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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: **March 31, 2024**

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: **001-08443**



TELOS CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

19886 Ashburn Road, Ashburn, Virginia

(Address of principal executive offices)

52-0880974

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

20147-2358

(Zip Code)

(703) 724-3800

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, \$0.001 par value per share	TLS	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

As of May 3, 2024, the registrant had outstanding 71,757,998 shares of common stock.

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PART I – FINANCIAL INFORMATION**Item 1. Financial Statements**

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
<i>(in thousands, except per share amounts)</i>		
Revenue – services	\$ 28,851	\$ 31,534
Revenue – products	768	3,688
Total revenue	29,619	35,222
Cost of sales – services (excluding depreciation and amortization)	17,059	19,092
Cost of sales – products (excluding depreciation and amortization)	321	2,472
Depreciation and amortization	1,278	176
Total cost of sales	18,658	21,740
Gross profit	10,961	13,482
Research and development expenses	3,170	2,833
Selling, general and administrative expenses	16,229	23,619
Operating loss	(8,438)	(12,970)
Other income	1,252	2,496
Interest expense	(175)	(249)
Loss before income taxes	(7,361)	(10,723)
Provision for income taxes	(17)	(23)
Net loss	\$ (7,378)	\$ (10,746)
Net loss per share:		
Basic	\$ (0.10)	\$ (0.16)
Diluted	\$ (0.10)	\$ (0.16)
Weighted-average shares outstanding:		
Basic	70,628	68,176
Diluted	70,628	68,176

See accompanying notes to the unaudited consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Net loss	\$ (7,378)	\$ (10,746)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(35)	13
Actuarial loss on pension liability adjustment	(30)	—
Comprehensive loss	<u>\$ (7,443)</u>	<u>\$ (10,733)</u>

See accompanying notes to the unaudited consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2024	December 31, 2023
<i>(in thousands, except per share amount and share data)</i>		
Assets:		
Cash and cash equivalents	\$ 93,915	\$ 99,260
Accounts receivable, net	18,680	30,424
Inventories, net	1,465	1,420
Prepaid expenses	7,787	7,520
Other current assets	1,270	1,367
Total current assets	123,117	139,991
Property and equipment, net	2,907	3,457
Finance lease right-of-use assets, net	6,307	6,612
Operating lease right-of-use assets, net	771	216
Goodwill	17,922	17,922
Intangible assets, net	40,530	39,616
Other assets	3,798	885
Total assets	\$ 195,352	\$ 208,699
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 9,164	\$ 13,750
Accrued compensation and benefits	11,233	14,569
Contract liabilities	5,993	6,728
Finance lease obligations – current portion	1,766	1,730
Operating lease obligations – current portion	195	97
Other current liabilities	2,032	2,324
Total current liabilities	30,383	39,198
Finance lease obligations – non-current portion	9,066	9,518
Operating lease obligations – non-current portion	576	123
Deferred income taxes	825	813
Other liabilities	106	44
Total liabilities	40,956	49,696
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value, 250,000,000 shares authorized, 71,757,998 shares and 70,239,890 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	110	109
Additional paid-in capital	436,616	433,781
Accumulated other comprehensive loss	(125)	(60)
Accumulated deficit	(282,205)	(274,827)
Total stockholders' equity	154,396	159,003
Total liabilities and stockholders' equity	\$ 195,352	\$ 208,699

See accompanying notes to the unaudited consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Net loss	\$ (7,378)	\$ (10,746)
Adjustments to reconcile net loss to cash used in operating activities:		
Stock-based compensation	2,984	9,499
Depreciation and amortization	3,129	1,425
Deferred income tax provision	12	12
Accretion of discount in acquisition holdback	—	2
Loss on disposal of fixed assets	—	1
Provision for doubtful accounts	41	89
Amortization of debt issuance costs	17	17
Gain on early extinguishment of other financing obligations	—	(1,427)
Changes in other operating assets and liabilities:		
Accounts receivable	11,703	5,279
Inventories	(44)	1,248
Prepaid expenses, other current assets, other assets	(171)	(927)
Accounts payable and other accrued payables	(6,549)	(4,489)
Accrued compensation and benefits	(3,054)	(364)
Contract liabilities	(734)	758
Other current liabilities	(306)	(477)
Net cash used in operating activities	(350)	(100)
Cash flows from investing activities:		
Capitalized software development costs	(3,202)	(3,800)
Purchase of investment	(850)	—
Purchases of property and equipment	(97)	(223)
Payment of DFT holdback amount	—	(564)
Net cash used in investing activities	(4,149)	(4,587)
Cash flows from financing activities:		
Payments under finance lease obligations	(416)	(383)
Payment of tax withholding related to net share settlement of equity awards	(430)	(1,520)
Repurchase of common stock	—	(139)
Payments for debt issuance costs	—	(114)
Net cash used in financing activities	(846)	(2,156)
Net change in cash, cash equivalents, and restricted cash	(5,345)	(6,843)
Cash, cash equivalents, and restricted cash, beginning of period	99,396	119,438
Cash, cash equivalents, and restricted cash, end of period	\$ 94,051	\$ 112,595

See accompanying notes to the unaudited consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
<i>(in thousands)</i>						
Balance at December 31, 2023	70,240	\$ 109	\$ 433,781	\$ (60)	\$ (274,827)	\$ 159,003
Net loss	—	—	—	—	(7,378)	(7,378)
Foreign currency translation loss	—	—	—	(35)	—	(35)
Actuarial loss on pension liability adjustment	—	—	—	(30)	—	(30)
Restricted stock unit awards vested, net of shares withheld to cover tax withholding	1,148	1	(431)	—	—	(430)
Stock-based compensation	—	—	1,648	—	—	1,648
Issuance of common stock for 401K match	370	—	1,618	—	—	1,618
Balance at March 31, 2024	<u>71,758</u>	<u>\$ 110</u>	<u>\$ 436,616</u>	<u>\$ (125)</u>	<u>\$ (282,205)</u>	<u>\$ 154,396</u>
Balance at December 31, 2022	67,431	\$ 106	\$ 412,708	\$ (55)	\$ (240,405)	\$ 172,354
Net loss	—	—	—	—	(10,746)	(10,746)
Foreign currency translation gain	—	—	—	13	—	13
Restricted stock unit awards vested, net of shares withheld to cover tax withholding	1,180	1	(1,585)	—	—	(1,584)
Stock-based compensation	—	—	7,916	—	—	7,916
Issuance of common stock for 401K match	777	1	1,941	—	—	1,942
Balance at March 31, 2023	<u>69,388</u>	<u>\$ 108</u>	<u>\$ 420,980</u>	<u>\$ (42)</u>	<u>\$ (251,151)</u>	<u>\$ 169,895</u>

See accompanying notes to the unaudited consolidated financial statements.

TELOS CORPORATION
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Telos Corporation, together with its subsidiaries (collectively, the "Company," "we," "our" or "Telos"), a Maryland corporation, is a leading provider of cyber, cloud and enterprise security solutions for the world's most security-conscious organizations. We own all of the issued and outstanding shares of Xacta Corporation and ubiQuity.com, inc. (a holding company for Xacta Corporation), and 100% ownership interest in Telos Identity Management Solutions, LLC ("Telos ID"), Teloworks, Inc., and Telos APAC Pte. Ltd. ("Telos APAC").

On March 13, 2024, the Board unanimously approved the dissolution of Telos APAC, a pre-operating foreign subsidiary, pursuant to a plan of complete liquidation and dissolution.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principle of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of Telos and its subsidiaries (see [Note 1 – Organization](#)), all of whose issued and outstanding share capital is wholly owned directly and indirectly by Telos Corporation. All intercompany transactions have been eliminated in consolidation.

Basis of Presentation for Interim Periods

Certain information and footnote disclosures normally included for the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted for the interim periods presented. We believe that the unaudited interim financial statements include all adjustments (which are normal and recurring) necessary to state fairly our financial position and the results of operations and cash flows for the periods presented.

