



# First Quarter 2022 Earnings

May 10, 2022



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This presentation also includes certain non-GAAP financial measures. These non-GAAP financial measures are in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures versus their nearest GAAP equivalents. For example, other companies may calculate non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. The reader is cautioned not to place undue reliance on non-GAAP financial measures and to evaluate them only in conjunction with their nearest GAAP equivalents. Please see the appendix for reconciliations of these non-GAAP financial measures to their nearest GAAP equivalents and for the calculation of certain other financial measures.



# FINANCIAL PERFORMANCE SUMMARY

## 1Q 2022 Summary

- Delivered revenue above high end of guidance range (effective supply chain management and favorable timing shifts from second quarter to first quarter)
  - Security Solutions up 18% YoY (vs. guidance of up mid-teens)
  - Secure Networks down 29% YoY (vs. guidance of down low 30% to mid 40%)
- Gross margin also above guidance range at 37.6% (vs. guidance of 35% to 37%)
  - Both segments outperformed
- Below The Line expenses were within guidance range
  - Excluding stock-based compensation, increased \$5.4M YoY due to ramp of R&D, sales, marketing, and G&A investments
- Delivered \$1.0M of Adjusted EBITDA for the quarter, above midpoint of range

	1Q 2022 Actual	1Q 2022 Guidance
Revenue	\$50.2M	\$44M to \$48M
Revenue Growth YoY	-10%	-21% to -13%
Gross Profit <i>(bps are YoY)</i>	\$18.9M 37.6% margin +1167 bps	35% to 37% margin +905 to +1105 bps
Adjusted EBITDA <sup>(1)</sup>	\$1.0M	-\$2M to \$2M
Adjusted EPS <sup>(1)</sup>	-\$0.01	

## Overdelivered on Revenue and Gross Margin

**Notes:**

1. Adjusted EBITDA and Adjusted EPS are non-GAAP financial measures. Reconciliations to GAAP financial measures are provided in the appendix.



# RECENT BUSINESS HIGHLIGHTS

## TELOS ADVANCED CYBER ANALYTICS



With Telos **Advanced Cyber Analytics (Telos ACA)**, customers can:

- In near real time:
  - **Detect malicious activity**
  - Uncover and identify **previously unknown attacks** and new **malicious behavior**
  - Enhance **network protections**
- Over the near term:
  - **Attribute and geolocate** malicious cyber activities
  - Assist in **attribution of events of concern** with actionable information
- Provides **C-Suite** with **sophisticated capabilities** and **comprehensive analytics** with **minimal financial** and **technical barriers** to adoption

## NOTABLE WINS AND SUCCESSES

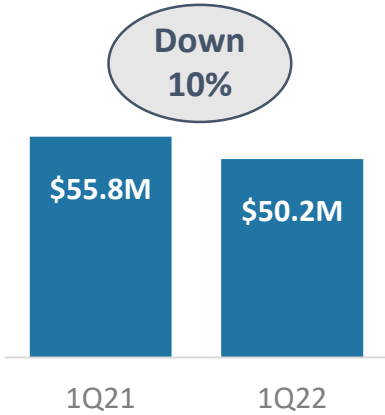


- Key wins and renewals include a new **Xacta foreign government customer**, the **U.S. Air Force**, **EY**, **Amazon Web Services**, the **National Security Agency**, the **U.S. State Department** and the **National Geospatial-Intelligence Agency**
- Added a partnership with **Carahsoft** to extend the reach of Telos' solutions
  - Agreement is a key pillar to supporting **state and local market growth** as well as continued **federal expansion**
- 100% renewal rate on **AMHS**
- Awarded contract with **U.S. Air Force Academy** to upgrade and expand network infrastructure

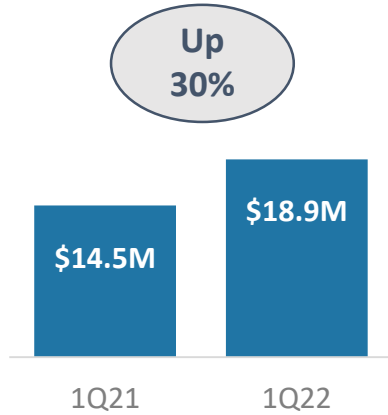
Building Portfolio of New Growth Vectors

