REFINITIV

DELTA REPORT

10-Q

TLS - TELOS CORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	878
CHANGES	117
DELETIONS	432
ADDITIONS	329

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2023 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 logo.jpg

TELOS CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**52-0880974**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
19886 Ashburn Road, Ashburn, Virginia	**20147-2358**
(Address of principal executive offices)	(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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨ x
		Emerging growth company	¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

As ofNovember 3, 2023, May 3, 2024, the registrant had outstanding 69,623,209 71,757,998 shares of common stock.stock.

Table of Contents to Third First Quarter 2023 2024 Form 10-Q

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended		For the Three Months Ended
	March 31, 2024	March 31, 2024	March 31, 2023

		For the Three Months Ended		For the Nine Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
		(in thousands, except per share amounts)			
		(in thousands, except per share amounts)			
		(in thousands, except per share amounts)			
		(in thousands, except per share amounts)			
Revenue – services	Revenue – services	$ 34,385	$ 55,305	$ 94,866	$ 153,683
Revenue – products	Revenue – products	1,801	8,288	9,453	15,861
Total revenue	Total revenue	36,186	63,593	104,319	169,544
Cost of sales – services (exclusive of depreciation and amortization shown separately below)		20,683	36,555	58,613	97,311
Cost of sales – products (exclusive of depreciation and amortization shown separately below)		545	5,902	4,561	10,886
Cost of sales – services (excluding depreciation and amortization)					
Cost of sales – products (excluding depreciation and amortization)					
Depreciation and amortization	Depreciation and amortization	1,945	191	2,291	602
Total cost of sales	Total cost of sales	23,173	42,648	65,465	108,799
Gross profit	Gross profit	13,013	20,945	38,854	60,745

Research and development expenses					
Selling, general and administrative expenses	Selling, general and administrative expenses				
Sales and marketing		1,728	3,042	5,164	13,035
Research and development		3,154	3,981	8,633	13,900
General and administrative		17,824	22,706	57,187	72,997
Total selling, general and administrative expenses		22,706	29,729	70,984	99,932
Operating loss	Operating loss	(9,693)	(8,784)	(32,130)	(39,187)
Other income	Other income	1,222	518	5,367	648
Interest expense	Interest expense	(178)	(181)	(611)	(558)
Loss before income taxes	Loss before income taxes	(8,649)	(8,447)	(27,374)	(39,097)
Provision for income taxes	Provision for income taxes	(23)	(8)	(68)	(133)
Net loss	Net loss	$ (8,672)	$ (8,455)	$ (27,442)	$ (39,230)
Net loss per share:	Net loss per share:				
Net loss per share:					
Net loss per share:					
Basic					
Basic					
Basic	Basic	$ (0.12)	$ (0.13)	$ (0.40)	$ (0.58)
Diluted	Diluted	$ (0.12)	$ (0.13)	$ (0.40)	$ (0.58)
Weighted-average shares outstanding:	Weighted-average shares outstanding:				
Weighted-average shares outstanding:					
Weighted-average shares outstanding:					
Basic					
Basic					
Basic	Basic	69,571	67,493	69,062	67,641
Diluted	Diluted	69,571	67,493	69,062	67,641

See accompanying notes to the unaudited consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

For the Three Months Ended		For the Three Months Ended
March 31, 2024	March 31, 2024	March 31, 2023

		For the Three Months Ended		For the Nine Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
		(in thousands)			
		(in thousands)			
		(in thousands)			
		(in thousands)			
Net loss	Net loss	$ (8,672)	$ (8,455)	$ (27,442)	$ (39,230)
Other comprehensive loss, net of tax:	Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	Foreign currency translation adjustments	29	(21)	31	(3)
Foreign currency translation adjustments					
Foreign currency translation adjustments					
Actuarial loss on pension liability adjustment					
Comprehensive loss	Comprehensive loss	$ (8,643)	$ (8,476)	$ (27,411)	$ (39,233)

See accompanying notes to the unaudited consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

				March 31, 2024	December 31, 2023
March 31, 2024					
		September 30, 2023	December 31, 2022		
		(in thousands, except per share amount and share data)			
		(in thousands, except per share amount and share data)			
		(in thousands, except per share amount and share data)			
		(in thousands, except per share amount and share data)			
Assets:	**Assets:**				
Cash and cash equivalents					
Cash and cash equivalents					
Cash and cash equivalents	Cash and cash equivalents	$ 99,953	$119,305		

Accounts receivable, net	Accounts receivable, net	25,424	40,069
Inventories, net	Inventories, net	984	2,877
Prepaid expenses	Prepaid expenses	8,102	4,819
Other current assets	Other current assets	1,750	893
Total current assets	Total current assets	136,213	167,963
Property and equipment, net	Property and equipment, net	3,390	4,787
Finance lease right-of-use assets, net	Finance lease right-of-use assets, net	6,917	7,832
Operating lease right-of-use assets, net	Operating lease right-of-use assets, net	274	341
Goodwill	Goodwill	17,922	17,922
Intangible assets, net	Intangible assets, net	38,984	37,415
Other assets	Other assets	1,038	1,137
Total assets	Total assets	$ 204,738	$ 237,397
Liabilities and Stockholders' Equity:			
Liabilities and Stockholders' Equity			
Liabilities:	Liabilities:		
Liabilities:			
Liabilities:			
Accounts payable and other accrued liabilities			
Accounts payable and other accrued liabilities			
Accounts payable and other accrued liabilities	Accounts payable and other accrued liabilities	$ 7,457	$ 22,551
Accrued compensation and benefits	Accrued compensation and benefits	12,593	8,388
Contract liabilities	Contract liabilities	5,775	6,444
Finance lease obligations – current portion	Finance lease obligations – current portion	1,695	1,592
Operating lease obligations – current portion	Operating lease obligations – current portion	224	361
Other financing obligations – current portion		—	1,247
Other current liabilities	Other current liabilities	1,839	4,919

Total current liabilities	Total current liabilities	29,583	45,502	
Finance lease obligations – non-current portion	Finance lease obligations – non-current portion	9,965	11,248	
Operating lease liabilities – non-current portion		65	27	
Other financing obligations – non-current portion		—	7,211	
Operating lease obligations – non-current portion				
Deferred income taxes	Deferred income taxes	795	758	
Other liabilities	Other liabilities	309	297	
Total liabilities	Total liabilities	40,717	65,043	
Commitments and contingencies	Commitments and contingencies			Commitments and contingencies
Stockholders’ equity:	Stockholders’ equity:			
Common stock, $0.001 par value, 250,000,000 shares authorized, 69,623,209 shares and 67,431,632 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively		108	106	
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				
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				
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				
Additional paid-in capital	Additional paid-in capital	431,784	412,708	
Accumulated other comprehensive income		(24)	(55)	
Accumulated other comprehensive loss				

Accumulated deficit	Accumulated deficit	(267,847)	(240,405)
Total stockholders' equity	Total stockholders' equity	164,021	172,354
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	$ 204,738	$ 237,397

See accompanying notes to the unaudited consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended			For the Three Months Ended	
	March 31, 2024			March 31, 2024	March 31, 2023
		For the Nine Months Ended			
		September 30, 2023	September 30, 2022		
		(in thousands)			
		(in thousands)			
		(in thousands)			
		(in thousands)			
Cash flows from operating activities:	Cash flows from operating activities:				
Net loss	Net loss	$ (27,442)	$ (39,230)		
Adjustments to reconcile net loss to cash flows from operations:					
Net loss					
Net loss					
Adjustments to reconcile net loss to cash used in operating activities:					
Stock-based compensation					
Stock-based compensation					
Stock-based compensation	Stock-based compensation	22,462	48,843		
Depreciation and amortization	Depreciation and amortization	6,336	4,427		
Deferred income tax provision	Deferred income tax provision	37	25		
Accretion of discount in acquisition holdback	Accretion of discount in acquisition holdback	2	36		

Loss on disposal of fixed assets	Loss on disposal of fixed assets	1	2
Provision for doubtful accounts	Provision for doubtful accounts	128	97
Amortization of debt issuance costs	Amortization of debt issuance costs	51	—
Gain on early extinguishment of other financing obligations	Gain on early extinguishment of other financing obligations	(1,427)	—
Changes in other operating assets and liabilities:	Changes in other operating assets and liabilities:		
Accounts receivable	Accounts receivable	14,517	8,763
Accounts receivable			
Accounts receivable			
Inventories	Inventories	1,893	(3,429)
Prepaid expenses, other current assets, other assets	Prepaid expenses, other current assets, other assets	(4,106)	(2,486)
Accounts payable and other accrued payables	Accounts payable and other accrued payables	(14,942)	2,635
Accrued compensation and benefits	Accrued compensation and benefits	2,496	371
Contract liabilities	Contract liabilities	(670)	571
Other current liabilities	Other current liabilities	(2,703)	(507)
Net cash (used in)/provided by operating activities		(3,367)	20,118
Net cash used in operating activities			
Cash flows from investing activities:	Cash flows from investing activities:		
Capitalized software development costs	Capitalized software development costs	(11,960)	(8,580)
Capitalized software development costs			
Capitalized software development costs			