The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for the year or future periods. The financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto for the year ended December 31, 2023, included in our Annual Report on Form 10-K for the fiscal year then ended. We have continued to follow the accounting policies set forth in those financial statements.

Basis of Comparison

Certain prior-period amounts have been reclassified to conform to the current period presentation. Starting Q3 2023, we reclassified and presented depreciation and amortization separately from the cost of sales line items. Starting Q1 2024, we reclassified sales and marketing expenses and general and administrative expenses to be presented together as selling, general and administrative expenses. The reclassifications had no net impact on gross profit, total selling, general and administrative expenses or net loss in the unaudited consolidated statements of operations.

Use of Estimates

Preparing unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and disclosure of contingent assets and liabilities. The Company regularly assesses these estimates; however, actual results could differ from those estimates. We base our estimates on historical experience, currently available information, and various other assumptions that we believe are reasonable under the circumstances.

Management evaluates these estimates and assumptions on an ongoing basis, including those relating to revenue recognition on cost estimation on certain contracts, allowance for credit losses, inventory obsolescence, valuation allowance for deferred tax assets, income taxes, certain assumptions related to share-based compensation, valuation of intangible assets and goodwill, restructuring expenses accruals, and contingencies. Actual results could differ from those estimates. The impact of changes in estimates is recorded in the period in which they become known.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include general and administrative expenses, as well as direct and indirect sales and marketing expenses. These costs consists primarily of compensation and benefits (including incentive-based compensation), advertising, facilities, and certain types of depreciation and amortization.

Restructuring Expenses

In the fourth quarter of 2022, the Company committed to a restructuring plan to streamline its workforce and spending to better align its cost structure with its volume of business. The restructuring plan reduced the Company's workforce, with a majority of the affected employees separating from the business in early 2023. In connection with this restructuring plan, we incurred restructuring-related costs, including employee severance and related benefit costs. Employee severance and related benefit costs include cash payments, outplacement services and continuing health insurance coverage. Severance costs pursuant to ongoing-benefit arrangements are recognized when probable and reasonably estimated. Other related costs include external consulting and advisory fees related to implementing the restructuring plan. These costs are recognized at fair value in the period in which the costs are incurred.

The Company incurred a cumulative amount of \$3.9 million of restructuring expenses, which is the total expected costs for this restructuring plan, as disclosed in the Company's recent Annual Report on Form 10-K for the year ended December 31, 2023. The restructuring actions were substantially complete in fiscal year 2023.

The restructuring expenses (adjustments) are included within "Selling, general and administrative expenses" on the Company's unaudited consolidated statements of operations.

Table 2.1: Restructuring Expenses (Adjustments)

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Severance and related benefit costs	\$ (10)	\$ (100)
Other related costs	—	1,300
Total restructuring (adjustments) expenses	<u>\$ (10)</u>	<u>\$ 1,200</u>

At each reporting date, the Company evaluates its restructuring expense accrual to determine if the liabilities reported are still appropriate. Any changes in the estimated costs of executing the approved restructuring plan are reflected in the Company's unaudited consolidated statement of operations.

Table 2.2: Summary of Changes in Restructuring Expenses Accrual

	Severance and related benefit costs ⁽¹⁾	
	<i>(in thousands)</i>	
Balance at December 31, 2023	\$	400
Adjustments		(10)
Cash payments		(283)
Balance at March 31, 2024	<u>\$</u>	<u>107</u>

⁽¹⁾ Restructuring expenses accrual is included within "Other current liabilities" on the Company's unaudited consolidated balance sheets (see [Note 9 - Other Balance Sheet Components](#) for further details.)

Recent Accounting Pronouncements

Adopted

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." ASU 2023-07 will affect how we report segment information, starting with our Form 10-K for the year ended December 31, 2024, and our quarterly reports on Form 10-Q starting with our quarterly report for the quarter ended March 31, 2025. This standard requires that we provide disclosures of significant segment expenses and other segment items that are regularly provided to our chief operating decision maker ("CODM") and included in each reported measure of segment profit or loss. We will also have to disclose other segment items by reportable segment (i.e. the difference between reported segment revenues less the significant segment expenses (which are disclosed) less reported segment profit or loss). We will disclose the CODM and their position within the Company and details about the information that they regularly review to make capital allocation and other operating decisions about each segment, as well as an explanation of how the CODM uses the reported measures and other disclosures. We are currently evaluating these new segment disclosure requirements and the impact of their adoption on our unaudited consolidated financial statements.

Not Yet Adopted

In December 2024, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosure," which requires public entities, on an annual basis, (1) to disclosure specific categories in the rate reconciliation, and (2) to provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5% of the amount computed by multiplying pretax income (loss) by the applicable statutory income tax rate). This ASU will be effective, for public entities, for the fiscal year beginning after December 15, 2024, with early adoption permitted. We are currently assessing the impact of the adoption of this ASU on our unaudited consolidated financial statements.

In addition, from time to time, new accounting standards are issued by the Financial Accounting Standard Board or other standard-setting bodies and are adopted by the Company as of the specified accounting date. Unless otherwise discussed, the Company believes that issued standards not yet effective will not have a material effect on its financial statements.

3. REVENUE RECOGNITION

We account for revenue in accordance with ASC Topic 606, "Revenue from Contracts with Customers." The unit of account in ASC 606 is a performance obligation, which is a promise in a contract with a customer to transfer a good or service to the customer.

The majority of our revenue is recognized over time, as control is transferred continuously to our customers who receive and consume benefits as we perform. Revenue transferred to customers over time accounted for 81% and 89% of our revenue for the three months ended March 31, 2024 and 2023, respectively. All of our business groups earn services revenue under a variety of contract types, including time and materials, firm-fixed price, firm-fixed price level of effort, and cost-plus fixed fee contract types, which may include variable consideration.

For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied. This coincides with the point in time the customer obtains control of the product or service, which typically occurs upon customer acceptance or receipt of the product or service, given that we maintain control of the product or service until that point. Revenue transferred to customers at a point in time accounted for 19% and 11% of our revenue for the three months ended March 31, 2024 and 2023, respectively.

Orders for the sale of software licenses may contain multiple performance obligations, such as maintenance, training, or consulting services, which are typically delivered over time, consistent with the transfer of control disclosed above for the provision of services. When an order contains multiple performance obligations, we allocate the transaction price to the performance obligations based on the standalone selling price of the product or service underlying each performance obligation. The standalone selling price represents the amount we would sell the product or service to a customer on a standalone basis.

For certain performance obligations where we are not primarily responsible for fulfilling the promise to provide the goods or services to the customer, do not have inventory risk and have limited discretion in establishing the price for the goods or services, we recognize revenue on a net basis.

Our contracts may include various types of variable considerations and may include estimated amounts in the transaction price, based on all of the information available to us, and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when any uncertainty associated with the variable consideration is resolved. We evaluate and include these estimated amounts of variable consideration in the transaction price and as performance on these contracts is complete, we adjust our revenue, when deemed necessary. No revenue adjustments were recorded during the three months ended March 31, 2024 and 2023.

We provide for anticipated losses on contracts during the period when the loss is determined by recording an expense for the total expected costs that exceeds the total estimated revenue for a performance obligation. We recorded an immaterial contract loss during the three months ended March 31, 2024. No contract loss was recorded during the three months ended March 31, 2023.

Disaggregated Revenues

In addition to our segment reporting, as further discussed in [Note 16 – Segment Information](#), we disaggregate our revenues by customer and contract types. We treat sales to U.S. customers as sales within the U.S. regardless of where the services are performed. Substantially most of our revenues are generated from U.S. customers, while international customers are de minimis; as such, the financial information by geographic location is not presented.

