

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

FORM 8-K

CURRENT REPORT

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

May 17, 2021

Date of Report (Date of earliest event reported)

TELOS CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation)

001-08443

(Commission File Number)

52-0880974

(IRS Employer Identification No.)

19886 Ashburn Road,  
Ashburn, Virginia

(Address of principal executive offices)

20147-2358

(Zip Code)

(703) 724-3800

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address, and former fiscal year, if changed since last report.)

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

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

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**Item 2.02. Results of Operations and Financial Condition.**

On Monday, May 17, 2021, Telos Corporation (the “Company”) issued a press release reporting certain financial results of the Company for the three months ended March 31, 2021 and 2020. A copy of the press release is attached as Exhibit 99.1 to this Current Report on Form 8-K and incorporated herein by reference.

The Company’s press release contains non-GAAP financial measures. Pursuant to the requirements of Regulation G, the Company has provided reconciliations within the press release of the non-GAAP financial measures to the most directly comparable GAAP financial measures. Disclosure regarding definitions of these measures used by the Company and why the Company’s management believes the measures provide useful information to investors is also included in the press release.

The Company will conduct a conference call to discuss its financial results on Monday, May 17, 2021, at 4:30 p.m., Eastern Time.

The information in this Current Report on Form 8-K, including Exhibit 99.1 attached hereto, is furnished pursuant to Item 2.02 of this Current Report on Form 8-K. Such information shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Statements contained in this Current Report on Form 8-K contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. In this context, forward-looking statements may address matters such as the Company’s expected future business and financial performance, and often contain words such as “guidance,” “prospects,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “should,” or “will.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Particular uncertainties that could adversely or positively affect the Company’s future results include: the seasonality of U.S. government purchasing; the Company’s dependence on the U.S. government for a significant portion of its sales and related negative effects associated with a change in U.S. government spending; the Company’s dependence on various third parties and their infrastructure when providing its services and solutions; statements regarding the Company’s U.S. government contracts and their various bidding processes and sales and implementation cycles; statements regarding the Company’s compliance with various privacy regulations; risks associated with the growth of the Company’s business in new commercial markets and other channels; real or perceived errors, failures, defects or bugs in the Company’s solutions; the effect of COVID-19 on the Company’s future operations, financial condition and its ability to execute on business or contract opportunities, including the TSA PreCheck™ enrollment program; the fluctuation of the Company’s quarterly results; conflicts of interests among the Company’s Board of Directors, executive officers and significant stockholders; future sales of the Company’s common stock on the public market; provisions in the Company’s organizational documents and agreements with third parties that could delay or prevent a change of control; and other risks and uncertainties disclosed in the Company’s filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended December 31, 2020. These uncertainties may cause the Company’s actual future results to be materially different than those expressed in the Company’s forward-looking statements. The Company does not undertake to update its forward-looking statements.

**Item 9.01. Financial Statements and Exhibits**

[99.1](#) Press Release, dated May 17, 2021

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## SIGNATURES

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

Date: May 17, 2021

**TELOS CORPORATION**

By: /s/ Michele Nakazawa \_\_\_\_\_

Michele Nakazawa  
Chief Financial Officer

## Telos Corporation Reports First Quarter 2021 Results

- Revenue Increases 43% Year-Over-Year to \$55.8 Million
- Gross Profit Increases to \$14.4 Million
- Company Reaffirms Full Year 2021 Guidance

**Ashburn, Va. – May 17, 2021** – Telos® Corporation (NASDAQ: TLS), a leading provider of cyber, cloud and enterprise security solutions for the world’s most security-conscious organizations, today announced financial results for the first quarter 2021.

“I am extremely proud of our team and execution this quarter – delivering 43% year-over-year revenue growth and continuing to win meaningful contracts and exceeding our prior guidance, giving us even greater confidence for the full year,” said John B. Wood, CEO and chairman of Telos. “We surpassed our expectations on both the top and bottom line as we were able to execute on our customers’ request to accelerate deliveries expected in the second quarter into the first quarter. Our exceptional results continue to be driven by strong demand for our advanced security solutions, recent long-term contract wins and our growing sales channel. We are very well positioned to continue to execute as a leading, world class organization in the cyber, cloud and enterprise security market.”

### First Quarter 2021 Financial Highlights

- **Revenue:** Total revenue increased 43% to \$55.8 million, compared to \$39.0 million in the first quarter of 2020.
- **Gross Profit:** Gross profit increased to \$14.4 million, compared to \$12.3 million in the first quarter of 2020.
- **GAAP Net Income (Loss):** Net loss was \$(14.8) million, compared to \$(2.2) million in the first quarter of 2020.
- **Adjusted Net Income (Loss):** Adjusted Net Loss was \$(0.05) million compared to \$(2.3) million in the first quarter of 2020.
- **Enterprise EBITDA:** Enterprise EBITDA was \$(12.1) million, compared to \$1.8 million in the first quarter of 2020.
- **Adjusted EBITDA:** Adjusted EBITDA was \$1.5 million, compared to \$1.8 million in the first quarter of 2020.
- **GAAP Net loss per share attributable to Telos Corporation, diluted:** \$(0.23).
- **Adjusted EPS:** Adjusted EPS was \$(0.00) per share, compared to \$(0.06) per share in the first quarter of 2020.
- **Weighted-average shares of common stock outstanding:** 64.6 million.

Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss) and Adjusted EPS are non-GAAP financial measures. Refer to “Non-GAAP Financial Measures” below.

### Selected First Quarter and Recent 2021 Business Highlights:

- Microsoft expanded their Xacta® deployment to support all Microsoft Azure U.S. Government cloud instances, including Azure Government, Azure Government Secret and Azure Government Top Secret.
- Telos continued building its leadership team, with industry veteran Troy M. Bertram joining as a vice president to lead global enterprise sales teams across state and local governments, education, regulated industries and commercial business verticals.
- The City of Philadelphia and the City of Charlotte contracted with Telos to provide Transportation Security Administration (TSA)-approved Designated Aviation Channeling (DAC) services for processing worker background checks at Philadelphia International Airport (PHL) and Charlotte Douglas International Airport (CLT).
- Zscaler selected Telos’ enterprise cyber risk management framework Xacta, for management and automation of FedRAMP and Department of Defense (DoD) authorizations.
- Telos announced a strategic partnership with Johnson Controls, to integrate the Telos Ghost® solution into Johnson Controls OpenBlue Cloudvue Gateway.
- Telos launched Xacta.io 1.5, the latest version of its cyber risk and compliance analytics platform, offering full vulnerability and asset management support for AWS cloud resources.
- Telos announced the release of its cyber supply chain risk management (SCRM) offering, Xacta SCRM, to help organizations understand the security risks and compliance gaps within their supply chain, allow them to prioritize and manage remediation efforts, verify due-care via a robust body of evidence and automated reporting, and continuously manage supply chain risk over time.
- Telos announced that the Social Security Administration (SSA) has exercised the first option year on the contract, including options, for its Xacta solution.

“On April 6, we completed a follow-on offering of 9.1 million shares of common stock, resulting in net proceeds to Telos of \$64.5 million, further strengthening our balance sheet and allowing us to continue to invest in our salesforce and growth opportunities,” said Michele Nakazawa, CFO, Telos.

### Financial Outlook

Based on information available as of May 17, 2021, the Company is reaffirming the following guidance:

#### Full year 2021

- Revenue in the range of \$283 million to \$295 million, an improvement of 57% to 64% compared to 2020.
- Adjusted EBITDA in the range of \$33 million to \$36 million, an improvement of 190% to 216% compared to 2020.

This guidance consists of forward-looking statements and actual results may differ materially. Refer to the Forward-Looking Statements section below for information on the factors that could cause the Company’s actual results to differ materially from

these forward-looking statements. Adjusted EBITDA is a non-GAAP financial measure. The Company has not provided the most directly comparable GAAP measure to this forward-looking non-GAAP financial measure because certain items are out of the Company's control or cannot be reasonably predicted. Accordingly, a reconciliation for forward-looking Adjusted EBITDA is not available without unreasonable effort.

### **Conference Call Information**

Telos will host a conference call and live webcast to discuss its fourth quarter and full year 2020 financial results at 4:30 p.m. Eastern Time today, May 17, 2021. To access the conference call, dial (833) 540-1172 for the U.S. or Canada, or (409) 217-8402 for international calls and provide conference ID 5159718. The webcast will be available live on the Investors section of the Company's website at [www.investors.telos.com](http://www.investors.telos.com). In addition, an archived webcast will be available approximately two hours after the conclusion of the live event.

### **Forward-Looking Statements**

This press release contains forward-looking statements which are made under the safe harbor provisions of the federal securities laws. These statements are based on the Company's management's current beliefs, expectations and assumptions about future events, conditions and results and on information currently available to them. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The Company believes that these risks and uncertainties include, but are not limited to, those described under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth from time to time in the Company's filings and reports with the U.S. Securities and Exchange Commission (SEC), including their Annual Report on Form 10-K for the year ended December 31, 2020 and their Report on Form 10-Q for the quarter ended March 31, 2021, as well as future filings and reports by the Company, copies of which are available at [www.investors.telos.com](http://www.investors.telos.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov).

Although the Company bases these forward-looking statements on assumptions that they believe are reasonable when made, they caution the reader that forward-looking statements are not guarantees of future performance and that the Company's actual results of operations, financial condition and liquidity, and industry developments may differ materially from statements made in or suggested by the forward-looking statements contained in this release. Given these risks, uncertainties and other factors, many of which are beyond their control, the Company cautions the reader not to place undue reliance on these forward-looking statements. Any forward-looking statement speaks only as of the date of such statement and, except as required by law, the Company undertakes no obligation to update any forward-looking statement publicly, or to revise any forward-looking statement to reflect events or developments occurring after the date of the statement, even if new information becomes available in the future. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data.