Purchase of investment			
Purchases of property and equipment	Purchases of property and equipment	(350)	(815)
Payment of DFT holdback amount			
Net cash used in investing activities	Net cash used in investing activities	(12,310)	(9,395)
Cash flows from financing activities:	Cash flows from financing activities:		
Payments under finance lease obligations	Payments under finance lease obligations	(1,180)	(1,083)
Payments under finance lease obligations			
Payments under finance lease obligations			
Payment of tax withholding related to net share settlement of equity awards	Payment of tax withholding related to net share settlement of equity awards	(1,676)	(3,135)
Repurchase of common stock	Repurchase of common stock	(139)	(7,603)
Payment of DFT holdback amount		(564)	—
Payments for debt issuance costs	Payments for debt issuance costs	(114)	—
Net cash used in financing activities	Net cash used in financing activities	(3,673)	(11,821)
Net change in cash, cash equivalents, and restricted cash	Net change in cash, cash equivalents, and restricted cash	(19,350)	(1,098)
Cash, cash equivalents, and restricted cash, beginning of period	Cash, cash equivalents, and restricted cash, beginning of period	119,438	126,562
Cash, cash equivalents, and restricted cash, end of period	Cash, cash equivalents, and restricted cash, end of period	$ 100,088	$ 125,464

See accompanying notes to the unaudited consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock				Additional Paid-in		Accumulated Other Comprehensive				Total Stockholders'
	Shares		Amount		Capital		Income		Accumulated Deficit		Equity
					(in thousands)						
Balance at June 30, 2023	69,467	$	108	$	426,656	$	(53)	$	(259,175)	$	167,536
Net loss	—		—		—		—		(8,672)		(8,672)
Foreign currency translation gain	—		—		—		29		—		29
Restricted stock unit awards vested, net of shares withheld to cover tax withholding	156		—		(90)		—		—		(90)
Stock-based compensation	—		—		5,218		—		—		5,218
Balance at September 30, 2023	69,623	$	108	$	431,784	$	(24)	$	(267,847)	$	164,021
Balance at June 30, 2022	67,594	$	106	$	391,967	$	(9)	$	(217,752)	$	174,312
Net loss	—		—		—		—		(8,455)		(8,455)
Foreign currency translation loss	—		—		—		(21)		—		(21)
Restricted stock unit awards vested, net of shares withheld to cover tax withholding	205		—		(249)		—		—		(249)
Stock-based compensation	—		—		16,127		—		—		16,127
Repurchase of common stock	(499)		—		(4,681)		—		—		(4,681)
Balance at September 30, 2022	67,300	$	106	$	403,164	$	(30)	$	(226,207)	$	177,033

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity

Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive (in thousands) | Accumulated Deficit | Total Stockholders' Equity

Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive (in thousands) | Accumulated Deficit | Total Stockholders' Equity

(in thousands)

Balance at December 31, 2023						
Net loss						
Foreign currency translation loss						
Actuarial loss on pension liability adjustment						
Restricted stock unit awards vested, net of shares withheld to cover tax withholding						
Stock-based compensation						
Issuance of						

common stock for 401K match

Balance at March 31, 2024

(in thousands)

Balance at December 31, 2022

Balance at December 31, 2022

Balance at December 31, 2022	Balance at December 31, 2022	67,431	$ 106	$ 412,708	$ (55)	$ (240,405)	$ 172,354
Net loss	Net loss	—	—	—	—	(27,442)	(27,442)
Foreign currency translation gain	Foreign currency translation gain	—	—	—	31	—	31
Restricted stock unit awards vested, net of shares withheld to cover tax withholding	Restricted stock unit awards vested, net of shares withheld to cover tax withholding	1,415	1	(1,676)	—	—	(1,675)
Stock-based compensation	Stock-based compensation	—		18,811	—	—	18,811
Issuance of common stock for 401K match	Issuance of common stock for 401K match	777	1	1,941	—	—	1,942
Balance at September 30, 2023		69,623	$ 108	$ 431,784	$ (24)	$ (267,847)	$ 164,021
Balance at December 31, 2021		66,767	$ 105	$ 367,153	$ (27)	$ (186,977)	$ 180,254
Net loss		—	—	—	—	(39,230)	(39,230)
Foreign currency translation loss		—	—	—	(3)	—	(3)
Restricted stock unit awards vested, net of shares withheld to cover tax withholding		1,392	1	(3,136)	—	—	(3,135)
Stock-based compensation		—	—	46,830	—	—	46,830
Repurchase of common stock		(859)	—	(7,683)	—	—	(7,683)
Balance at September 30, 2022		67,300	$ 106	$ 403,164	$ (30)	$ (226,207)	$ 177,033

Balance at March 31, 2023

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, 2022 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 - Revision of Previously Issued Interim Financial Statements

Certain prior-period amounts have been reclassified to conform to the current period presentation. In the current period, the Company 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 reclassification reclassifications had no net impact on the statement of operations.

During the course of preparing the Company's consolidated financial statements for the year ended December 31, 2022, we identified that stock-based compensation expense related to performance-based restricted stock unit (“PSU”) awards with market conditions was erroneously reversed when those PSUs were forfeited during the three gross profit, total selling, general and nine months ended September 30, 2022. Although the Company has determined that the error did not have a material impact on its previously issued interim consolidated financial statements, it revised the previously reported interim financial information administrative expenses or net loss in conjunction with the issuance of its quarterly filings on Form 10-Q for the quarter ended September 30, 2023. Further information regarding the misstatements and related revisions are included under Note 20 – Revision of Prior Year Interim Financial Statements to the unaudited consolidated financial statements.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 stock-based 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

Stock-based Compensation

The Company grants stock-based compensation awards under the 2016 Omnibus Long-Term Incentive Plan, Selling, general and administrative expenses include general and administrative expenses, as amended (the "2016 LTIP"). Our 2016 LTIP provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, well as direct and dividend equivalent rights to our senior executives, directors, employees, indirect sales and other eligible service providers. The stock options granted under the 2016 LTIP expire no more than 10 years after the date of grant.

The service-based restricted stock units ("RSUs") generally vest in installments over a period of up to three years from the date of grant. The PSUs vest upon the achievement of a defined performance target during a defined performance period. The fair value of each RSU award is based on the closing stock price on the date of grant, while the fair value of the PSU awards with market condition is based on using a Monte Carlo simulation.

The Company estimates the fair value of stock options on the date of the grant using an option pricing model. The option pricing model takes into consideration the current share price of the underlying common stock, exercise price of the option, expected term, risk-free interest rate and the volatility of share price. marketing expenses. These considerations directly affect the amount costs consists primarily of compensation expense that will ultimately be recognized. and benefits (including incentive-based compensation), advertising, facilities, and certain types of depreciation and amortization.

We recognized these stock-based payment transactions when services from the employees, directors and other eligible service providers are received and recognized a corresponding increase in additional paid-in capital in our unaudited consolidated balance sheets. The measurement objective for these equity awards is the estimated fair value at the date of grant of the equity instruments that we are obligated to issue when the employees, directors and other eligible service providers have rendered the requisite service and satisfied any other conditions necessary to earn the right to benefit from the instruments. The stock-based compensation expense for an award is recognized ratably over the requisite service period, which is generally the vesting period or if it is probable that the performance condition will be satisfied. For the comparative periods, the stock-based payment transactions are recognized in accordance with ASC 718, "Compensation - Stock Compensation" and ASU 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting".

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.

In 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, 2022, the Company estimated that the expected December 31, 2023. The restructuring expenses actions were $2.8 million as of December 31, 2022. In early 2023, the Company updated its total expected restructuring plan costs to $4.0 million, based on the Company's review of the restructuring plan for the remainder of substantially complete in fiscal year 2023.

The restructuring expenses (adjustments) are recorded under included within "Selling, general and administrative expenses" in 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
	(in thousands)	
Severance and related benefit costs	$ (10)	$ (100)
Other related costs	—	1,300
Total restructuring (adjustments) expenses	$ (10)	$ 1,200

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: Summary of Changes in Restructuring Expenses Accrual

	Severance and related benefit costs (1)	Other related costs	Total
		(in thousands)	
Balance at December 31, 2022	$ 2,763	$ —	$ 2,763
(Adjustments)/charges	(103)	1,300	1,197
Cash payments	(1,981)	(1,300)	(3,281)
Balance at September 30, 2023	$ 679	$ —	$ 679

Table 2.2: Summary of Changes in Restructuring Expenses Accrual

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

(1) Restructuring-related liabilities are reported as part of Restructuring expenses accrual is included within "Other current liabilities" in on the Company's unaudited consolidated balance sheets see (see Note 9 - Other Balance Sheet Components for further details.)