Table 3.1: Revenue by Customer Type

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Amount	%	Amount	%
	<i>(dollars in thousands)</i>			
Federal	\$ 26,607	90 %	\$ 32,989	94 %
State & local, and commercial	3,012	10 %	2,233	6 %
Total revenue	\$ 29,619	100 %	\$ 35,222	100 %

Table 3.2: Revenue by Contract Type

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Amount	%	Amount	%
	<i>(dollars in thousands)</i>			
Firm fixed-price	\$ 22,836	77 %	\$ 27,013	77 %
Time-and-materials	3,137	11 %	3,556	10 %
Cost plus fixed fee	3,646	12 %	4,653	13 %
Total revenue	\$ 29,619	100 %	\$ 35,222	100 %

Table 3.3: Revenue Concentration Greater than 10% of Total Revenue

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	U.S. Department of Defense ("DoD")	56 %

Table 3.4: Contract Balances

	Balance Sheet Presentation	March 31, 2024		December 31, 2023	
		<i>(in thousands)</i>			
Billed accounts receivables ⁽¹⁾	Accounts receivable, net	\$ 8,991	\$ 17,818		
Unbilled accounts receivable	Accounts receivable, net	5,229	8,022		
Contract assets	Accounts receivable, net	4,460	4,584		
Contract liabilities	Contract liabilities	5,993	6,728		

⁽¹⁾ Net of allowance for credit losses.

The changes in the Company's contract assets and contract liabilities during the current period were primarily the result of the timing differences between the Company's performance, invoicing and customer payments. Revenue recognized for the three months ended March 31, 2024 and 2023, that was included in the contract liabilities balance at the beginning of each reporting period was \$2.7 million and \$2.5 million, respectively.

As of March 31, 2024, we had approximately \$36.1 million of remaining performance obligations, which we also refer to as funded backlog. We expect to recognize approximately 89% of our remaining performance obligations over the next 12 months, and the balance thereafter.

4. ACCOUNTS RECEIVABLE, NET

Table 4: Details of Accounts Receivable, Net

	March 31, 2024		December 31, 2023	
	<i>(in thousands)</i>			
Billed accounts receivable	\$ 9,315	\$ 18,101		
Unbilled accounts receivable	5,229	8,022		
Contract assets	4,460	4,584		
Allowance for credit losses ⁽¹⁾	(324)	(283)		
Accounts receivable, net	\$ 18,680	\$ 30,424		

⁽¹⁾ Includes provision for credit losses, net of recoveries.

As our primary customer base includes agencies of the U.S. government, we have a concentration of credit risk associated with our accounts receivable, as 96% and 91% of our billed and unbilled accounts receivable as of March 31, 2024 and December 31, 2023, respectively, were directly with U.S. government customers. While we acknowledge the potential material and adverse risk of such a significant concentration of credit risk, our past experience collecting substantially all of such receivables provides us with an informed basis that such risk, if any, is manageable. We perform ongoing credit evaluations of all of our customers and generally do not require collateral or other guarantees from our customers. We maintain allowances for potential losses.

5. INVENTORIES, NET

Table 5: Details of Inventories, Net

	March 31, 2024		December 31, 2023	
	<i>(in thousands)</i>			
Gross inventory	\$	2,224	\$	2,179
Allowance for inventory obsolescence		(759)		(759)
Inventories, net	\$	1,465	\$	1,420

6. PROPERTY AND EQUIPMENT, NET

Table 6.1: Details of Property and Equipment, Net

	March 31, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Depreciation and Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Depreciation and Amortization	Net Carrying Value
	<i>(in thousands)</i>					
Furniture and equipment	\$ 15,866	\$ (13,539)	\$ 2,327	\$ 16,213	\$ (13,363)	\$ 2,850
Leasehold improvements	3,211	(2,631)	580	3,211	(2,604)	607
Total	\$ 19,077	\$ (16,170)	\$ 2,907	\$ 19,424	\$ (15,967)	\$ 3,457

Table 6.2: Depreciation and Amortization Expense

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Depreciation and amortization expense	\$ 635	\$ 573

7. GOODWILL

The goodwill balance was \$17.9 million as of March 31, 2024, and December 31, 2023, of which \$3.0 million is allocated to the Security Solutions segment and \$14.9 million is allocated to the Secure Networks segment. Goodwill is subject to annual impairment tests and if triggering events are present in the interim before the annual tests, we will assess impairment. No impairment charges were recorded for the three months ended March 31, 2024 and 2023.

8. INTANGIBLE ASSETS, NET

Table 8.1: Details of Intangible Assets, Net

	Estimated Useful Life	March 31, 2024			December 31, 2023		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
	<i>(in years)</i>	<i>(in thousands)</i>					
Acquired technology	8	\$ 3,630	\$ (1,210)	\$ 2,420	\$ 3,630	\$ (1,097)	\$ 2,533
Customer relationship	3	40	(35)	5	40	(32)	8
Software development costs	2 - 5	36,599	(14,252)	22,347	35,312	(12,256)	23,056
Subtotal		40,269	(15,497)	24,772	38,982	(13,385)	25,597
In-process software development costs ⁽¹⁾		15,758	—	15,758	14,019	—	14,019
Total		\$ 56,027	\$ (15,497)	\$ 40,530	\$ 53,001	\$ (13,385)	\$ 39,616

⁽¹⁾ In-process software development costs are costs for software that is not yet available for its intended use or general release to customers as of balance sheet date, thus not yet amortized.

Table 8.2: Amortization Expense

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Amortization expense related to:		
Software development costs - cost of sales ⁽¹⁾	\$ 1,158	\$ —
Software development costs - research and development	837	303
Other intangible assets - general and administrative	117	117
Total	\$ 2,112	\$ 420

⁽¹⁾ Amortization expense for software development costs related to assets to be sold, leased, or otherwise marketed is charged under cost of sales on the unaudited consolidated statements of operations.

9. OTHER BALANCE SHEET COMPONENTS

Table 9.1: Details of Other Assets

	March 31, 2024	December 31, 2023
		<i>(in thousands)</i>
Investment ⁽¹⁾	\$ 3,000	\$ —
Restricted cash	136	136
Other	662	749
Other assets	\$ 3,798	\$ 885

⁽¹⁾ In March 2024, we made a \$3.0 million investment in a privately held company via a simple agreement for future equity. We paid \$0.9 million in March 2024 and the remainder was paid in April 2024. The Company elected to apply the fair value option on this investment, and we did not note any changes in the fair value during the three months ended March 31, 2024.

Table 9.2: Details of Accounts Payable and Other Accrued Liabilities

	March 31, 2024	December 31, 2023
		<i>(in thousands)</i>
Accounts payable	\$ 2,206	\$ 8,307
Accrued payables	6,958	5,443
Accounts payable and other accrued liabilities	\$ 9,164	\$ 13,750

Table 9.3: Details of Other Current Liabilities

	March 31, 2024	December 31, 2023
		<i>(in thousands)</i>
Other accrued expenses	\$ 1,270	\$ 1,427
Restructuring expenses accrual	107	400
Other	655	497
Other current liabilities	\$ 2,032	\$ 2,324

10. DEBT AND OTHER OBLIGATIONS

Revolving Credit Facility

On December 30, 2022, we entered into a Credit Agreement (the "Credit Agreement"), by and among the Company, as borrower, Xacta Corporation, ubiQuity.com, inc., Teloworks, Inc., and Telos Identity Management Solutions, LLC, as guarantors, the lenders party thereto (the "Lenders"), and JPMorgan Chase Bank N.A., as administrative agent for the Lenders (in such capacity, the "Agent"). The Credit Agreement provides for a \$30.0 million senior secured revolving credit facility with a maturity date of December 30, 2025, with the option of issuing letters of credit thereunder with a sub-limit of \$5.0 million, and with an uncommitted expansion feature of up to \$30.0 million of additional revolver capacity (the "Loan"). The Loan is subject to acceleration in the event of customary events of default. The Company has not drawn any amount under the Loan.