# 1Q 2022 YEAR OVER YEAR FINANCIAL PERFORMANCE

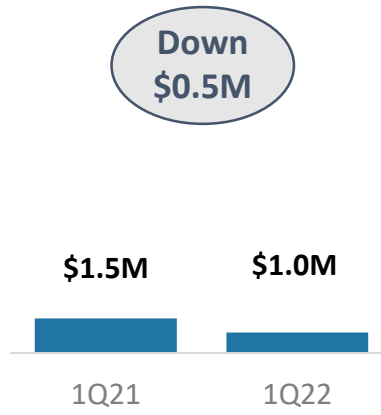
## Revenue



## Gross Profit



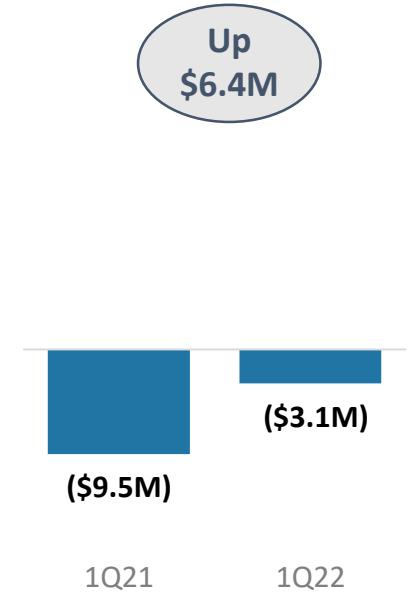
## Adjusted EBITDA<sup>(1)</sup>



## Adjusted EPS<sup>(1)</sup>



## Free Cash Flow<sup>(1)</sup>



- Security Solutions up 18%; Secure Networks down 29% due to 2021 quarterly timing and 2022 wind-down of a major program
- Excluding wind-down of Secure Networks program, total sales up 19%, Secure Networks up 20%

- Gross profit up 30%
- Favorable sales mix between Security Solutions and Secure Networks; Margin expansion in both businesses
- Security Solutions gross margins up over 1,500 bps to 55.9%; Secure Networks up over 80 bps to 16.4%
- Below the line investments offset gross profit improvement to slightly reduce Adjusted EBITDA

- Higher gross profit
- Higher below the line expenses
- Slightly lower Adjusted EBITDA

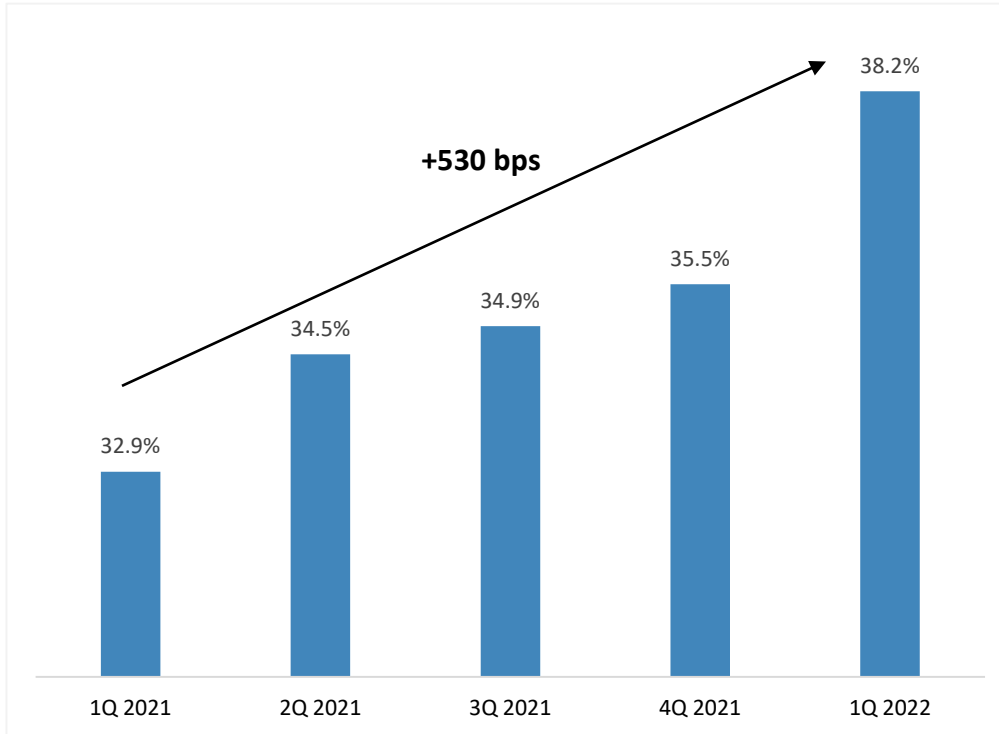
- \$7.1M higher cash flow from operations
- \$6.4M higher free cash flow
- Improved working capital
- Higher capex