Recent Accounting Pronouncements

From 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 Standards 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 and nine months ended September 30, 2023, March 31, 2024 and 87% and 91% of our revenue for the three and nine months ended September 30, 2022, 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 and nine months ended September 30, 2023, March 31, 2024 and 13% and 9% of our revenue for the three and nine months ended September 30, 2022, 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 exceed 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 losses were loss was recorded during the three and nine months ended September 30, 2023, and 2022. March 31, 2023.

Disaggregated Revenues

In addition to our segment reporting, as further discussed in Note 17 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. Most 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				For the Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Amount	%	Amount	%	Amount	%	Amount	%
				(dollars in thousands)				
Federal	$ 32,955	91 %	$ 60,294	95 %	$ 93,456	90 %	$ 160,351	95 %
State & local, and commercial	3,231	9 %	3,299	5 %	10,863	10 %	9,193	5 %
Total revenue	$ 36,186	100 %	$ 63,593	100 %	$ 104,319	100 %	$ 169,544	100 %

Table 3.2: Revenue by Contract Type

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)							
Firm fixed-price	$ 27,809	77 %	$ 54,055	85 %	$ 80,116	77 %	$ 140,636	83 %
Time-and-materials	3,504	10 %	3,457	5 %	10,608	10 %	9,104	5 %
Cost plus fixed-fee	4,873	13 %	6,081	10 %	13,595	13 %	19,804	12 %
Total revenue	$ 36,186	100 %	$ 63,593	100 %	$ 104,319	100 %	$ 169,544	100 %

Table 3.1: Revenue by Customer Type

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Amount	%	Amount	%
	(dollars in thousands)			
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 3.3: Revenue Concentration Greater than 10% of Total Revenue

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
U.S. Department of Defense ("DoD")	61%	77 %	65%	74 %

Table 3.2: Revenue by Contract Type

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Amount	%	Amount	%
	(dollars in thousands)			
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 3.4: Contract Balances

	Balance Sheet Presentation	September 30, 2023	December 31, 2022
		(in thousands)	
Billed accounts receivables (1)	Accounts receivable, net	$ 12,355	$ 13,521
Unbilled accounts receivable	Accounts receivable, net	7,211	11,657
Contract assets	Accounts receivable, net	5,858	14,891
Contract liabilities	Contract liabilities	5,775	6,444

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 %	68 %

Table 3.4: Contract Balances

	Balance Sheet Presentation	March 31, 2024	December 31, 2023
		(in thousands)	
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 change changes in the Company's contract assets and contract liabilities during the current period was were primarily the result of the timing differences between the Company's performance, invoicing and customer payments. Revenue recognized for the three and nine months ended September 30, 2023, March 31, 2024 and 2023, that was included in the contract liabilities balance at the beginning of each reporting period was $1.2 $2.7 million and $5.3 million, respectively. Revenue recognized for the three and nine months ended September 30, 2022, that was included in the contract liabilities balance at the beginning of each reporting period was $0.9 $2.5 million, and $5.0 million, respectively.

As of September 30, 2023 March 31, 2024, we had approximately $79.0 $36.1 million of remaining performance obligations, which we also refer to as funded backlog. We expect to recognize approximately 84% 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		September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
		(in thousands)			
		(in thousands)			
		(in thousands)			
		(in thousands)			
Billed accounts receivable	Billed accounts receivable	$ 12,614	$ 13,655		
Unbilled accounts receivable	Unbilled accounts receivable	7,211	11,657		
Contract assets	Contract assets	5,858	14,891		
Allowance for credit losses (1)	Allowance for credit losses (1)	(259)	(134)		
Accounts receivable, net	Accounts receivable, net	$ 25,424	$ 40,069		

(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 September 30, 2023 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 guarantee guarantees from our customers. We maintain allowances for potential losses.

5. INVENTORIES, NET

Table 5: Details of Inventories, Net		
	September 30, 2023	December 31, 2022
	(in thousands)	
Gross inventory	$ 1,749	$ 3,642
Allowance for inventory obsolescence	(765)	(765)
Inventories, net	$ 984	$ 2,877

Table 5: Details of Inventories, Net	Table 5: Details of Inventories, Net	
March 31, 2024	March 31, 2024	December 31, 2023
(in thousands)		
(in thousands)		
(in thousands)		
Gross inventory		
Allowance for inventory obsolescence		
Inventories, net		

6. PROPERTY AND EQUIPMENT, NET

Table 6.1: Details of Property and Equipment, Net		
	September 30, 2023	December 31, 2022
	(in thousands)	
Furniture and equipment	$ 15,659	$ 16,033
Leasehold improvement	3,211	3,145
Property and equipment, at cost	18,870	19,178
Accumulated depreciation and amortization	(15,480)	(14,391)
Property and equipment, net	$ 3,390	$ 4,787

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
	(in thousands)					
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	For the Three Months Ended	
March 31, 2024	March 31, 2024	March 31, 2023

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(in thousands)			

Depreciation & amortization expense	$ 548	$ 619	$ 1,700	$ 1,776
	(in thousands)			
	(in thousands)			
	(in thousands)			
Depreciation and amortization expense				

7. GOODWILL

The goodwill balance was $17.9 million as of September 30, 2023 March 31, 2024, and December 31, 2022 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 to goodwill were recorded for the three and nine months ended September 30, 2023 March 31, 2024 and 2022. 2023.

8. INTANGIBLE ASSETS, NET

Table 8.1: Details of Intangible Assets, Net **Table 8.1: Details of Intangible Assets, Net** **Table 8.1: Details of Intangible Assets, Net**

	Estimated Useful Life	March 31, 2024 Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	December 31, 2023 Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
		(in thousands)					

	Estimated Useful Life	September 30, 2023 Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	December 31, 2022 Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
	(in years)	*(in thousands)*					
	(in years)						
	(in years)						
	(in years)						
Acquired technology Acquired technology	8	$ 3,630	$ (983)	$ 2,647	$ 3,630	$ (643)	$ 2,987
Customer relationship Customer relationship	3	40	(29)	11	40	(19)	21
Software development costs (1)	2 - 5	46,729	(10,403)	36,326	35,080	(7,793)	27,287
Software development costs							
Subtotal Subtotal		50,399	(11,415)	38,984	38,750	(8,455)	30,295
Software held for resale (2)		—	—	—	7,120	—	7,120
In-process software development costs (1)							
Total Total		$ 50,399	$ (11,415)	$ 38,984	$ 45,870	$ (8,455)	$ 37,415

(1) An impairment charge of $0.3 million was recorded against software development costs in the third quarter of 2023 related to the write-off of a certain software project.

(2) This amount is net of $0.6 million charged into cost for sales for the period ended December 31, 2022. See Note 10 – Debt and Other Obligations for related details.

The Company evaluates its intangible assets for potential impairment whenever there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. As a result of the interim assessment, the Company identified conditions demonstrating an impairment of certain software development costs. An impairment charge of $0.3 million was recorded under "Research and Development" expenses in the Company's unaudited consolidated statements of operations for the three and nine months ended September 30, 2023. No similar impairment charges were recorded during the three and nine months ended September 30, 2022.

(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.

No impairment charges were recorded on other intangible assets during the three and nine months ended September 30, 2023, and 2022.

Table 8.2: Amortization Expense

	For the Three Months Ended		For the Three Months Ended
	March 31, 2024	March 31, 2024	March 31, 2023

		For the Three Months Ended		For the Nine Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
		(in thousands)			
		(in thousands)			
		(in thousands)			
		(in thousands)			
Amortization expense related to:	Amortization expense related to:				
Software development costs - cost of sales (1)					
Software development costs - cost of sales (1)					
Software development costs - cost of sales (1)	Software development costs - cost of sales (1)	$ 1,767	$ —	$ 1,767	$ —
Software development costs - research and development	Software development costs - research and development	(19)	354	843	1,034
Other intangible assets - general and administrative	Other intangible assets - general and administrative	117	117	350	284
Total	Total	$ 1,865	$ 471	$ 2,960	$ 1,318

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

9. OTHER BALANCE SHEET COMPONENTS

Table 9.1: Details of Accounts Payable and Other Accrued Liabilities

	September 30, 2023	December 31, 2022
	(in thousands)	
Accounts payable	$ 2,761	$ 12,606
Accrued payables	4,696	9,945
Accounts payable and other accrued liabilities	$ 7,457	$ 22,551

Table 9.1: Details of Other Assets

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

Table 9.2: Details of Other Current Liabilities

	September 30, 2023	December 31, 2022
	(in thousands)	
Other accrued expenses	$ 736	$ 1,530
Restructuring expenses accrual	679	2,763
Other	424	626
Other current liabilities	$ 1,839	$ 4,919

(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
	(in thousands)	
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
	(in thousands)	
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, 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 (as defined in the Credit Agreement) on the last day of any fiscal quarter, no greater than 3-to-1. 3 to 1. We were in compliance with all covenants as of September 30, 2023 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, see Note 8 – Intangible Assets, net for further details.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, the Buyer and Telos will cooperate in preparing such a claim, which would be filed in Telos' name. The 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. No gain was reported for During the three months ended September 30, 2023. For the nine months ended September 30, 2023 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. ACQUISITION STOCK-BASED COMPENSATION

On July 30, 2021, The Company grants stock-based compensation awards under the Company acquired the assets of Diamond Fortress Technologies 2016 Omnibus Long-Term Incentive Plan, as amended (the "2016 LTIP"). We may grant restricted stock awards, restricted stock units with time-based vesting ("DFT" RSUs") and wholly-owned subsidiaries 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 a total purchase consideration the Company's common stock, certain operational milestones over prescribed period, or at the end of $6.7 million, inclusive the defined performance period from the date of $0.3 million related to a pre-existing contractual arrangement with DFT. Upon closing, $5.9 million of cash was paid with an additional $0.6 million payable to DFT 18 months after the close date (the "holdback"). The holdback amount has been discounted to its present value of $0.5 million using a discount rate relevant to the acquisition. On February 2, 2023, the Company paid DFT the holdback amount of $0.6 million. grant.