Borrowings under the Credit Agreement will accrue interest, at our option, at one of three variable rates, plus a specified margin. We can elect to borrow at (i) the Alternative Base Rate, plus 0.9%; (ii) Adjusted Daily Simple Secured Overnight Financing Rate ("SOFR"), plus 1.9%; and (iii) Adjusted Term SOFR, plus 1.9%, as such capitalized terms are defined and calculated in the Credit Agreement. The Company may elect to convert borrowings from one type of borrowing to another type per the terms of the Credit Agreement. After the occurrence and during the continuance of any event of default, the interest rate may increase by an additional 2.0%. We are obligated to pay accrued interest (i) with respect to amounts accruing interest based on the Alternative Base Rate, each calendar quarter and on the maturity date, (ii) with respect to amounts accruing interest based on Adjusted Daily Simple SOFR, on each one-month anniversary of the borrowing and on the maturity date, and (iii) with respect to amounts accruing interest based on Adjusted Term SOFR, at the end of the period specified per the Credit Agreement and on the maturity date. Upon five, three, or one day's prior notice, as applicable, we may prepay any portion or the entire amount of the Loan. We also paid costs and customary fees, including a closing fee, commitment fees and letter of credit participation fee, if any, payable to the Agent and Lenders, as applicable, in connection with the Loan.

The Loan under the Credit Agreement is collateralized by substantially all of the Company's assets, including the Company's pledge of its domestic and material foreign subsidiary equity interests.

The Loan has various covenants that may, among other things, affect our ability to create, incur, assume or suffer any indebtedness, merge into or consolidate with another entity, acquire entity interests, sell or transfer certain assets, enter into certain arrangements (such as sale and leaseback and swap agreements) or restrictive agreements, pay dividends and make certain restricted payments, and amend material documents related to any subordinated indebtedness and corporate agreements. The Credit Agreement also requires certain financial covenants to maintain a Senior Leverage Ratio on the last day of any fiscal quarter, no greater than 3 to 1. We were in compliance with all covenants as of March 31, 2024.

The occurrence of an event of default under the Credit Agreement could result in the Loan and other obligations becoming immediately due and payable and allow the Lenders to exercise all rights and remedies available to them under the Credit Agreement.

On April 12, 2023, the Credit Agreement was amended to exclude from collateral the (i) amount collectible from a third party related to an Accounts Receivable Purchase Agreement and (ii) receivables generated by the Company from the sale of goods supplied to this third party in an amount not to exceed \$25.0 million.

Other Financing Obligations

We entered into a Master Purchase Agreement ("MPA") with a third-party buyer ("Buyer") for \$9.1 million relating to software licenses under a specific delivery order ("DO") with our customer resulting in proceeds from other financing obligations of \$9.1 million in November 2022. Under the MPA, we sold, assigned and transferred all of our rights, title and interest in (i) the DO payments from the customer and (ii) the underlying licenses. The DO covers a base period with an option for the customer to exercise three (3) additional 12-month periods through January 2026. The DO payments assigned to the Buyer are billable to the customer at the beginning of the base period and for each option year exercised. The underlying licenses were acquired for resale.

On February 9, 2023, the customer notified us that it would not exercise the first option period under the DO. The MPA provides that, if the customer terminates the DO for non-renewal and the Buyer reasonably concludes that the customer's actions constitute grounds for filing a claim with the customer's contracting officer, Buyer and Telos will cooperate in preparing such a claim, which would be filed in Telos' name. Buyer has notified Telos of its intent to pursue a claim against the customer.

Concurrently, the Company transferred all the rights, title and interest in the underlying licenses in exchange for the extinguishment of the outstanding financing obligations. The Company evaluated the transfer of the underlying licenses as consideration paid for the outstanding financing obligations under ASC 470-10, *Debt*, and the provisions of the MPA, and concluded that the transaction resulted in an extinguishment of debt. The Company recorded the difference between the carrying value of the Company's debt instrument and the underlying licenses as a gain on early extinguishment of other financing obligations. During the three months ended March 31, 2023, the Company reported a gain of \$1.4 million, which was recorded as "Other income" in the unaudited consolidated statements of operations.

11. STOCK-BASED COMPENSATION

The Company grants stock-based compensation awards under the 2016 Omnibus Long-Term Incentive Plan, as amended (the "2016 LTIP"). We may grant restricted stock awards, restricted stock units with time-based vesting ("RSUs") and restricted stock units with performance-based vesting ("PSUs"). Awards granted under the 2016 LTIP vest over the periods determined by the Board of Directors or the Compensation Committee of the Board of Directors, which has the discretion to establish the terms, conditions and criteria of the various awards. The RSUs granted to eligible employees generally vest in installments over a period of up to three years. PSUs will vest upon the achievement of a defined performance target or market conditions for the Company's common stock, certain operational milestones over prescribed period, or at the end of the defined performance period from the date of grant.

There were no income tax benefits recognized on the share-based compensation expense for both periods.

Table 11.1: Details of Stock Compensation Expense by Department

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Cost of sales – services	\$ 257	\$ 326
Research and development	428	770
Selling, general and administrative	2,299	8,403
Total	\$ 2,984	\$ 9,499

Restricted Stock

Table 11.2: Restricted Stock Activity

	Service-Based	Performance-Based	Total Shares	Weighted-Average Grant Date Fair Value
Unvested outstanding units as of December 31, 2023	2,132,613	43,800	2,176,413	\$ 5.07
Granted	36,626	—	36,626	3.84
Vested	(1,260,068)	—	(1,260,068)	4.60
Forfeited	(15,000)	—	(15,000)	4.25
Unvested outstanding units as of March 31, 2024	894,171	43,800	937,971	\$ 5.68

As of March 31, 2024, the intrinsic value of the RSUs and PSUs outstanding, exercisable, and vested or expected to vest was \$3.9 million. There was approximately \$2.1 million of total compensation costs related to stock-based awards not yet recognized as of March 31, 2024, which is expected to be recognized on a straight-line basis over a weighted-average remaining vesting period of 0.7 years.

Stock Options

Table 11.3: Stock Option Activity

	Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding option balance as of December 31, 2023	400,000	\$ 1.80	9.4	\$ 740,000
Granted	—	—	0.0	—
Exercised	—	—	0.0	—
Forfeited, cancelled, or expired	—	—	0.0	—
Outstanding option balance as of March 31, 2024	400,000	1.80	9.1	\$ 944,000
Exercisable stock option as of March 31, 2024	—	—	0	\$ —

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the quoted closing price of the Company's common stock as of March 31, 2024.

The fair value of the stock options is expensed on a straight-line basis over the vesting period of one year, including the stock options granted to directors, as the next annual stockholders meeting is expected to occur at the same approximate time each year.

As of March 31, 2024, there were approximately \$0.04 million of unrecognized compensation costs related to non-vested stock options.

12. SHARE REPURCHASES

On May 24, 2022, the Company announced that the Board of Directors approved a new share repurchase program ("SRP") authorizing the Company to repurchase up to \$50.0 million of its common stock. Pursuant to this authorization, the Company may repurchase shares of its common stock on a discretionary basis from time to time through open market purchases. The repurchase program has no expiration date and may be modified, suspended, or terminated at any time.

There were no share purchases during the first quarter of 2024 and 2023. As of March 31, 2024, there was approximately \$38.7 million of the authorization remaining for future common stock repurchases under the SRP.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

For one of our wholly-owned subsidiaries, the functional currency is the local currency. For this subsidiary, the translation of its foreign currency into U.S. dollars is performed for assets and liabilities using current foreign currency exchange rates in effect at the balance sheet date and for revenue and expense accounts using average foreign currency exchange rates during the periods presented. Translation gains and losses are included in stockholders' equity as a component of accumulated other comprehensive (loss) income.