**Significant Improvement in Gross Profit, Gross Margin, and Free Cash Flow in 1Q**

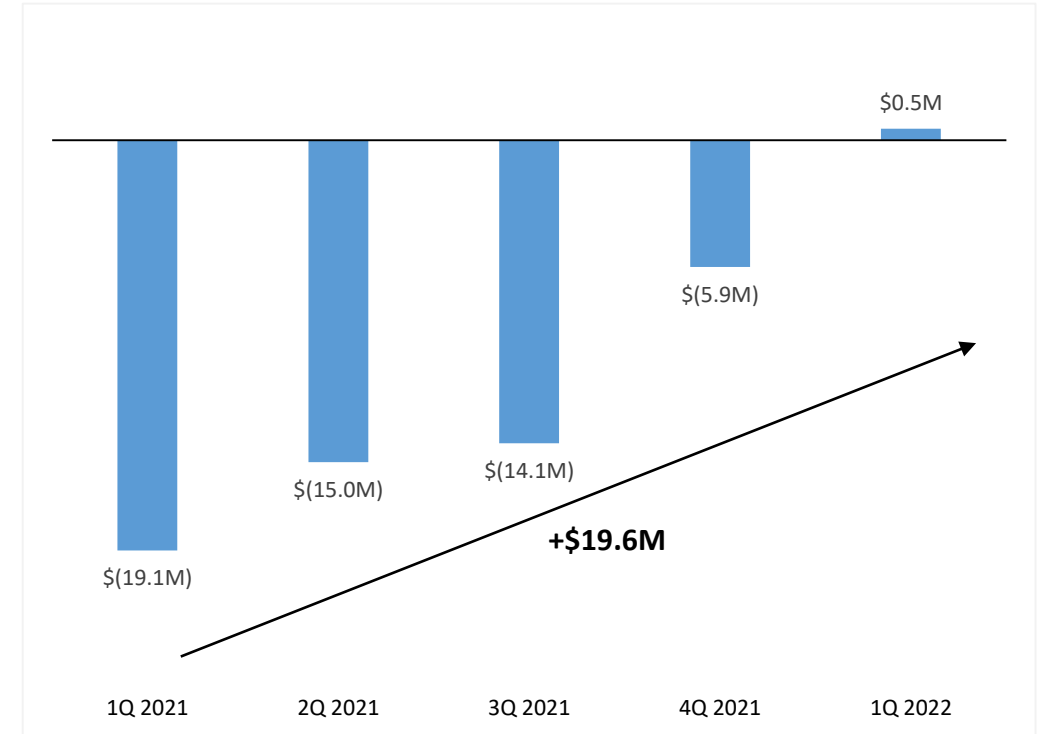


# GROSS MARGIN AND FREE CASH FLOW TRAJECTORY

## Quarterly Trailing 12 Months Gross Margin



## Quarterly Trailing 12 Months Free Cash Flow<sup>(1)</sup>



Trailing Twelve Months Gross Margin and Free Cash Flow Trending Favorably

# 2Q 2022 GUIDANCE

	2Q 2022 Low End	2Q 2022 High End
Revenue Excluding TSA	\$50M	\$54M
TSA Gross Rev. Equiv. <sup>(1)</sup>	-	-
<b>Total Gross Rev. Equiv.<sup>(1)</sup></b>	<b>\$50M</b> -7% YoY	<b>\$54M</b> +1% YoY
Gross to Net Conversion <sup>(2)</sup>	-	-
<b>Revenue</b>	<b>\$50M</b> -7% YoY	<b>\$54M</b> +1% YoY
<b>Adjusted EBITDA<sup>(3)</sup></b>	<b>(\$2.0M)</b>	<b>\$2.0M</b>

## Assumptions

- Security Solutions growth assumptions:
  - Down low to high teens YoY
    - Completion of U.S. Census program and lower revenue on a single program in Secure Communications
  - No TSA PreCheck contribution
- Secure Networks growth assumptions:
  - Up MSD to mid teens YoY
- Gross margins down 7 to 9 percentage points YoY, as expected
  - Year-over-year change in revenue mix between Security Solutions and Secure Networks. Security Solutions weighted low to mid 50% of total revenues compared to 60% during 2Q 2021
  - Revenue within Security Solutions and especially Secure Networks mixing lower YoY
  - However, 1H 2022 gross margins expected to be higher vs. 2021
- BTL expenses excluding stock based compensation approximately \$3.5M YoY higher due to ramp of sales, marketing, and G&A investments during 2021

## Year-Over-Year Growth Improving Sequentially, Margins Lower Due to Sales Mix As Expected

**Notes:**

1. To aid comparison with prior communications, illustrates revenue guidance as if TSA PreCheck program revenue were recognized on a gross basis.
2. Impact of converting TSA PreCheck program from gross revenue recognition to net revenue recognition.
3. Adjusted EBITDA is a non-GAAP financial measure. The Company has not provided the most directly comparable GAAP measure to this forward-looking non-GAAP financial measure because certain items are out of the Company's control or cannot be reasonably predicted. Accordingly, a reconciliation of forward-looking Adjusted EBITDA is not available without unreasonable effort.