12. STOCK-BASED COMPENSATION

Stock-based compensation expense recognized for restricted stock units and stock options granted to employees and non-employees is included in the consolidated statement of operations. There were no income tax benefits recognized on the stock-based share-based compensation expense for both periods.

Table 12.1: Details of Stock Compensation Expense by Department

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(in thousands)			
Cost of sales – services	$ 73	$ 929	$ 624	$ 2,798
Sales and marketing	24	611	125	3,699
Research and development	328	897	1,945	2,884
General and administrative (1)	4,793	13,399	19,768	39,462
Total	$ 5,218	$ 15,836	$ 22,462	$ 48,843

(1) During the three and nine months ended September 30, 2023, the stock-based compensation expense related to stock options was $0.1 million and $0.2 million, respectively, and is recorded as part of selling, general and administrative expenses. There was no similar expense in 2022.

Table 11.1: Details of Stock Compensation Expense by Department

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	(in thousands)	
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 12.2: Restricted Stock Unit Activity

		Service-Based	Performance-Based	Total Shares	Weighted-Average Grant Date Fair Value
Unvested outstanding units as of December 31, 2022		3,570,082	336,785	3,906,867	$ 19.53
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					
Granted	Granted	1,743,689	—	1,743,689	1.99
Vested	Vested	(1,807,929)	—	(1,807,929)	25.96
Forfeited	Forfeited	(396,694)	(71,177)	(467,871)	14.39
Unvested outstanding units as of September 30, 2023		3,109,148	265,608	3,374,756	$ 8.34
Unvested outstanding units as of March 31, 2024					

As of September 30, 2023 March 31, 2024, the intrinsic value of the RSUs and PSUs outstanding, exercisable, and vested or expected to vest was $8.1 $3.9 million. There were was approximately $7.1 $2.1 million of total compensation costs related to stock-based awards not yet recognized as of September 30, 2023 March 31, 2024, which is expected to be recognized on a straight-line basis over a weighted average weighted-average remaining vesting period of 0.6 0.7 years.

Stock Options

The Company uses the Black-Scholes option pricing model to calculate the estimated fair value of stock options on the date of grant. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. The following weighted-average assumptions are used in the Black-Scholes valuation model to estimate the fair value of stock option awards, as granted.

- *Expected term of the option* – For options granted to employees and directors, the Company estimates the term over which option holders are expected to hold their stock option by using the "simplified method" in accordance with Staff Accounting Bulletin ("SAB") No. 107, *Share-Based Payments*, and SAB No. 110, *Simplified Method for Plain Vanilla Share Options*, to calculate the expected term of stock options determined to be "plain vanilla." The Company's stock option exercise history does not provide a reasonable basis to compute the expected term for stock options. Under this approach, the expected term is presumed to be a midpoint between the vesting date and the contractual end of the stock option grant. For options granted to non-employees, the Company elected to use the contractual term as the expected term.
- *Risk-free interest rate* – Based on the daily yield curve rates for U.S. Treasury obligations with terms that approximate the expected term of the stock options.

REFINITIV

- *Expected volatility* – Due to the absence of the Company's historical price volatility for the expected contractual term of the stock options, the Company utilized the historical price volatility of a peer group.
- *Expected dividend yield* – The Company has not declared dividends, nor does it expect to in the foreseeable future. Therefore, a zero value was assumed for the expected dividend yield.

Table 12.3: Stock Options Fair Value and Weighted-Average Assumptions

	For the Nine Months Ended	
	September 30, 2023	September 30, 2022
Weighted-average fair value of underlying stock options	$1.06	$—
Expected term (in years)	5.5 - 10.0	0
Risk-free interest rate	3.5%	—%
Expected volatility	30.7% - 35.1%	—%
Expected dividend yield	—%	—%

Table 12.4: 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, 2022	—	$ —	0.0	$ —
Granted	400,000	1.80		
Exercised	—	—		
Forfeited, cancelled, or expired	—	—		
Outstanding option balance as of September 30, 2023	400,000	$ 1.80	9.6	$ 236,000
Exercisable stock option as of September 30, 2023	—	$ —	0.0	$ —

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 September 30, 2023 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 September 30, 2023 March 31, 2024, there were approximately $0.3 million $0.04 million of unrecognized compensation costs related to non-vested stock options.

13. 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 September 30, 2023 March 31, 2024, there was approximately $38.7 million of the authorization remaining for future common stock repurchases under the SRP.

Table 13: Share Repurchase Program Activity

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(in thousands, except per share and share data)			
Amount paid for shares repurchased (1)	$ —	$ 4,681	$ —	$ 7,683
Number of shares repurchased	—	498,731	—	859,170
Average per share price paid (1)	$ —	$ 9.38	$ —	$ 8.94

(1) Includes commissions paid for repurchases on the open market.

14. 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Our functional currency is the U.S. dollar. 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 losses. (loss) income.

Table 14: Details of Accumulated Other Comprehensive Loss

	September 30, 2023	December 31, 2022
	(in thousands)	
Cumulative foreign currency translation loss	$ (131)	$ (162)
Cumulative actuarial gain on pension liability adjustment	107	107
Accumulated other comprehensive loss	$ (24)	$ (55)

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

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

15. 14. LOSS PER SHARE

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

Table 15: Potentially Dilutive Securities

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(in thousands)			
Unvested restricted stock and restricted stock units	667	833	522	435
Total	667	833	522	435

Table 14: Potentially Dilutive Securities

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

For the three and nine months ended September 30, 2023, March 31, 2024 and 2022, 2023, the outstanding PSUs aggregating to 265,608 43,800 and 336,785, 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 that which were not satisfied by the end of the period.

16. 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. For the three and nine months ended September 30, 2022, the Company paid him $91,000 and $696,000, respectively.

One of the Company's directors serves served as a consultant to the Company. On January 1, 2023, the director and the Company amended the consulting under a consultancy agreement under which he provides services ("2023 consulting agreement"), extending his services through June 30, 2023, with the option to further extend for another six months by mutual agreement of the parties. that expired on December 31, 2023. The Company, at its election, would pay paid the director's 2023 consultancy fees in a fixed amount, in the form of restricted stock units. Consequently, on 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, as compensation for the first half of his 2023 consulting services. In . Beginning in July 2023, the director and the Company amended the 2023 consulting agreement, extending his services through December 31, 2023. The amended 2023 consulting agreement stipulates was paid a firm-fixed monthly retainer fee, plus additional fees and contingent bonus payments upon achievement of certain contract goals, payable in cash. Cash payments made for his consulting services were $32,000 for the three and nine months ended September 30, 2023.

On February 1, 2022, the Company granted him 26,091 RSUs for his consulting services in 2022, which RSUs vested quarterly in four equal amounts cash through the end expiration of the year. No cash payments were made for the three months ended September 30, 2022, while the amounts paid in cash for his consulting services were $25,000 for the nine months ended September 30, 2022.

agreement.