Table 13: Details of Changes in Accumulated Other Comprehensive Loss by Category

	Foreign currency translation adjustment	Pension liability adjustment	Total
	<i>(in thousands)</i>		
Balance as of December 31, 2023	\$ (167)	\$ 107	\$ (60)
Other comprehensive loss before reclassification	(35)	(30)	(65)
Balance as of March 31, 2024	<u>\$ (202)</u>	<u>\$ 77</u>	<u>\$ (125)</u>

14. LOSS PER SHARE

For the period of net loss, potentially dilutive securities are not included in the calculation of diluted net earnings (loss) per share, because to do so would be anti-dilutive.

Table 14: Potentially Dilutive Securities

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Unvested restricted stock and restricted stock units	1,245	410

For the three months ended March 31, 2024 and 2023, the outstanding PSUs aggregating to 43,800 and 265,608, respectively, have been excluded from the calculation of potentially dilutive securities above because the issuance of shares is contingent upon the satisfaction of certain conditions which were not satisfied by the end of the period.

15. RELATED PARTY TRANSACTIONS

Emmett J. Wood, the brother of our Chairman and CEO, had been an employee of the Company since 1996. In January 2023, he tendered his resignation as an employee effective February 7, 2023. The amount paid to him as compensation for his remaining tenure in 2023 was \$249,000.

One of the Company's directors served as a consultant to the Company under a consultancy agreement that expired on December 31, 2023. The Company, at its election, paid the director's 2023 consultancy fees in a fixed amount, in the form of RSUs. On January 3, 2023, the Company granted the director 16,859 RSUs for his consulting services through June 30, 2023, one-half of which vested on March 3, 2023, and the other half vested on May 18, 2023. Beginning in July 2023, the director was paid a firm-fixed monthly retainer fee, plus additional fees and contingent bonus payments upon achievement of certain contract goals, payable in cash through the expiration of the agreement.

16. SEGMENT INFORMATION

We operate our business in two reportable and operating segments: Security Solutions and Secure Networks. These segments enable the alignment of our strategies and objectives and provide a framework for the timely and rational allocation of resources within the business lines.

Our Security Solutions segment is primarily focused on cybersecurity, cloud and identity solutions, and secure messaging through Xacta[®], Telos Ghost[®], Telos Advanced Cyber Analytics ("Telos ACATM"), Telos Automated Message Handling System ("AMHS") and Telos ID offerings. We recognize revenue on contracts from providing various system platforms in the cloud, on-premises, and in hybrid cloud environments, as well as software sales or software-as-a-service. Revenue associated with the segment's custom solutions is recognized as work progresses or upon delivery of services and products. Fluctuation in revenue from period to period is the result of the volume of software sales, and the progress or completion of cloud or cybersecurity solutions during the period. The majority of the operating costs relate to labor, material, and overhead costs. Software sales have immaterial operation costs associated with them, thus yielding higher margins. Gross profit and margin are a function of operational efficiency on security solutions and changes in the volume of software sales.

Our Secure Networks segment provides secure networking architectures and solutions to our customers through secure mobility solutions, and network management and defense services. Revenue is recognized over time as the work progresses on contracts related to managing network services and information delivery. Contract costs include labor, material, and overhead costs. Variances in costs recognized from period to period primarily reflect increases and decreases in activity levels on individual contracts.

Table 16: Results of Operations by Business Segment

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Revenues		
Security Solutions	\$ 18,640	\$ 19,773
Secure Networks	10,979	15,449
Total revenue	<u>29,619</u>	<u>35,222</u>
Gross profit		
Security Solutions	8,626	10,274
Secure Networks	2,335	3,208
Total gross profit	<u>10,961</u>	<u>13,482</u>
Research and development expenses	3,170	2,833
Selling, general and administrative expenses	16,229	23,619
Operating loss	<u>(8,438)</u>	<u>(12,970)</u>
Other income	1,252	2,496
Interest expense	(175)	(249)
Loss before income taxes	<u>(7,361)</u>	<u>(10,723)</u>
Provision for income taxes	(17)	(23)
Net loss	<u>\$ (7,378)</u>	<u>\$ (10,746)</u>

We measure each segment's profitability based on gross profit. We account for inter-segment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. Interest income, interest expense, other income and expense items, and income taxes, as reported in the consolidated financial statements, are not part of the segment profitability measure and are primarily recorded at the corporate level.

Management does not utilize total assets by segment to evaluate segment performance or allocate resources. As a result, assets are not tracked by segment, and therefore, total assets by segment are not disclosed.

17. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

From time to time, the Company may be a party to litigation or claims arising in the ordinary course of business, including those relating to employment matters, relationship with clients and contractors, intellectual property disputes, and other business matters. These legal proceedings seek various remedies, including claims for monetary damages in varying amounts, none of which are considered material, or are unspecified as to amount. Although the outcome of any such matter is inherently uncertain and may be materially adverse, based on current information, management believes that the outcome of such known matters will not have a material adverse effect on the Company's business or its unaudited consolidated financial statements as of March 31, 2024.

Other - Government Contracts

As a U.S. government contractor, we are subject to various audits and investigations by the U.S. government to determine whether our operations are being conducted in accordance with applicable regulatory requirements. U.S. government investigations of our operations, whether relating to government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including repayments, fines or penalties being imposed upon us, suspension, proposed debarment, debarment from eligibility for future U.S. government contracting, or suspension of export privileges. Suspension or debarment could have a material adverse effect on us because of our dependence on contracts with the U.S. government. U.S. government investigations often take years to complete and many result in no adverse action against us. We also provide products and services to customers outside of the United States, which are subject to U.S. and foreign laws and regulations and foreign procurement policies and practices. Our compliance with local regulations or applicable U.S. government regulations also may be audited or investigated.

18. SUPPLEMENTAL CASH FLOW INFORMATION

Table 18.1: Details of Cash, Cash Equivalents, and Restricted Cash

	March 31, 2024	December 31, 2023
	<i>(in thousands)</i>	
Cash and cash equivalents	\$ 93,915	\$ 99,260
Restricted cash ⁽¹⁾	136	136
Cash, cash equivalents, and restricted cash	<u>\$ 94,051</u>	<u>\$ 99,396</u>

⁽¹⁾ Restricted cash consists of a commercial money market account held as a deposit on the Ashburn lease and is included within "Other assets" on the unaudited consolidated balance sheets.

Table 18.2: Supplemental Cash Flow Information

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Cash paid during the period for:		
Interest	\$ 146	\$ 219
Non-cash investing and financing activities:		
Operating lease ROU assets obtained in exchange for operating lease liabilities	\$ 626	\$ 117
Capital expenditure activity in accounts payable and other accrued liabilities	154	273
Purchase of investment in accounts payable and other accrued liabilities	2,150	—
Issuance of common stock for 401K match	1,618	1,942
Intangible assets transferred to extinguish other financing obligations	—	7,089
Withholding tax on net share settlement under other current liabilities	—	65

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Several important factors could cause the Company's actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth in the risk factors section included in the Company's Form 10-K for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on March 15, 2024.

General and Business Overview

We offer technologically advanced, software-based security solutions that empower and protect the world's most security-conscious organizations against rapidly evolving, sophisticated and pervasive threats. Our portfolio of security products, services and expertise empowers our customers with capabilities to reach new markets, serve their stakeholders more effectively, and successfully defend the nation or their enterprise. We protect our customers' people, information, and digital assets so they can pursue their corporate goals and conduct their global missions with confidence in their security and privacy. Our primary customers include the U.S. federal government, large commercial businesses, state and local governments, and international customers. Our consolidated revenue is largely attributable to prime contracts or to subcontracts with our contractors engaged in work for the U.S. government, with the remaining attributable to state, local, and commercial markets.

Information regarding our two reportable segments – Security Solutions and Secure Networks – is presented in [Note 16 - Segment Information](#) to the unaudited consolidated financial statements at Item 1 of this Form 10-Q.

The transition efforts carried out by the Company in fiscal year 2023 are exhibiting promising outcomes at the beginning of fiscal year 2024 in the form of new business wins. The Company will continue these efforts into fiscal year 2024 by focusing on optimizing its solution portfolio, expanding its business pipeline, strengthening proposals for new business and building a healthy culture by engaging employees through synergy, setting performance goals, and improving benefits. With this foundation established, the Company's priorities for fiscal year 2024 include beginning execution of significant new business wins with our prime partners, pending the favorable outcomes on ongoing protests, ramping TSA PreCheck enrollment sites to achieve program growth, and strategically increasing the Company's business development pipeline.