# FULL YEAR 2022 GUIDANCE

	FY 2022 Low End	FY 2022 High End
Revenue Excluding TSA	\$226M	\$245M
TSA Gross Rev. Equiv. <sup>(1)</sup>	-	\$31M
<b>Total Gross Rev. Equiv.<sup>(1)</sup></b>	<b>\$226M -7% YoY</b>	<b>\$276M +14% YoY</b>
Gross to Net Conversion <sup>(2)</sup>	-	(\$19M)
<b>Revenue</b>	<b>\$226M -7% YoY</b>	<b>\$257M +6% YoY</b>
<b>Adjusted EBITDA<sup>(3)</sup></b>	<b>\$21M</b>	<b>\$28M</b>

Guidance

## Assumptions

- Security Solutions growth assumptions:
  - +/- MSD YoY excluding contribution from TSA PreCheck; Mid teens with TSA PreCheck net revenue on high end (~31% with gross revenue equivalent)
    - Modest growth contribution from higher software sales
    - No TSA PreCheck on low end; ~\$12 million net revenue (~\$31 million gross revenue equivalent) on high end
- Secure Networks revenue down MSD to HSD YoY due to ~\$30 million headwind on wind-down of two large programs
- Security Solutions revenues weighted low to mid 50% of total
- Total company 1H revenues represent low to mid 40% of full year revenues
- Gross margin likely up YoY (Security Solutions approximately flat; Secure Networks up)
- BTL expenses excluding stock comp ~\$3M- \$13M higher YoY due to higher D&A, TSA readiness, sales, and other G&A expenses
- Upside: faster TSA PreCheck ramp, new opportunities emerging from current threat environment, better than expected salesforce productivity, accelerated/higher Secure Networks new business, and lower BTL expenses (at high end of guidance range)

## Reaffirming Full Year Guidance

**Notes:**

- To aid comparison with prior communications, illustrates revenue guidance as if TSA PreCheck program revenue were recognized on a gross basis.
- Impact of converting TSA PreCheck program from gross revenue recognition to net revenue recognition.
- Adjusted EBITDA is a non-GAAP financial measure. The Company has not provided the most directly comparable GAAP measure to this forward-looking non-GAAP financial measure because certain items are out of the Company's control or cannot be reasonably predicted. Accordingly, a reconciliation of forward-looking Adjusted EBITDA is not available without unreasonable effort.







## SUMMARY

**Reported substantial gross margin expansion and gross profit growth; delivered on 1Q guidance**

**Generated significant free cash flow improvement in the quarter; free cash flow turned positive for the trailing twelve months**

**Launched new growth vector with Telos Advanced Cyber Analytics offering**

**Year-to-date progressing as expected; Closely managing costs, margins, and cash flow**

**Balancing Investments in Long Term Growth with Current Margin and Cash Flow Performance**

# Appendix



# NON-GAAP FINANCIAL MEASURES

In addition to its results determined in accordance with GAAP, the Company believes the non-GAAP financial measures of Enterprise EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Net Income (Loss), Adjusted EPS and Free Cash Flow are useful in evaluating its operating performance. The Company believes that this non-GAAP financial information, when taken collectively with the Company's GAAP results, may be helpful to readers of its financial statements because that information 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.

The Company uses these non-GAAP financial measures to understand and evaluate its core operating performance and trends, to prepare and approve its annual budget, to develop short-term and long-term operating plans, and to evaluate the performance of certain management personnel when determining incentive compensation. The Company believes these non-GAAP financial measures facilitate comparison of its operating performance on a consistent basis between periods by excluding certain items that may, or could, have a disproportionately positive or negative impact on its results of operations in any particular period. When viewed in combination with the Company's results prepared in accordance with GAAP, these non-GAAP financial measures help provide a broader picture of factors and trends affecting the Company's results of operations.