17. 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 ACA" ACA™"), Telos Automated Message Handling System ("AMHS") and Telos ID offerings. We recognize revenue on contracts by 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 operating 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 17: Results of Operations by Business Segment

Table 16: Results of Operations by Business Segment

Table 16: Results of Operations by Business Segment

	For the Three Months Ended			
	March 31, 2024			

	For the Three Months Ended		For the Three Months Ended	
	March 31, 2024		March 31, 2023	

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(in thousands)			
Revenue				
	(in thousands)			
	(in thousands)			
	(in thousands)			
Revenues				
Security Solutions				
Security Solutions				

Security Solutions	Security Solutions	$ 19,795	$ 32,440	$ 56,764	$ 90,178
Secure Networks	Secure Networks	16,391	31,153	47,555	79,366
Total revenue	Total revenue	36,186	63,593	104,319	169,544
Gross profit	Gross profit				
Security Solutions	Security Solutions	9,354	15,577	29,179	47,062
Security Solutions					
Security Solutions					
Secure Networks	Secure Networks	3,659	5,368	9,675	13,683
Total gross profit	Total gross profit	13,013	20,945	38,854	60,745
Research and development expenses					
Selling, general and administrative expenses	Selling, general and administrative expenses	22,706	29,729	70,984	99,932
Operating loss	Operating loss	(9,693)	(8,784)	(32,130)	(39,187)
Other income	Other income	1,222	518	5,367	648
Interest expense	Interest expense	(178)	(181)	(611)	(558)
Loss before income taxes	Loss before income taxes	(8,649)	(8,447)	(27,374)	(39,097)
Provision for income taxes	Provision for income taxes	(23)	(8)	(68)	(133)
Net loss	Net loss	$ (8,672)	$ (8,455)	$ (27,442)	$ (39,230)

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.

18. 17. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On February 7, 2022, Telos and certain of its current and former officers were named as defendants in a lawsuit filed in the United States District Court for the Eastern District of Virginia ("Court"). In the complaint, the Plaintiffs, who purported to represent a class of purchasers of Telos common stock between November 19, 2020, and March 16, 2022, alleged that the defendants violated securities laws by failing to disclose delays relating to the launch of certain contracts between Telos and the Transportation Security Administration ("TSA") and the Centers for Medicare and Medicaid Services and to take into account those delays when providing a financial forecast for the Company's 2021 performance. On June 15, 2022, the Plaintiffs filed a consolidated complaint that added claims (i) concerning Telos' disclosure of revenue projections for these contracts, (ii) against the directors of Telos at the time of its initial public offering, and (iii) pursuant to Sections 11 and 15 of the Securities Act of 1933. On February 1, 2023, the Court dismissed the lawsuit in its entirety for failure to state a claim. The Court's order of dismissal provided the Plaintiffs the opportunity to file a motion for leave to file an amended complaint, should they have a good faith basis to do so. On March 13, 2023, the Court granted the parties' consent motion permitting the filing of a consolidated amended class action complaint and establishing a briefing schedule for Telos' motion to dismiss that amended complaint. On April 14, 2023, Telos moved to dismiss the consolidated amended class action complaint. At the conclusion of a hearing held on June 21, 2023, the Court dismissed the consolidated amended class action complaint with prejudice. No appeal from the order of dismissal was taken, and it is final.

From time to time, the Company may be a party to litigation or claims arising in the ordinary course of business. Management does 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 believe that there are litigation or claims that would have a material adverse effect on the Company's business or the its unaudited consolidated financial statements of the Company as of September 30, 2023 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.

19.

18. SUPPLEMENTAL CASH FLOW INFORMATION

Table 19.1: Details of Cash, Cash Equivalents, and Restricted Cash

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

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

March 31, 2024				March 31, 2024	December 31, 2023
		September 30, 2023	December 31, 2022		
		(in thousands)			
		(in thousands)			
		(in thousands)			
		(in thousands)			
Cash and cash equivalents	Cash and cash equivalents	$ 99,953	$ 119,305		
Restricted cash (1)	Restricted cash (1)	135	133		
Cash, cash equivalents, and restricted cash	Cash, cash equivalents, and restricted cash	$ 100,088	$ 119,438		

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

Table 19.2: Supplemental Cash Flow Information

	For the Nine Months Ended	
	September 30, 2023	September 30, 2022
	(in thousands)	
Cash paid during the period for:		
Interest	$ 548	$ 523
Income taxes	147	188
Non-cash investing and financing activities:		
Operating lease ROU assets obtained in exchange for operating lease liabilities	$ 67	$ 396
Capital expenditure activity in accounts payable and other accrued liabilities	173	400
Issuance of common stock for 401K match	1,943	—
Intangible assets transferred to extinguish other financing obligations	7,089	—

Common stock repurchases under SRP	—	80

20. REVISION OF PRIOR YEAR INTERIM FINANCIAL STATEMENTS

During the course of preparing the Company's consolidated financial statements for the year ended December 31, 2022, we identified that stock-based compensation expense related to the PSU awards with market conditions was erroneously reversed when those PSUs were forfeited. Due to the error, general and administrative expense was understated by $1.1 million and $4.6 million for the three and nine months ended September 30, 2022. Although the Company has determined that the error did not have a material impact on its previously issued interim consolidated financial statements, it revised the previously reported interim financial information in conjunction with the issuance of its quarterly filings on Form 10-Q for the quarter ended September 30, 2023. The errors had no net impact on cash flows from operating, investing or financing activities in the consolidated statement of cash flows.

The following tables set forth the effects of the revisions of previously issued unaudited quarterly consolidated financial statements to correct for prior period errors.

Table 20.1: Impact of the Correction to the Unaudited Consolidated Statement of Operations

	For the Three Months Ended September 30, 2022			For the Nine Months Ended September 30, 2022		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
	(in thousands, except per share data)					
General and administrative	$ 21,591	$ 1,115	$ 22,706	$ 68,379	$ 4,618	$ 72,997
Total selling, general and administrative expenses	28,614	1,115	29,729	95,314	4,618	99,932
Operating loss	(7,669)	(1,115)	(8,784)	(34,569)	(4,618)	(39,187)
Loss before income taxes	(7,332)	(1,115)	(8,447)	(34,479)	(4,618)	(39,097)
Net loss	(7,340)	(1,115)	(8,455)	(34,612)	(4,618)	(39,230)
Net loss per share, basic	$ (0.11)	$ (0.02)	$ (0.13)	$ (0.51)	$ (0.07)	$ (0.58)
Net loss per share, diluted	(0.11)	(0.02)	(0.13)	(0.51)	(0.07)	(0.58)

Table 20.2: Impact of the Correction to the Unaudited Consolidated Statement of Comprehensive Loss

	For the Three Months Ended September 30, 2022			For the Nine Months Ended September 30, 2022		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
	(in thousands)					
Net loss	$ (7,340)	$ (1,115)	$ (8,455)	$ (34,612)	$ (4,618)	$ (39,230)
Comprehensive loss	(7,361)	(1,115)	(8,476)	(34,615)	(4,618)	(39,233)

Table 20.3: Impact of the Correction to the Unaudited Consolidated Statement of Changes in Stockholders' Equity

	For the Three Months Ended September 30, 2022			For the Nine Months Ended September 30, 2022		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
	(in thousands)					
Additional paid-in capital, beginning	$ 388,464	$ 3,503	$ 391,967	$ 367,153	$ —	$ 367,153
Stock-based compensation	15,012	1,115	16,127	42,212	4,618	46,830
Additional paid-in capital, end	398,546	4,618	403,164	398,546	4,618	403,164
Accumulated deficit, beginning	$ (214,249)	$ (3,503)	$ (217,752)	$ (186,977)	$ —	$ (186,977)
Net loss	(7,340)	(1,115)	(8,455)	(34,612)	(4,618)	(39,230)
Accumulated deficit, end	(221,589)	(4,618)	(226,207)	(221,589)	(4,618)	(226,207)

Table 18.2: Supplemental Cash Flow Information

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	(in thousands)	

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, 2022 December 31, 2023, as filed with the Securities and Exchange Commission ("SEC") on March 16, 2023 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 17 1– 6 - Segment Information to the unaudited consolidated financial statements at Item 1 of this Form 10-Q.

Fiscal The transition efforts carried out by the Company in fiscal year 2023 continues to be a transition are exhibiting promising outcomes at the beginning of fiscal year for Telos, focusing on streamlining our operations and rebuilding and growing 2024 in the revenue base by generating form of new business wins. Our 2023 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 priorities are to:

- Reorganize internally to consolidate and centralize business development resources;
- Add new talent to drive execution of solution development and new business generation;
- Maximize existing strategic partnerships for market expansion; and
- Increase our opportunity portfolio and quality of contract vehicles.pipeline.

Business Environment

U.S. Budget

The President's proposed 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 budget released in March called for a $26 billion increase appropriations bill for the Department of Defense ("DoD") 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 little more than 3% above total spending level in line with the FY2023 enacted level. The debt ceiling legislation (the "Fiscal Responsibility Act") subsequently enacted into law in early June contains spending caps which reflected that level 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 as have the House and Senate versions of the defense authorization and appropriations bills. While there are many in Congress who want to boost this increase further to offset current and expected inflation and the continued threats posed by foreign adversaries, final decisions on FY 2024 defense spending are now not likely to be made until December at the very earliest.

meet increased challenges abroad. The President's FY2024 proposed budget also proposed increased investments calls for increases in funding for non-defense cybersecurity within numerous federal civilian departments programs and agencies. In general, the President's budget reflects the prioritization 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, such increased spending by civilian agencies on cybersecurity could be difficult to achieve, given the caps on non-defense discretionary spending included in the Fiscal Responsibility Act current political environment in Congress and subsequent efforts by with the House majority presidential election looming in November, it is highly questionable whether Congress and the President can reach agreement on FY2025 appropriations bills prior to seek further reductions in all non-defense discretionary spending. This could impact future cybersecurity investments by current and potential civilian federal customers.