Business Environment

U.S. Budget

After using continuing resolutions (“CRs”) to fund the government for the first six months of Fiscal Year (“FY”) 2024 at the previous year’s levels, Congress completed action in late March on all appropriations bills for FY2024. This has allowed federal departments and agencies to begin proceeding with new program starts and acceleration for the final six months of the fiscal year. Of note, the final FY2024 appropriations bill for the Department of Defense provided a \$27 billion (three percent) increase in defense spending.

The White House also submitted to Congress in March its proposed budget for FY2025. The President’s proposal calls for a one percent increase in funding for the Department of Defense next year, with a total spending level in line with the spending caps Congress imposed on itself in the Fiscal Responsibility Act of 2023. There will be debate in Congress on whether to adjust the spending caps in order to boost defense spending to meet increased challenges abroad. The proposed budget also calls for increases in funding for non-defense cybersecurity programs and initiatives, many of which continue to prioritize accelerated cloud adoption, IT modernization, further private sector collaboration for sector risk management responsibilities, ensuring adequate cyber threat information sharing, and supply chain risk management. These priorities continue to align with the solutions Telos has been developing and bringing to market for the past several years. However, in the current political environment in Congress and with the presidential election looming in November, it is highly questionable whether Congress and the President can reach agreement on FY2025 appropriations bills prior to the start of FY2025 on October 1, 2024; this means the Defense Department along with the rest of the federal government will likely begin the fiscal year funded by a CR at FY2024 spending levels.

Cybersecurity Landscape

In recent years, we have seen cybersecurity threats become more complex, with threat actors leveraging a wide variety of tactics to exploit their victims. With this growing threat, below are some trends to consider when looking at the cybersecurity landscape:

Rising Threats, Rising Liability: Ransomware remains arguably the most severe cyber threat to enterprises in the commercial, state, and local government and education sectors. One reason for the rise of ransomware attacks is that it is exceedingly profitable for cybercriminals, and ransomware victims generally settle the ransom rather than restoring the system from backups or dealing with the fallout from a data breach. Aside from the financial costs of paying the ransom and restoring the system, the consequences of a successful ransomware attack can include damage to the organization's reputation, stolen sensitive data being used for malicious purposes, and loss of business.

The Nation's Critical Systems Are Still at Risk: Critical infrastructure and industrial IoT are among the categories at greatest risk of cyberattacks.

The Challenging Complexity of Regulatory Compliance: Government mandates stronger security in highly regulated industries. These government initiatives and audit fatigue continue to burden highly regulated organizations, with automation solutions being recognized as the most effective remedy for the many repetitive and redundant tasks that security compliance requires.

Additionally, the SEC has finalized and adopted new cybersecurity rules for publicly traded companies, which will require registrants to disclose additional cyber-related information in their regulatory filings. Specifically, they will have to: (1) regularly disclose their governance methods, risk analysis and management processes; (2) meet specific disclosure requirements and deadlines for reporting and describing material cyber incidents; and (3) describe the board's oversight of risks from cybersecurity threats, and management's expertise and role in assessing and managing material risks from cybersecurity threats. The required reporting of this information will lead many companies to proactively establish policies that will improve their cyber risk management posture and enable them to better withstand heightened public and regulatory scrutiny.

Identity Assurance and Privacy Protection are Essential for Today's Enterprises: Identity and access management continues to be a major cybersecurity concern for organizations and individuals that need to ensure their security and protect their privacy. Trusted identities are essential to confidence in IT and physical security strategies and to the success of Zero Trust security models and architectures.

Artificial Intelligence: Cybercriminals are using Artificial Intelligence ("AI") to launch more sophisticated attacks that can quickly adapt to changing environments, making detection harder. To protect against AI-powered cyberattacks, organizations must stay vigilant and adopt advanced cybersecurity tools and techniques that can detect and respond to these threats timely before they can cause damage.

Financial Overview

A number of factors have contributed to our first quarter of fiscal year 2024 results of operations, the most significant of which are described below. More details on these changes are presented below within our "Results of Operations" section.

- Decline in year-over-year revenue primarily driven by the ramp down of programs within Secure Networks.
- Growth in TSA PreCheck revenue.
- Reduction in gross margins driven by the increased impact of amortization of software development costs.
- Lower operating costs through a combination of lower stock-based compensation and restructuring expenses.

Results of Operations

Table MD&A 2: Consolidated Results of Operations

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(dollars in thousands)</i>	
Revenue	\$ 29,619	\$ 35,222
Cost of sales	18,658	21,740
Gross profit	10,961	13,482
<i>Gross margin</i>	<i>37.0 %</i>	<i>38.3 %</i>
Research and development ("R&D") expenses	3,170	2,833
<i>R&D expenses as percentage of revenue</i>	<i>10.7 %</i>	<i>8.0 %</i>
Selling, general and administrative ("SG&A") expenses	16,229	23,619
<i>SG&A expenses as percentage of revenue</i>	<i>54.8 %</i>	<i>67.1 %</i>
Operating loss	(8,438)	(12,970)
Other income	1,252	2,496
Interest expense	(175)	(249)
Loss before income taxes	(7,361)	(10,723)
Provision for income taxes	(17)	(23)
Net loss	\$ (7,378)	\$ (10,746)

Consolidated Results

Our business segments have different factors driving revenue fluctuations and profitability. The discussion of the changes in our revenue and profitability are covered in greater detail in the following section, "Segment Results." We generate revenue from the delivery of products and services to our customers. Cost of sales, for both products and services, consists of labor, materials, subcontracting costs and an allocation of indirect costs.

R&D expenses increased by \$0.3 million, or 11.9%, in the first quarter of 2024, compared to the same period in 2023, primarily due to increases in amortization costs.

SG&A expenses decreased by \$7.4 million, or 31.3%, in the first quarter of 2024 compared to the same period in 2023. This is primarily due to reduced stock-based compensation costs of \$6.1 million and the \$1.2 million of restructuring expenses in 2023, with no similar charges in 2024.

Other income decreased by \$1.2 million year-over-year due to the gain on early extinguishment of other financing obligations of \$1.4 million in the first quarter of 2023, without similar gain in the same period in 2024. The remaining variance is attributable to the change in dividend income from money market placements. There was no significant change in interest expense between comparable periods.

The change in the income tax provision for the first quarter of 2024 compared to the same period in 2023 is based on the estimated annual effective tax rate applied to the pretax loss incurred for the quarter plus discrete tax items, based on our expectation of pretax loss for the fiscal year.

Segment Results

The accounting policies of each business segment are the same as those followed by the Company as a whole. Management evaluates business segment performance based on gross profit.

Table MD&A 3: Security Solutions Segment - Financial Results

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(dollars in thousands)</i>	
Revenue	\$ 18,640	\$ 19,773
Cost of sales (excluding depreciation and amortization)	8,739	9,329
Depreciation and amortization	1,275	170
Total cost of sales	10,014	9,499
Gross profit	8,626	10,274
<i>Gross margin</i>	<i>46.3 %</i>	<i>52.0 %</i>

For the three months ended March 31, 2024, Security Solutions segment revenue decreased by \$1.1 million, or 5.7%, compared to the same period in 2023, primarily due to lower volume on ongoing programs, partially offset by growth in TSA PreCheck.

Gross profit for Security Solutions decreased by \$1.6 million, or 16.0%, for the first quarter of 2024, compared with the same period in 2023, primarily due to the decrease in revenue and a decrease in segment gross margin to 46.3% for the first quarter of 2024 from 52.0% for the same period in 2023. The gross margin contraction in the first quarter of 2024 was primarily the result of the impact of the increased amortization of software development costs within the segment.