# 2022 ADDITIONAL MODELING INPUTS

	2021 Full Year	2022E Full Year	2022E 2Q	2022E Full Year YoY Commentary
Gross Margin	35.5%	35.5% to 38%	33% to 35%	<ul style="list-style-type: none"> <li>Flat to up gross margins due to TSA PreCheck and favorable mix shift between Security Solutions and Secure Networks</li> </ul>
Stock Comp	\$60.2M	\$70M to \$75M	\$19M to \$21M	<ul style="list-style-type: none"> <li>~\$4M included in COS for FY, Up to ~\$1M in COS for 2Q</li> </ul>
Depreciation & Amortization	\$5.6M	\$7M to \$9M	\$2M to \$3M	<ul style="list-style-type: none"> <li>Higher amortization on previously capitalized development costs, primarily in support of TSA PreCheck program</li> </ul>
Share Count	66.8M	68M to 69M	~68M	
Tax Rate	0.1%	-	-	<ul style="list-style-type: none"> <li>Not meaningful</li> </ul>
Capex & Capitalized Software	\$13.2M	\$11M to \$13M	\$2M to \$3M	
Below The Line Expenses <sup>(1)</sup>	\$69.9M	\$74M to \$84M	\$20M to \$23M	<ul style="list-style-type: none"> <li>Higher D&amp;A, TSA readiness, BD/sales/channel, and other G&amp;A operational capability that ramped throughout last year</li> </ul>

<sup>(1)</sup>Below the line expenses exclude stock compensation.



# 2021 AND 2022 GAAP AND ADJUSTED QUARTERLY RESULTS

(Amounts in thousands)