Congress was unable to enact any of its annual appropriation bills before the start of FY2024 FY2025 on October 1, 2023 and instead approved a Continuing Resolution ("CR"), which funded October 1, 2024; this means the government at FY2023 levels until November 17, 2023 and restricted new contracts and acceleration Defense Department along with the rest of current programs. It is unlikely Congress will enact any individual appropriation bills before the current CR expires, and prospects for approving another CR by then are uncertain. Failure to enact a new CR by November 17, 2023 would result in a federal government shutdown after that date. Finally, under will likely begin the terms of the Fiscal Responsibility Act, if all appropriations legislation is not enacted fiscal year funded by January 1, 2024, and the government remains under another a CR appropriations government-wide will revert to the FY2023 level minus an additional one percent. This uncertainty could impact federal customers' ability to move forward on their planned expenditures in FY2024. 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 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: Risk: Critical infrastructure and industrial Internet of Things ("IoT") IoT are among the categories at greatest risk of cyberattacks.

The Challenging Complexity of Regulatory Compliance: 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: 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.

Backlog Financial Overview

Backlog is a useful measure in developing our annual budgeted revenue by estimating for the upcoming year our continuing business from existing customers and active contracts. We consider backlog, both funded and unfunded (as explained below), other expected annual renewals, and expansion planned by our current customers.

Total backlog consists of the aggregate contract revenues remaining to be earned by us at a given time over the life of our contracts, whether funded or unfunded. Funded backlog consists of the aggregate contract revenues remaining to be earned at a given time, which, in the case of U.S. government contracts, means that they have been funded by the procuring agency. Unfunded backlog is the difference between total backlog and funded backlog and includes potential revenues that may be earned if customers exercise delivery orders and/or renewal options to continue these contracts. Based on historical experience, we generally assume option year renewals to be exercised. Most of our customers fund contracts on the basis of one year or less, and, as a result, funded backlog is generally expected to be earned within one year from any point in time, whereas unfunded backlog is expected to be earned over a longer period.

Business Highlights

Although a A number of factors have contributed to the results of our third first quarter of fiscal year 2023, 2024 results of operations, the notable events and most significant factors of which are described below. More details on these changes are presented below within our "Results of Operations" section.

- The completion Decline in year-over-year revenue primarily driven by the ramp down of certain programs and lower revenue on ongoing major programs resulted in a decline in the current quarter's revenue compared with 2022 results. within Secure Networks.
- Gross margin increased significantly primarily due to revenue mix and improved margins due to strong program management within Secure Networks programs. Growth in TSA PreCheck revenue.
- Operating Reduction in gross margins driven by the increased impact of amortization of software development costs.
- Lower operating costs are lower through a combination of lower stock-based compensation and the results of the restructuring plan announced in the first quarter of 2023. expenses.

Results of Operations

Table MD&A 1: Consolidated Results of Operations

Table MD&A 2: Consolidated Results of Operations

Table MD&A 2: Consolidated Results of Operations

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	(dollars in thousands)	
	(dollars in thousands)	
	(dollars in thousands)	
Revenue		
Cost of sales		
Gross margin	*37.0 %*	*38.3 %*

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(dollars in thousands)			
Total revenue	$ 36,186	$ 63,593	$ 104,319	$ 169,544
Cost of sales (exclusive of depreciation and amortization shown separately below)	21,228	42,457	63,174	108,197
Depreciation and amortization	1,945	191	2,291	602
Total cost of sales	23,173	42,648	65,465	108,799
Gross profit	13,013	20,945	38,854	60,745
Gross margin	***36.0 %***	***32.9 %***	***37.2 %***	***35.8 %***
Selling, general and administrative expenses	22,706	29,729	70,984	99,932
Selling, general and administrative expenses as percentage of revenue	***62.7 %***	***46.7 %***	***68.0 %***	***58.9 %***

Research and development ("R&D") expenses								
R&D expenses as percentage of revenue						*R&D expenses as percentage of revenue*	*10.7 %*	*8.0 %*
Selling, general and administrative ("SG&A") expenses								
SG&A expenses as percentage of revenue						*SG&A expenses as percentage of revenue*	*54.8 %*	*67.1 %*
Operating loss	Operating loss	(9,693)	(8,784)	(32,130)	(39,187)			
Other income	Other income	1,222	518	5,367	648			
Interest expense	Interest expense	(178)	(181)	(611)	(558)			
Loss before income taxes	Loss before income taxes	(8,649)	(8,447)	(27,374)	(39,097)			
Provision for income taxes	Provision for income taxes	(23)	(8)	(68)	(133)			
Net loss	Net loss	$ (8,672)	$ (8,455)	$ (27,442)	$ (39,230)			

Consolidated Results

Our business segments have different factors driving revenue fluctuations and profitability. The discussion of the changes in our revenue and profitability is set forth are covered in greater detail under in the following section, that follows "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.

Selling, general, and administrative R&D expenses (SG&A). SG&A decreased increased by $7.0 million, $0.3 million, or 23.6% 11.9%, for in the three months ended September 30, 2023, first quarter of 2024, compared to the same period in 2022. Sales and marketing 2023, primarily due to increases in amortization costs.

SG&A expenses decreased by $1.3 million $7.4 million, or 31.3%, research and development expenses decreased by $0.8 million, and general and administrative expenses decreased by $4.9 million. Lower compensation costs are in the primary driver for reductions across all first quarter of these areas.

SG&A decreased by $28.9 million, or 29.0%, for the nine months ended September 30, 2023, as 2024 compared to the same period in the prior year. Sales and marketing expenses decreased by $7.9 million 2023. This is primarily due to lower compensation costs. Research and development expenses decreased by $5.3 million due to lower reduced stock-based compensation costs of $6.1 million and increased capitalization the $1.2 million of software development. General and administrative restructuring expenses also decreased by $15.8 million due to lower compensation costs, partially offset by restructuring expenses.

Other income. Other income increased by $0.7 million for the three months ended September 30, 2023, due to increases in dividend income from money market placements as a result of increasing interest rates, compared to the same period 2023, with no similar charges in 2022. 2024.

Other income increased decreased by $4.7 million for the nine months ended September 30, 2023, as compared to the same period in the prior year, primarily $1.2 million year-over-year due to an increase in dividend income from money market placement of $3.3 million, and a the gain on early extinguishment of other financing obligations of $1.4 million $1.4 million in the first quarter of 2023, without a similar gain in the same period in 2022.

Interest expense. 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.

REFINITIV

Provision for income taxes. The change in the income tax provision for the three and nine months ended September 30, 2023, first quarter of 2024 compared to the same period in 2022, 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 2: Security Solutions Segment - Financial Results

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

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

		For the Three Months Ended		For the Nine Months Ended		For the Three Months Ended	
	For the Three Months Ended March 31, 2024	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
		(dollars in thousands)					
		(dollars in thousands)					
		(dollars in thousands)					
		(dollars in thousands)					
Revenue	Revenue	$ 19,795	$ 32,440	$ 56,764	$ 90,178		
	Cost of sales (exclusive of depreciation and amortization shown separately below)	8,498	16,680	25,304	42,536		
Cost of sales (excluding depreciation and amortization)							
Depreciation and amortization	Depreciation and amortization	1,943	183	2,281	580		
Total cost of sales	Total cost of sales	10,441	16,863	27,585	43,116		
Gross profit	Gross profit	$ 9,354	$ 15,577	$ 29,179	$ 47,062		
Gross margin	*Gross margin*	*47.3 %*	*48.0 %*	*51.4 %*	*52.2 %*	*Gross margin* *46.3 %*	*52.0 %*

For the three months ended September 30, 2023 March 31, 2024, Security Solutions segment revenue decreased by $12.6 million $1.1 million, or 39.0% 5.7%, compared to the same period in 2022, 2023, primarily due to lower revenues volume on ongoing programs.

Security Solutions segment revenue for the nine months ended September 30, 2023, decreased programs, partially offset by $33.4 million, or 37.1%, compared to the same period growth in 2022, primarily due to lower revenues on ongoing programs. TSA PreCheck.

Gross profit for Security Solutions decreased by $6.2 million $1.6 million, or 39.9% 16.0%, for the third first quarter of 2023 2024, compared with the same period in 2022, 2023, primarily due to the decrease in revenue and a slight decrease in gross margin. Segment segment gross margin decreased to 47.3% 46.3% for the third first quarter of 2023 2024 from 48.0% 52.0% for the same period in 2022, 2023. The gross margin contraction in the first quarter of 2024 was primarily due to the result of the impact of the increased amortization of software development costs partially offset by favorable revenue mix.

