) | -- | (950,223) | -- |
| Interest expense | (118,697) | (230,658) | (435,475) | (736,649) |
| Other income | -- | -- | -- | 227 |
| Total other income (expense) | <u>926,967</u> | <u>(230,593)</u> | <u>(922,605)</u> | <u>(733,650)</u> |
| Income (loss) from operations before income taxes | 1,092,748 | (329,410) | (1,229,293) | (882,818) |
| Provision (benefit) for income taxes | 135,069 | (105,263) | (88,624) | (255,505) |
| Net income (loss) | 957,679 | (224,147) | (1,140,669) | (627,313) |
| Dividends on preferred stock | -- | 45,000 | 78,870 | 135,000 |
| Net income (loss) attributable to common shareholders | <u>\$ 957,679</u> | <u>\$ (269,147)</u> | <u>\$ (1,219,539)</u> | <u>\$ (762,313)</u> |
| Weighted average number of common shares: | | | | |
| Basic | 41,243,027 | 19,148,153 | 36,299,722 | 19,148,153 |
| Diluted | 79,262,830 | 19,148,153 | 36,299,722 | 19,148,153 |
| Basic net income (loss) per common share | \$ 0.02 | \$ (0.01) | \$ (0.03) | \$ (0.04) |
| Diluted net loss per common share | \$ (0.01) | \$ (0.01) | \$ (0.03) | \$ (0.04) |