	2022				2021				2021				2021				FY												
	Q1				Q1				Q2				Q3				Q4				FY								
	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted					
<b>Revenue</b>																													
Security Solutions	26,919	-	-	26,919	22,829	-	-	22,829	32,236	-	-	32,236	34,559	-	-	34,559	33,910	-	-	33,910	123,534	-	-	123,534					
Secure Networks	23,241	-	-	23,241	32,928	-	-	32,928	21,408	-	-	21,408	34,423	-	-	34,423	30,140	-	-	30,140	118,899	-	-	118,899					
<b>Total</b>	<b>50,160</b>	<b>-</b>	<b>-</b>	<b>50,160</b>	<b>55,757</b>	<b>-</b>	<b>-</b>	<b>55,757</b>	<b>53,644</b>	<b>-</b>	<b>-</b>	<b>53,644</b>	<b>68,982</b>	<b>-</b>	<b>-</b>	<b>68,982</b>	<b>64,050</b>	<b>-</b>	<b>-</b>	<b>64,050</b>	<b>242,433</b>	<b>-</b>	<b>-</b>	<b>242,433</b>					
<b>Gross Profit</b>																													
Security Solutions	15,051	880	-	15,931	9,326	548	-	9,874	17,188	525	-	17,713	19,517	633	-	20,150	18,873	583	-	19,456	64,904	2,289	-	67,193					
Secure Networks	3,820	126	-	3,946	5,143	77	-	5,220	5,346	106	-	5,452	5,360	85	-	5,445	5,276	83	-	5,359	21,125	351	-	21,476					
<b>Total</b>	<b>18,871</b>	<b>1,006</b>	<b>-</b>	<b>19,877</b>	<b>14,469</b>	<b>625</b>	<b>-</b>	<b>15,094</b>	<b>22,534</b>	<b>631</b>	<b>-</b>	<b>23,165</b>	<b>24,877</b>	<b>718</b>	<b>-</b>	<b>25,595</b>	<b>24,149</b>	<b>666</b>	<b>-</b>	<b>24,815</b>	<b>86,029</b>	<b>2,640</b>	<b>-</b>	<b>88,669</b>					
<b>Gross Margin</b>																													
Security Solutions	55.9%	3.3%	0.0%	59.2%	40.9%	2.4%	0.0%	43.3%	53.3%	1.6%	0.0%	54.9%	56.5%	1.8%	0.0%	58.3%	55.7%	1.7%	0.0%	57.4%	52.5%	1.9%	0.0%	54.4%					
Secure Networks	16.4%	0.5%	0.0%	17.0%	15.6%	0.2%	0.0%	15.9%	25.0%	0.5%	0.0%	25.5%	15.6%	0.2%	0.0%	15.8%	17.5%	0.3%	0.0%	17.8%	17.8%	0.3%	0.0%	18.1%					
<b>Total</b>	<b>37.6%</b>	<b>2.0%</b>	<b>0%</b>	<b>39.6%</b>	<b>26.0%</b>	<b>1.1%</b>	<b>0.0%</b>	<b>27.1%</b>	<b>42.0%</b>	<b>1.2%</b>	<b>0%</b>	<b>43.2%</b>	<b>36.1%</b>	<b>1.0%</b>	<b>0%</b>	<b>37.1%</b>	<b>37.7%</b>	<b>1.0%</b>	<b>0%</b>	<b>38.7%</b>	<b>35.5%</b>	<b>1.1%</b>	<b>0%</b>	<b>36.6%</b>					
<b>SG&amp;A</b>																													
Sales and Marketing	5,252	1,669	-	3,583	3,826	1,547	-	2,279	5,043	2,233	-	2,810	5,363	1,536	-	3,827	5,423	1,873	-	3,550	19,655	7,189	-	12,466					
Research and Development	5,430	1,312	-	4,118	4,061	461	-	3,600	5,327	648	-	4,679	4,863	970	-	3,893	4,845	1,189	-	3,656	19,096	3,268	-	15,828					
General and Administrative	22,923	10,311	-	12,612	20,076	11,037	-	9,039	29,635	17,824	-	11,811	19,739	9,148	-	10,591	19,292	9,125	-	10,167	88,742	47,134	-	41,608					
<b>Total</b>	<b>33,605</b>	<b>13,292</b>	<b>-</b>	<b>20,313</b>	<b>27,963</b>	<b>13,045</b>	<b>-</b>	<b>14,918</b>	<b>40,005</b>	<b>20,705</b>	<b>-</b>	<b>19,300</b>	<b>29,965</b>	<b>11,654</b>	<b>-</b>	<b>18,311</b>	<b>29,560</b>	<b>12,187</b>	<b>-</b>	<b>17,373</b>	<b>127,493</b>	<b>57,591</b>	<b>-</b>	<b>69,902</b>					
<b>EBIT / Operating Income (Loss)</b>	<b>(14,734)</b>	<b>14,298</b>	<b>-</b>	<b>(436)</b>	<b>(13,494)</b>	<b>13,670</b>	<b>-</b>	<b>176</b>	<b>(17,471)</b>	<b>21,336</b>	<b>-</b>	<b>3,865</b>	<b>(5,088)</b>	<b>12,372</b>	<b>-</b>	<b>7,284</b>	<b>(5,411)</b>	<b>12,853</b>	<b>-</b>	<b>7,442</b>	<b>(41,464)</b>	<b>60,231</b>	<b>-</b>	<b>18,767</b>					