For the nine months ended September 30, 2023, Security Solutions segment gross profit decreased by $17.9 million, or 38.0%, compared to the same period in 2022, primarily due to the decrease in revenue and a small decrease in gross margin. Segment gross margin decreased from 52.2% to 51.4%, primarily due to amortization of software development costs partially offset by favorable revenue mix within the portfolio. segment.

Table MD&A 3: Secure Networks Segment - Financial Results

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

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

		For the Three Months Ended		For the Nine Months Ended		For the Three Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
		(dollars in thousands)					
		(dollars in thousands)					
		(dollars in thousands)					
		(dollars in thousands)					
Revenue	Revenue	$ 16,391	$ 31,153	$ 47,555	$ 79,366		
Cost of sales (exclusive of depreciation and amortization shown separately below)		12,730	25,777	37,870	65,661		
Cost of sales (excluding depreciation and amortization)							
Depreciation and amortization	Depreciation and amortization	2	8	10	22		
Total cost of sales		12,732	25,785	37,880	65,683		
Cost of sales							
Gross profit	Gross profit	$ 3,659	$ 5,368	$ 9,675	$ 13,683		
Gross margin	*Gross margin*	*22.3 %*	*17.2 %*	*20.3 %*	*17.2 %* *Gross margin*	*21.3 %*	*20.8 %*

Secure Networks segment revenue for the three months ended September 30, 2023, March 31, 2024 decreased by $14.8 $4.5 million, or 47.4% 28.9%, compared to the same period in 2022, 2023, primarily due to the successful completion ramp down of certain several programs and lower revenue on ongoing major programs as expected.

For within the nine months ended September 30, 2023, Secure Networks segment revenue decreased by $31.8 million, or 40.1%, compared to the same period in 2022, primarily due to the successful completion of certain programs and lower revenue on ongoing major programs as expected.

portfolio.

Gross profit for Secure Networks decreased by $1.7 $0.9 million, or 31.8% 27.2%, for the third first quarter of 2023, 2024, compared with the same period in 2022, primarily 2023, due to the lower revenue, but partially offset by higher gross margins. improved margin across the portfolio. Segment gross margin slightly increased to 22.3% 21.3% for the third first quarter of 2023 2024 from 17.2% 20.8% for the same period in 2022, 2023 primarily due to strong program management and the successful wind-down of certain lower-margin programs.

For the nine months ended September 30, 2023, Secure Networks segment gross profit decreased by $4.0 million, or 29.3%, compared to the same period in 2022, primarily due to lower favorable program revenue partially mix, offset by the higher gross margins. Segment gross margin increased from 17.2% in 2022 to 20.3% in 2023 due to strong program management and a shift in the mix across the portfolio driven by the successful wind-down impact of lower-margin programs. 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"), Non-GAAP Cash Gross Profit, Non-GAAP 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 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 and Adjusted EBITDA Margin are 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 4: Reconciliation of Net Loss to EBITDA, Adjusted EBITDA, EBITDA Margin and Adjusted EBITDA Margin

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Amount	Margin	Amount	Margin	Amount	Margin	Amount	Margin
	(dollars in thousands)							
Net loss	$ (8,672)	(24.0 %)	$ (8,455)	(13.3 %)	$ (27,442)	(26.3) %	$ (39,230)	(23.1) %
Other income	(1,222)	(3.4 %)	(518)	(0.8 %)	(5,367)	(5.1) %	(648)	(0.4) %
Interest expense	178	0.5 %	181	0.3 %	611	0.6 %	558	0.3 %
Provision for income taxes	23	0.1 %	8	— %	68	0.1 %	133	0.1 %
Depreciation and amortization	3,215	8.9 %	1,517	2.4 %	6,336	6.0 %	4,427	2.6 %
EBITDA (Non-GAAP)	(6,478)	(17.9 %)	(7,267)	(11.4 %)	(25,794)	(24.7) %	(34,760)	(20.5) %
Stock-based compensation expense (1)	5,218	14.4 %	15,836	24.9 %	22,462	21.5 %	48,843	28.8 %
Restructuring expenses (2)	—	— %	—	— %	1,197	1.2 %	—	— %
Adjusted EBITDA (Non-GAAP)	$ (1,260)	(3.5 %)	$ 8,569	13.5 %	$ (2,135)	(2.0 %)	$ 14,083	8.3 %

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
	(dollars in thousands)			
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 adjustment 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. Stock-based compensation expense for the awarded RSUs, PSUs and stock options was $5.2 million and $18.6 million for the three and nine months ended September 30, 2023, respectively, and $16.1 million and $46.8 million for the three and nine months ended September 30, 2022, respectively. No sources of stock-based compensation from other sources was recorded for the three months ended September 30, 2023, while $3.8 million was recorded for the nine months ended September 30, 2023. Stock-based compensation (adjustment)/expense from other sources was $(0.3) million and $2.0 million for the three and nine months ended September 30, 2022, respectively. 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 out of quarter adjustments to this add back to Adjusted EBITDA.

(2) The restructuring (adjustments) expenses to EBITDA 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 5: Reconciliation of Net Loss to Non-GAAP Adjusted Net (Loss)/Income and Adjusted EPS

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

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		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
	(in thousands, except per share data)			
Net loss				
Adjustments:				
Other income				
Other income				
Other income				
Stock-based compensation expense (1)				
Restructuring (adjustments) expenses (2)				

(in thousands, except per share data)
(in thousands, except per share data)

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Amount	Earnings Per Share	Amount	Earnings Per Share	Amount	Earnings Per Share	Amount	Earnings Per Share
	(in thousands, except per share data)							
Net loss	$(8,672)	$ (0.12)	$(8,455)	$ (0.13)	$(27,442)	$ (0.40)	$(39,230)	$ (0.58)
Adjustments:								
Other income	(1,222)	(0.02)	(518)	(0.01)	(5,367)	(0.08)	(648)	(0.01)
Stock-based compensation expense (1)	5,218	0.07	15,836	0.24	22,462	0.33	48,843	0.72
Restructuring expenses (2)	—	—	—	—	1,197	0.02	—	—
Adjusted net (loss)/income, Adjusted EPS (Non-GAAP)	$(4,676)	$ (0.07)	$ 6,863	$ 0.10	$ (9,150)	$ (0.13)	$ 8,965	$ 0.13

Adjusted net loss (Non-GAAP measure)									
Weighted-average shares of common stock outstanding, basic	Weighted-average shares of common stock outstanding, basic	69,571		67,493		69,062		67,641	

(1) The stock-based compensation adjustment expense to net (loss)/income 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. Stock-based compensation expense for the awarded RSUs, PSUs and stock options was $5.2 million and $18.6 million for the three and nine months ended September 30, 2023, respectively, and $16.1 million and $46.8 million for the three and nine months ended September 30, 2022, respectively. No sources of stock-based compensation from other sources was recorded for the three months ended September 30, 2023, while $3.8 million was recorded for the nine months ended September 30, 2023. Stock-based compensation (adjustment)/expense from other sources was $(0.3) million and $2.0 million for the three and nine months ended September 30, 2022, respectively. 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 out of quarter adjustments to this add back to Adjusted Net (Loss)/Income.

(2) The restructuring (adjustments) expenses to net loss 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.

Non-GAAP Cash Gross Profit and Non-GAAP Cash Gross Margin

Non-GAAP Cash Gross Profit and Non-GAAP 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 Non-GAAP Cash Gross Profit as gross profit, adjusted plus noncash charges for stock-based compensation expense, and depreciation and amortization, as well as non-recurring items (such as restructuring expenses) charged under cost of sales. We define Non-GAAP Cash Gross Margin as Non-GAAP Cash Gross Profit as a percentage of total revenue.

Non-GAAP Cash Gross Profit and Non-GAAP 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 6: Reconciliation of Gross Profit to Non-GAAP Gross Profit; Gross Margin to Non-GAAP Gross Margin

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

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, 20	
	Amount	Margin	Amount	Ma
	(dollars in thousands)			
	(dollars in thousands)			
	(dollars in thousands)			
Gross profit	$ 10,961	37.0% 37.0%	$ 13,482	38.3% 38.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Amount	Margin	Amount	Margin	Amount	Margin	Amount	Margin
	(dollars in thousands)							
Gross profit	$ 13,013	36.0 %	$ 20,945	32.9 %	$ 38,854	37.2 %	$ 60,745	35.8 %
Adjustments:								

Gross profit

Adjustments:

Stock-based compensation expense — cost of sales	Stock-based compensation expense — cost of sales	73	0.2 %	929	1.5 %	624	0.6 %	2,798	1.6 %						
Stock-based compensation expense — cost of sales															
Stock-based compensation expense — cost of sales											257		0.9%	326	0.9%
Depreciation and amortization — cost of sales	Depreciation and amortization — cost of sales	1,945	5.3 %	191	0.3 %	2,291	2.2 %	602	0.4 %	Depreciation and amortization — cost of sales	1,278	4.3%	4.3%	176	0.5% 0.5
Non-GAAP gross profit		$15,031	41.5 %	$22,065	34.7 %	$41,769	40.0 %	$64,145	37.8 %						
Cash gross profit (Non-GAAP)										Cash gross profit (Non-GAAP)	$12,496		42.2%	$13,984	39.7 %

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 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. liquidity, and to evaluate the performance of certain management personnel when determining incentive compensation.