Table MD&A 4: Secure Networks Segment - Financial Results

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(dollars in thousands)</i>	
Revenue	\$ 10,979	\$ 15,449
Cost of sales (excluding depreciation and amortization)	8,641	12,235
Depreciation and amortization	3	6
Cost of sales	8,644	12,241
Gross profit	2,335	3,208
Gross margin	21.3 %	20.8 %

Secure Networks segment revenue for the three months ended March 31, 2024 decreased by \$4.5 million, or 28.9%, compared to the same period in 2023, primarily due to the ramp down of several programs within the portfolio.

Gross profit for Secure Networks decreased by \$0.9 million, or 27.2%, for the first quarter of 2024, compared with the same period in 2023, due to the lower revenue, offset by improved margin across the portfolio. Segment gross margin slightly increased to 21.3% for the first quarter of 2024 from 20.8% for the same period in 2023 primarily due to strong program management and favorable program revenue mix, offset by the higher impact of indirect expenses on lower revenue.

Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. GAAP, we believe the non-GAAP financial measures of EBITDA, Adjusted EBITDA, EBITDA Margin, Adjusted EBITDA Margin, Adjusted Net (Loss) Income, Adjusted Earnings Per Share ("EPS"), Cash Gross Profit, Cash Gross Margin and Free Cash Flow are useful in evaluating our operating performance. We believe that this non-GAAP financial information, when taken collectively with our GAAP results, may be helpful to readers of our financial statements because it provides consistency and comparability with past financial performance and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their GAAP results. The non-GAAP financial information is presented for supplemental informational purposes only, should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. A reconciliation is provided below for each of these non-GAAP financial measures to the most directly comparable financial measure stated in accordance with GAAP.

We believe these non-GAAP financial measures facilitate comparison of our operating performance on a consistent basis between periods by excluding certain items that may, or could, have a disproportionately positive or negative impact on our results of operations in any particular period. When viewed in combination with our results prepared in accordance with GAAP, these non-GAAP financial measures help provide a broader picture of factors and trends affecting our results of operations.

EBITDA, Adjusted EBITDA, EBITDA Margin and Adjusted EBITDA Margin

EBITDA, Adjusted EBITDA, EBITDA Margin and Adjusted EBITDA Margin are supplemental measures of operating performance that are not made under GAAP and do not represent, and should not be considered as, an alternative to net loss as determined by GAAP. We define EBITDA as net (loss) income, adjusted for non-operating (income) expense, interest expense, provision for (benefit from) income taxes, and depreciation and amortization. We define Adjusted EBITDA as EBITDA, adjusted for stock-based compensation expense and restructuring expenses. We define EBITDA Margin as EBITDA as a percentage of total revenue. We define Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of total revenue.

We believe that EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin provide the Board, management and investors with clear representation of our core operating performance and trends, provide greater visibility into the long-term financial performance of the Company, and eliminate the impact of items that do not relate to the ongoing operating performance of the business. Further, Adjusted EBITDA is used by the Board and management to prepare and approve our annual budget, and to evaluate the performance of certain management personnel when determining incentive compensation.

Table MD&A 5: Reconciliation of Net Loss to EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Amount	Margin	Amount	Margin
	<i>(dollars in thousands)</i>			
Net loss	\$ (7,378)	(24.9 %)	\$ (10,746)	(30.5 %)
Other income	(1,252)	(4.2 %)	(2,496)	(7.1 %)
Interest expense	175	0.5 %	249	0.7 %
Provision for income taxes	17	0.1 %	23	0.1 %
Depreciation and amortization	3,129	10.6 %	1,425	4.0 %
EBITDA (Non-GAAP)	(5,309)	(17.9 %)	(11,545)	(32.8 %)
Stock-based compensation expense ⁽¹⁾	2,984	10.0 %	9,499	27.0 %
Restructuring (adjustments) expenses ⁽²⁾	(10)	— %	1,200	3.4 %
Adjusted EBITDA (Non-GAAP)	\$ (2,335)	(7.9 %)	\$ (846)	(2.4 %)

⁽¹⁾ The stock-based compensation expense to EBITDA as of March 31, 2024 and 2023 is made up of \$1.6 million and \$7.9 million, respectively, of stock-based compensation expense for the awarded RSUs, PSUs, and stock options, and \$1.3 million and \$1.6 million, respectively, of other sources of stock-based compensation expense. The other sources of stock-based compensation consist of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion whether this compensation will ultimately be paid in stock or cash. The Company has the right to dictate the form of these payments up until the date at which they are paid. Any change to the expected payment form would result in out of quarter adjustments to this add back to Adjusted EBITDA.

⁽²⁾ The restructuring (adjustments) expenses include severance and other related benefit costs (including outplacement services and continuing health insurance coverage), external consulting and advisory fees related to implementing the restructuring plan.

Adjusted Net (Loss) Income and Adjusted EPS

Adjusted Net (Loss) Income and Adjusted EPS are supplemental measures of operating performance that are not made under GAAP and do not represent, and should not be considered as, alternatives to net (loss) income as determined by GAAP. We define Adjusted Net (Loss) Income as net loss, adjusted for non-operating (income) expense, stock-based compensation expense and restructuring expense. We define Adjusted EPS as Adjusted Net (Loss) Income divided by the weighted-average number of common shares outstanding for the period.

Adjusted Net (Loss) Income and Adjusted EPS provide the Board, management and investors with clear representation of our core operating performance and trends, provide greater visibility into the long-term financial performance of the Company, and eliminate the impact of items that do not relate to the ongoing operating performance of the business.

Table MD&A 6: Reconciliation of Net Loss and GAAP EPS to Non-GAAP Adjusted Net Loss and Adjusted EPS

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Adjusted Net Loss	Adjusted Earnings Per Share	Adjusted Net Loss	Adjusted Earnings Per Share
	<i>(in thousands, except per share data)</i>			
Net loss	\$ (7,378)	\$ (0.10)	\$ (10,746)	\$ (0.16)
Adjustments:				
Other income	(1,252)	(0.02)	(2,496)	(0.04)
Stock-based compensation expense ⁽¹⁾	2,984	0.04	9,499	0.14
Restructuring (adjustments) expenses ⁽²⁾	(10)	—	1,200	0.02
Adjusted net loss (Non-GAAP measure)	\$ (5,656)	\$ (0.08)	\$ (2,543)	\$ (0.04)
Weighted-average shares of common stock outstanding, basic	70,628		68,176	

⁽¹⁾ The stock-based compensation expense to net loss as of March 31, 2024 and 2023 is made up of \$1.6 million and \$7.9 million, respectively, of stock-based compensation expense for the awarded RSUs, PSUs and stock options, and \$1.3 million and \$1.6 million, respectively, of other sources of stock-based compensation expense. The other sources of stock-based compensation consist of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion whether this compensation will ultimately be paid in stock or cash. The Company has the right to dictate the form of these payments up until the date at which they are paid. Any change to the expected payment form would result in out of quarter adjustments to this add back to Adjusted Net (Loss) Income.

⁽²⁾ The restructuring (adjustments) expenses include severance and other related benefit costs (including outplacement services and continuing health insurance coverage), external consulting and advisory fees related to implementing the restructuring plan.

Cash Gross Profit and Cash Gross Margin

Cash Gross Profit and Cash Gross Margin are supplemental measures of operating performance that are not made under GAAP and do not represent, and should not be considered as, alternatives to gross profit and gross margin as determined by GAAP. We define Cash Gross Profit as gross profit, plus noncash charges for stock-based compensation expense, depreciation and amortization, as well as non-recurring items (such as restructuring expenses) charged under cost of sales. We define Cash Gross Margin as Cash Gross Profit as a percentage of total revenue.

Cash Gross Profit and Cash Gross Margin provide management and investors a clear representation of the core economics of gross profit and gross margin without the impact of non-cash expenses and sunk costs expended.