Interest Expense	(190)	-	-	(190)	(196)	-	-	(196)	(192)	-	-	(192)	(195)	-	-	(195)	(194)	-	-	(194)	(777)	-	-	(777)					
Other Income (Expense)	12	-	(12)	-	(1,054)	-	1,054	-	32	-	(32)	-	20	-	(20)	-	81	-	(81)	-	(921)	-	921	-					
<b>Earnings Before Taxes (EBT)</b>	<b>(14,912)</b>	<b>14,298</b>	<b>(12)</b>	<b>(626)</b>	<b>(14,744)</b>	<b>13,670</b>	<b>1,054</b>	<b>(20)</b>	<b>(17,631)</b>	<b>21,336</b>	<b>(32)</b>	<b>3,673</b>	<b>(5,263)</b>	<b>12,372</b>	<b>(20)</b>	<b>7,089</b>	<b>(5,524)</b>	<b>12,853</b>	<b>(81)</b>	<b>7,248</b>	<b>(43,162)</b>	<b>60,231</b>	<b>921</b>	<b>17,990</b>					
Tax Provision	(71)	-	-	(71)	(34)	-	-	(34)	(13)	-	-	(13)	41	-	-	41	34	-	-	34	28	-	-	28					
<b>Net Income (Loss)</b>	<b>(14,983)</b>	<b>14,298</b>	<b>(12)</b>	<b>(697)</b>	<b>(14,778)</b>	<b>13,670</b>	<b>1,054</b>	<b>(54)</b>	<b>(17,644)</b>	<b>21,336</b>	<b>(32)</b>	<b>3,660</b>	<b>(5,222)</b>	<b>12,372</b>	<b>(20)</b>	<b>7,130</b>	<b>(5,490)</b>	<b>12,853</b>	<b>(81)</b>	<b>7,282</b>	<b>(43,134)</b>	<b>60,231</b>	<b>921</b>	<b>18,018</b>					
Share Count	67,559	67,559	67,559	67,559	64,625	64,625	64,625	64,625	66,616	66,616	66,616	66,616	66,755	66,755	66,755	66,755	66,756	66,756	66,756	66,756	66,374	66,374	66,374	66,374					
<b>EPS</b>	<b>(0.22)</b>	<b>0.21</b>	<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.23)</b>	<b>0.21</b>	<b>0.02</b>	<b>(0.00)</b>	<b>(0.26)</b>	<b>0.32</b>	<b>(0.00)</b>	<b>0.05</b>	<b>(0.08)</b>	<b>0.19</b>	<b>(0.00)</b>	<b>0.11</b>	<b>(0.08)</b>	<b>0.19</b>	<b>(0.00)</b>	<b>0.11</b>	<b>(0.65)</b>	<b>0.91</b>	<b>0.01</b>	<b>0.27</b>					
<b>Net Income (Loss)</b>	<b>(14,983)</b>	<b>14,298</b>	<b>-</b>	<b>(697)</b>	<b>(14,778)</b>	<b>13,670</b>	<b>-</b>	<b>(54)</b>	<b>(17,644)</b>	<b>21,336</b>	<b>-</b>	<b>3,660</b>	<b>(5,222)</b>	<b>12,372</b>	<b>-</b>	<b>7,130</b>	<b>(5,490)</b>	<b>12,853</b>	<b>-</b>	<b>7,282</b>	<b>(43,134)</b>	<b>60,231</b>	<b>-</b>	<b>18,018</b>					
Other Income (Expense)	(12)	-	-	-	1,054	-	-	-	(32)	-	-	-	(20)	-	-	-	(81)	-	-	-	921	-	-	-					
Interest Expense	190	-	-	190	196	-	-	196	192	-	-	192	195	-	-	195	194	-	-	194	777	-	-	777					
Tax Provision	71	-	-	71	34	-	-	34	13	-	-	13	(41)	-	-	(41)	(34)	-	-	(34)	(28)	-	-	(28)					
Depreciation & Amortization	1,405	-	-	1,405	1,360	-	-	1,360	1,404	-	-	1,404	1,459	-	-	1,459	1,401	-	-	1,401	5,624	-	-	5,624					
<b>EBITDA</b>	<b>(13,329)</b>	<b>14,298</b>	<b>-</b>	<b>969</b>	<b>(12,134)</b>	<b>13,670</b>	<b>-</b>	<b>1,536</b>	<b>(16,067)</b>	<b>21,336</b>	<b>-</b>	<b>5,269</b>	<b>(3,629)</b>	<b>12,372</b>	<b>-</b>	<b>8,743</b>	<b>(4,010)</b>	<b>12,853</b>	<b>-</b>	<b>8,843</b>	<b>(35,840)</b>	<b>60,231</b>	<b>-</b>	<b>24,391</b>					
<b>Actuals</b>					<b>Actuals</b>				<b>Actuals</b>				<b>Actuals</b>				<b>Actuals</b>				<b>Actuals</b>				<b>Actuals</b>				
<b>Cash Flow from Operations</b>	<b>249</b>				<b>(6,882)</b>				<b>3,528</b>				<b>12,991</b>				<b>(2,375)</b>				<b>7,262</b>								
Capitalized Software	(2,795)				(2,165)				(1,498)				(3,009)				(3,296)				(9,968)								
PPE	(546)				(480)				(590)				(575)				(1,556)				(3,201)								
CAPEX	(3,341)				(2,645)				(2,088)				(3,584)				(4,852)				(13,169)								
<b>Free Cash Flow</b>	<b>(3,092)</b>				<b>(9,527)</b>				<b>1,440</b>				<b>9,407</b>				<b>(7,227)</b>				<b>(5,907)</b>								