Table MD&A 7: Free Cash Flow

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

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

	For the Three Months Ended				For the Three Months Ended
	March 31, 2024			March 31, 2024	March 31, 2023
	For the Three Months Ended		For the Nine Months Ended		
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	
		(*in thousands*)			
Net cash provided by/(used in) operating activities	$ 846	$ 11,986	$ (3,367)	$ 20,118	
	(*in thousands*)				
	(*in thousands*)				
	(*in thousands*)				
Net cash used in operating activities					
Adjustments:	Adjustments:				
Purchases of property and equipment					
Purchases of property and equipment					

Purchases of property and equipment	Purchases of property and equipment	(80)	(174)	(350)	(815)
Capitalized software development costs	Capitalized software development costs	(3,762)	(3,446)	(11,960)	(8,580)
Free cash flow (Non-GAAP)	Free cash flow (Non-GAAP)	$ (2,996)	$ 8,366	$ (15,677)	$ 10,723

Each of EBITDA, Adjusted EBITDA, EBITDA Margin, Adjusted EBITDA Margin, Adjusted Net (Loss)/Income, Adjusted EPS, Non-GAAP Cash Gross Profit, Non-GAAP 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, Non-GAAP Cash Gross Profit, Non-GAAP 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, Non-GAAP Cash Gross Profit, Non-GAAP 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, Non-GAAP Cash Gross Profit, Non-GAAP 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 September 30, 2023 March 31, 2024, we had cash and cash equivalents of $100.0 $93.9 million and our working capital was $106.6 $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 8: Net Change in Cash, Cash Equivalents, and Restricted Cash

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

	For the Three Months Ended		
	For the Three Months Ended		
	For the Three Months Ended		
March 31, 2024		March 31, 2024	March 31, 2023
	For the Nine Months Ended		
	September 30, 2023	September 30, 2022	

		(in thousands)	
Net cash (used in)/provided by operating activities		$ (3,367)	$ 20,118
		(in thousands)	
		(in thousands)	
		(in thousands)	
Net cash used in operating activities			
Net cash used in investing activities	Net cash used in investing activities	(12,310)	(9,395)
Net cash used in financing activities	Net cash used in financing activities	(3,673)	(11,821)
Net change in cash, cash equivalents, and restricted cash	Net change in cash, cash equivalents, and restricted cash	$ (19,350)	$ (1,098)

Net cash used in operating activities for the nine three months ended September 30, 2023 March 31, 2024 was $0.4 million, was $3.4 million, a decrease in cash inflow an increase of $23.5 $0.3 million in cash outflow, compared to the same period in 2022. 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 (i.e. stock-based compensation costs lower by $26.4 million) that do not impact cash flows from operating activities.

Net cash used in investing activities for the nine three months ended September 30, 2023, increased March 31, 2024 slightly decreased by $2.9 $0.4 million, compared to the same period of the prior year, primarily due to the higher investment decreases in software development costs of $12.0 million capital expenditures in 2024 and $8.6 million a $0.6 million payment for the nine months ended September 30, 2023 and 2022, respectively, DFT holdback in February 2023, with no similar payment in 2024. This was partially offset by the slight decrease purchase of an investment of $0.9 million in purchases of property and equipment. 2024, with no similar transaction in 2023.

Net cash used in financing activities for the nine three months ended September 30, 2023, March 31, 2024 decreased by $8.1 $1.3 million, compared to the same period in 2022. 2023. This is primarily attributable to the decrease decreases in payment of tax withholding related to net share settlement of equity awards of $1.7 $0.4 million for in the nine months ended September 30, 2023, first quarter of 2024 compared with $3.1 $1.5 million in the same period of 2022, and the cash outflow on repurchases of common stock of $7.6 million in 2022 compared with $0.1 million in 2023 under the share repurchase program (see Note 13 – Share Repurchases). This is partially offset by the payment of the DFT holdback amount of $0.6 million in February 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 2022 2023 Form 10-K, as filed with the SEC on March 16, 2023 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 nine three months ended September 30, 2023 March 31, 2024.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

None. 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 September 30, 2023 March 31, 2024.

Changes in Internal Control over Financial Reporting

There was were no change changes in the Company's internal control over financial reporting during the quarter ended September 30, 2023 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 18 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, 2022 December 31, 2023, the risk factors that which may materially affect our business, financial conditions or results of operations. Except as set forth below, there There have been no material changes from the risk factors previously disclosed. You should carefully consider the risk factors set forth below and in the Annual Report on Form 10-K, and other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing the Company. In addition, risks and uncertainties not currently known to us or that we currently do not believe are material could also materially and adversely affect our business, financial condition or results of operations.

An impairment charge of goodwill or other intangibles could have a material adverse impact on our results of operations.

Goodwill was $17.9 million as of September 30, 2023, and December 31, 2022, of which $3.0 million is allocated to the Security Solutions segment and $14.9 million is allocated to the Secure Networks segment. Intangible assets were $39.0 million and $37.4 million as of September 30, 2023, and December 31, 2022, respectively. Under GAAP, we are required to test the carrying value of goodwill and intangible assets at least annually or sooner if events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including a sustained decline in a reporting unit's fair value, legal and regulatory factors, operating performance indicators, competition and other factors. GAAP requires us to assign and then test goodwill at the reporting unit level.

If, over a sustained period of time, we experience a decrease in our stock price and market capitalization, which may serve as an estimate of the fair value of our reporting unit, an indication of impairment may have occurred. If the fair value of our reporting unit is less than its net book value, we may be required to record goodwill impairment charges in the future. In addition, if the revenue and cash flows generated from any of our other intangible assets is not sufficient to support its net book value, we may be required to record an impairment charge.

During the first three quarters of 2023, the price per share of our common stock as traded on the NASDAQ Global Market declined below net book value per share. If our stock price drops and remains below net book value per share or other negative business factors described above exist, we may be required to perform a goodwill impairment analysis before the end of the year. That analysis or the annual analysis may result in an impairment charge that could be significant and could have a material adverse impact on our results of operations for the period in which the charge is taken.

A decline in the federal budget, changes in spending or budgetary priorities of the U.S. government, a prolonged U.S. government shutdown or delays in contract awards may significantly and adversely affect our future revenues, cash flow and financial results.

In recent years, U.S. government appropriations have been affected by larger U.S. government budgetary issues and related legislation. As a result, DoD funding levels have fluctuated and have been difficult to predict. Future spending levels are subject to a wide range of factors, including Congressional action. In addition, over the last few years, the U.S. government has been unable to complete its budget process before the end of its fiscal year, resulting in both a government shutdown and continuing resolutions to extend sufficient funds only for U.S. government agencies to continue operating. Not long ago, the federal government was shut down due to a lack of funding for over one month between late 2018 and early 2019, and currently, the federal government is funded under a continuing resolution until November 17, 2023. Moreover, the national debt has recently threatened to reach the statutory debt ceiling in 2023, and such an event in future years could result in the U.S. government defaulting on its debts.

As a result, government spending levels are difficult to predict beyond the near term due to numerous factors, including the external threat environment, future government priorities and the state of government finances. Significant changes in government spending or changes in U.S. government priorities, policies and requirements could have a material adverse effect on our results of operations, financial condition or liquidity.

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

(a) None.

(b) None.

(c) 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 September 30, 2023 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
10.1	*	Annual Incentive Plan, as amended (Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K on September 20, 2023)
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

*	constitutes a management contract or compensatory plan or arrangement
+	filed Filed herewith
^	furnished 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	November 9, 2023 May 10, 2024
By: John B. Wood	
Chief Executive Officer (Principal Executive Officer)	
/s/ Mark Bendza	November 9, 2023 May 10, 2024
By: Mark Bendza	
Chief Financial Officer (Principal Financial Officer)	
/s/ Victoria Harding	November 9, 2023 May 10, 2024
By: Victoria Harding	
Controller and Chief Accounting Officer (Principal Accounting Officer)	

Exhibit 31.1

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: November 9, 2023 May 10, 2024

/s/ John B. Wood

John B. Wood

Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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: November 9, 2023 May 10, 2024

/s/ Mark Bendza

Mark Bendza

Chief Financial Officer (Principal Financial Officer)

Exhibit 32

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 September 30, 2023March 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: November 9, 2023 May 10, 2024

/s/ John B. Wood

John B. Wood

Chief Executive Officer (Principal Executive Officer)

Date: November 9, 2023 May 10, 2024

/s/ Mark Bendza

Mark Bendza

Chief Financial Officer (Principal Financial Officer)

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.