Table MD&A 7: Reconciliation of Gross Profit to Cash Gross Profit; Gross Margin to Cash Gross Margin

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Amount	Margin	Amount	Margin
	<i>(dollars in thousands)</i>			
Gross profit	\$ 10,961	37.0%	\$ 13,482	38.3%
Adjustments:				
Stock-based compensation expense — cost of sales	257	0.9%	326	0.9%
Depreciation and amortization — cost of sales	1,278	4.3%	176	0.5%
Cash gross profit (Non-GAAP)	<u>\$ 12,496</u>	<u>42.2%</u>	<u>\$ 13,984</u>	<u>39.7%</u>

Free Cash Flow

Free cash flow, as reconciled in the table below, is a non-GAAP financial measure defined as net cash provided by (used in) operating activities, less purchases of property and equipment, and capitalized software development costs. This non-GAAP financial measure may be a useful measure for investors and other users of our financial statements as a supplemental measure of our cash performance and to assess the quality of our earnings as a key performance measure in evaluating management.

We use Free Cash Flow to understand the cash flows that directly correspond with our operations and the investments we must make in those operations, using a methodology that combines operating cash flows and capital expenditures. Further, Free Cash Flow may be useful to management and investors in evaluating the Company's operating performance and liquidity, and to evaluate the performance of certain management personnel when determining incentive compensation.

Table MD&A 8: Reconciliation of Net Cash Used in Operating Activities to Free Cash Flow

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Net cash used in operating activities	\$ (350)	\$ (100)
Adjustments:		
Purchases of property and equipment	(97)	(223)
Capitalized software development costs	(3,202)	(3,800)
Free cash flow (Non-GAAP)	<u>\$ (3,649)</u>	<u>\$ (4,123)</u>

Each of EBITDA, Adjusted EBITDA, EBITDA Margin, Adjusted EBITDA Margin, Adjusted Net (Loss) Income, Adjusted EPS, Cash Gross Profit, Cash Gross Margin and Free Cash Flow has limitations as an analytical tool, and you should not consider any of them in isolation, or as a substitute for analysis of our results as reported under GAAP. Among other limitations, each of EBITDA, Adjusted EBITDA, EBITDA Margin, Adjusted EBITDA Margin, Adjusted Net (Loss) Income, Adjusted EPS, Cash Gross Profit, Cash Gross Margin and Free Cash Flow does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments, does not reflect the impact of certain cash and non-cash charges resulting from matters we consider not to be indicative of our ongoing operations, and does not reflect income tax expense or benefit. Other companies in our industry may calculate Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net (Loss) Income, Adjusted EPS, Cash Gross Profit, Cash Gross Margin and Free Cash Flow differently than we do, which limits their usefulness as comparative measures. Because of these limitations, neither EBITDA, Adjusted EBITDA, EBITDA Margin, Adjusted EBITDA Margin, Adjusted Net (Loss) Income, Adjusted EPS, Cash Gross Profit, Cash Gross Margin nor Free Cash Flow should be considered as a replacement for gross profit, gross margin, net (loss) income, earnings per share or net cash flows (used in) provided by operating activities, as determined by GAAP, or as a measure of our profitability. We compensate for these limitations by relying primarily on our GAAP results and using non-GAAP measures only for supplemental purposes.

Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand, future operating cash flows, and, if needed, borrowings under our \$30.0 million revolving credit facility, with an available expansion feature of up to \$30.0 million of additional revolver facility. While a variety of factors related to sources and uses of cash, such as timeliness of accounts receivable collections, vendor credit terms, or significant collateral requirements, ultimately impact our liquidity, such factors may or may not have a direct impact on our liquidity.

As of March 31, 2024, we had cash and cash equivalents of \$93.9 million and our working capital was \$92.7 million.

We place a strong emphasis on liquidity management. This focus gives us the flexibility for capital deployment while preserving a strong balance sheet to position us for future opportunities. We believe we have adequate funds on hand to execute our financial and operating strategy. Our overall financial position and liquidity are strong. Although no assurances can be given, we believe the available cash balances and access to our revolving credit facility are sufficient to maintain the liquidity we require to meet our operating, investing and financing needs for the next 12 months.

Cash Flow**Table MD&A 9: Net Change in Cash, Cash Equivalents, and Restricted Cash**

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Net cash used in operating activities	\$ (350)	\$ (100)
Net cash used in investing activities	(4,149)	(4,587)
Net cash used in financing activities	(846)	(2,156)
Net change in cash, cash equivalents, and restricted cash	<u>\$ (5,345)</u>	<u>\$ (6,843)</u>

Net cash used in operating activities for the three months ended March 31, 2024 was \$0.4 million, an increase of \$0.3 million compared to the same period in 2023. The change is primarily driven by the Company's operating losses, the timing of receipts of customer payments, the timing of payments to vendors and employees, and the timing of inventory turnover, adjusted for certain non-cash items that do not impact cash flows from operating activities.

Net cash used in investing activities for the three months ended March 31, 2024 slightly decreased by \$0.4 million, compared to the same period of the prior year, primarily due to the decreases in capital expenditures in 2024 and a \$0.6 million payment for the DFT holdback in February 2023, with no similar payment in 2024. This was partially offset by the purchase of an investment of \$0.9 million in 2024, with no similar transaction in 2023.

Net cash used in financing activities for the three months ended March 31, 2024 decreased by \$1.3 million, compared to the same period in 2023. This is primarily attributable to the decreases in payment of tax withholding related to net share settlement of equity awards of \$0.4 million in the first quarter of 2024 compared with \$1.5 million in the same period of 2023.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires us to make estimates, judgments, and assumptions that affect the amounts reported. Actual results could differ from those estimates. The 2023 Form 10-K, as filed with the SEC on March 15, 2024, includes a summary of critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no changes to those critical accounting policies that have had a material impact on our reported amounts of assets, liabilities, revenues, or expenses during the three months ended March 31, 2024.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), which are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, including this Report, are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer ("CEO") and principal financial officer ("CFO") as appropriate to allow timely decisions regarding required disclosure.

The Company's management, including the Company's CEO and CFO, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Report and, based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2024.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2024, identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding legal proceedings is included under [Note 17 – Commitments and Contingencies](#) to the unaudited consolidated financial statements.

Item 1A. Risk Factors

We have disclosed under "Item 1A – Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023, the risk factors which may materially affect our business, financial conditions or results of operations. There have been no material changes from the risk factors previously disclosed.

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

None.

Item 3. Defaults upon Senior Securities

(a) None.

(b) None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) None.

(b) None.

(c) During the three months ended March 31, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Exhibit Number		Description
31.1	+	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	+	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	^	Certification pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	+	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	+	XBRL Taxonomy Extension Schema Document
101.CAL	+	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	+	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	+	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	+	XBRL Taxonomy Extension Presentation Linkbase Document
104	+	Cover Page Interactive Data File - the cover page iXBRL tags are embedded within the Inline XBRL document contained in Exhibit 101

+	Filed herewith
^	Furnished herewith

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 thereunto duly authorized.

TELOS CORPORATION

/s/ John B. Wood May 10, 2024
By: John B. Wood
Chief Executive Officer (Principal Executive Officer)

/s/ Mark Bendza May 10, 2024
By: Mark Bendza
Chief Financial Officer (Principal Financial Officer)

/s/ Victoria Harding May 10, 2024
By: Victoria Harding
Controller and Chief Accounting Officer (Principal Accounting Officer)

CERTIFICATION

I, John B. Wood, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telos Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2024

/s/ John B. Wood

John B. Wood

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION

I, Mark Bendza, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telos Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2024

/s/ Mark Bendza

Mark Bendza

Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Telos Corporation (the "Company") on Form 10-Q for the period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, John B. Wood and Mark Bendza, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2024

/s/ John B. Wood

John B. Wood

Chief Executive Officer (Principal Executive Officer)

Date: May 10, 2024

/s/ Mark Bendza

Mark Bendza

Chief Financial Officer (Principal Financial Officer)