# RECONCILIATIONS

Enterprise EBITDA and Adjusted EBITDA *(Unaudited, amounts in thousands)*

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Net loss	\$ (14,983)	\$ (14,778)
Adjustments:		
Non-operating (income) expense	(12)	1,054
Interest expense	190	196
Provision for income taxes	71	34
Depreciation and amortization	1,405	1,360
Enterprise EBITDA	(13,329)	(12,134)
Stock-based compensation expense <sup>(1)</sup>	\$ 14,298	\$ 13,670
Adjusted EBITDA	<u>\$ 969</u>	<u>\$ 1,536</u>

(1) The Stock-based Compensation adjustment to EBITDA as of March 31, 2022 is made up of \$12.6 million stock-based compensation expense for the awarded RSUs and PSUs, and \$1.7 million of other sources of stock-based compensation expense. The other sources of stock-based compensation consists of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion as to 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.



# RECONCILIATIONS

## Adjusted Net Income (Loss) and Adjusted EPS (*Unaudited*)

	Three Months Ended March 31, 2022		Three Months Ended March 31, 2021	
	Net Loss	Diluted Earnings Per Share	Net Loss	Diluted Earnings Per Share
	(in thousands)		(in thousands)	
Reported GAAP measure	\$ (14,983)	\$ (0.22)	\$ (14,778)	\$ (0.23)
Adjustments:				
Non-operating (income) expense	(12)	—	1,054	0.02
Stock-based compensation expense <sup>(2)</sup>	14,298	0.21	13,670	0.21
Adjusted non-GAAP measure	<u>\$ (697)</u>	<u>\$ (0.01)</u>	<u>\$ (54)</u>	<u>\$ —</u>
Weighted-average shares of common stock outstanding	<u>67,559</u>		<u>64,625</u>	

<sup>(2)</sup> The Stock-based Compensation adjustment to Net Loss as of March 31, 2022 is made up of \$12.6 million stock-based compensation expense for the awarded RSUs and PSUs, and \$1.7 million 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 as to 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 form of payment would result in out of quarter adjustments to this add back to Adjusted Net Loss.



# RECONCILIATIONS

Free Cash Flow (*Unaudited, amounts in thousands*)

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Net cash flows provided by (used in) operating activities	\$ 249	\$ (6,882)
Adjustments:		
Purchases of property and equipment	(546)	(480)
Capitalized software development costs	(2,795)	(2,165)
Free cash flow	<u>\$ (3,092)</u>	<u>\$ (9,527)</u>





# RECONCILIATIONS

Revenue Growth (*Unaudited, amounts in thousands*)

	<u>2021</u>	<u>2022</u>	
	<u>Q1</u>	<u>Q1</u>	<u>vs PY</u>
Revenue			
Secure Networks	32,928	23,241	
<u>Large Program</u>	<u>(18,935)</u>	<u>(6,427)</u>	
Total	13,993	16,814	20.2%

	<u>2021</u>	<u>2022</u>	
	<u>Q1</u>	<u>Q1</u>	<u>vs PY</u>
Revenue			
Telos	55,757	50,160	
<u>Large Program</u>	<u>(18,935)</u>	<u>(6,427)</u>	
Total Telos	36,822	43,733	18.8%



# RECONCILIATIONS

Trailing 12 Months Gross Margin (*Unaudited, amounts in thousands*)

	2020			2021			2022	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	48,610	47,440	44,887	55,757	53,644	68,981	64,051	50,160
Trailing 12 Months Revenue				196,694	201,728	223,269	242,433	236,836
Gross Profit	17,573	16,562	16,043	14,469	22,534	24,877	24,149	18,871
Trailing 12 Months Gross Profit				64,647	69,608	77,923	86,029	90,431
Trailing 12 Months Gross Margin				32.9%	34.5%	34.9%	35.5%	38.2%



# RECONCILIATIONS

Trailing 12 Months Free Cash Flow *(Unaudited, amounts in thousands)*

	2020			2021				2022
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net income (loss)	\$ 3,072	\$ 2,494	\$ 2,735	\$ (14,778)	\$ (17,644)	\$ (5,222)	\$ (5,490)	\$ (14,983)
Stock-based compensation	—	4	—	13,670	21,336	12,372	12,853	14,298
Subtotal	3,072	2,498	2,735	(1,108)	3,692	7,150	7,363	(685)
Dividends from preferred stock recorded as interest expense	955	956	517	—	—	—	—	—
Depreciation and amortization	1,345	1,284	1,335	1,360	1,404	1,459	1,401	1,405
Change in WC, taxes and non-cash items	(6,276)	6,380	(18,648)	(7,134)	(1,568)	4,382	(11,139)	(471)
Cash flow from operating activities	(904)	11,118	(14,061)	(6,882)	3,528	12,991	(2,375)	249
Capitalization of software development	(1,652)	(2,300)	(1,222)	(2,165)	(1,498)	(3,009)	(3,296)	(2,795)
Purchases of property and equipment	(122)	(292)	(156)	(480)	(590)	(575)	(1,556)	(546)
CAPEX - (outflow) inflow	(1,774)	(2,592)	(1,378)	(2,645)	(2,088)	(3,584)	(4,852)	(3,341)
Free cash flow	\$ (2,678)	\$ 8,526	\$ (15,439)	\$ (9,527)	\$ 1,440	\$ 9,407	\$ (7,227)	\$ (3,092)
Trailing 12 months free cash flow				\$ (19,118)	\$ (15,000)	\$ (14,119)	\$ (5,907)	\$ 528