### **Non-GAAP Financial Measures**

In addition to its results determined in accordance with GAAP, the Company believes the non-GAAP financial measures of Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss) and Adjusted EPS are useful in evaluating its operating performance. The Company believes that this non-GAAP financial information, when taken collectively with the Company's GAAP results, may be helpful to readers of its financial statements because that information provides consistency and comparability with past financial performance and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their GAAP results. The non-GAAP financial information is presented for supplemental informational purposes only, should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. A reconciliation is provided below for each of these non-GAAP financial measures to the most directly comparable financial measure stated in accordance with GAAP.

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

Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss) 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, an alternative to net income (loss) or earnings per share as determined by GAAP. The Company defines Enterprise EBITDA as net income (loss) attributable to Telos Corporation, adjusted for net income attributable to non-controlling interest, non-operating (expense) income, interest expense, (benefit) provision for income taxes, and depreciation and amortization. The Company defines Adjusted EBITDA as Enterprise EBITDA, adjusted for stock-based compensation expense, the gain realized on redemption of the public preferred stock upon the closing of the initial public offering, the losses realized on the extinguishment of senior term loan and subordinated debt upon the closing of the initial public offering, bonuses paid as a result of the closing of the initial public offering, and other expenses related to the initial public offering. The Company defines Adjusted Net Income (Loss) as net income (loss) attributable to Telos Corporation, adjusted for non-operating expense (income) and stock-based compensation expense. The Company defines Adjusted EPS as Adjusted Net Income (Loss) divided by the weighted-average number of common shares outstanding for the period.

Each of Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted EPS has limitations as an analytical tool, and the reader should not consider it in isolation, or as a substitute for analysis of the Company's results as reported under GAAP. Among other limitations, each of Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted EPS does not reflect the Company's cash expenditures, or future requirements for capital expenditures, or contractual commitments, does not reflect the impact of certain cash charges resulting from matters the Company considers not to be indicative of its ongoing operations, and does not reflect income tax expense or benefit. Other companies in the Company's industry may calculate Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted EPS differently than the Company does, which limits its usefulness as a comparative measure. Because of these limitations, each of Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted EPS should not be considered as a replacement for net income (loss) or earnings per share, as determined by GAAP, or as a measure of the Company's profitability. The Company compensates for these limitations by relying primarily on its GAAP results and using non-GAAP measures only for supplemental purposes.

## **About Telos Corporation**

Telos Corporation (NASDAQ: TLS) empowers and protects the world's most security-conscious organizations with solutions for continuous security assurance of individuals, systems, and information. Telos' offerings include cybersecurity solutions for IT risk management and information security; cloud security solutions to protect cloud-based assets and enable continuous compliance with industry and government security standards; and enterprise security solutions for identity and access management, secure mobility, organizational messaging, and network management and defense. The company serves military, intelligence and civilian agencies of the federal government, allied nations and commercial organizations around the world.

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### **Investors:**

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**TELOS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(amounts in thousands)

	Three Months Ended March 31,	
	2021	2020
Revenue		
Services	\$ 52,058	\$ 34,558
Products	3,699	4,422
	<u>55,757</u>	<u>38,980</u>
Costs and expenses		
Cost of sales – Services (including \$737 stock-based compensation expense)	39,602	24,865
Cost of sales – Products	1,798	1,873
	<u>41,400</u>	<u>26,738</u>
Selling, general and administrative expenses		
Sales and marketing (including \$1,547 stock-based compensation expense)	3,826	1,592
Research and development (including \$461 stock-based compensation expense)	4,061	3,657
General and administrative (including \$10,925 stock-based compensation expense)	19,964	6,590
	<u>27,851</u>	<u>11,839</u>
Operating (loss) income	(13,494)	403
Other income (expenses)		
Other (expense) income	(1,054)	8
Interest expense	(196)	(2,017)
Loss before income taxes	(14,744)	(1,606)
(Provision for) benefit from income taxes	(34)	146
Net loss	(14,778)	(1,460)
Less: Net income attributable to non-controlling interest	----	(784)
Net loss attributable to Telos Corporation	\$ (14,778)	\$ (2,244)
Net loss per share attributable to Telos Corporation, basic	\$ (0.23)	\$ (0.06)
Net loss per share attributable to Telos Corporation, diluted	\$ (0.23)	\$ (0.06)
Weighted-average shares of common stock outstanding, basic	64,625	38,073
Weighted-average shares of common stock outstanding, diluted	<u>64,625</u>	<u>38,073</u>

**TELOS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(amounts in thousands)

	March 31, 2021	December 31, 2020
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 93,761	\$ 106,045
Accounts receivable, net of reserve of \$313 and \$308, respectively	52,563	30,913
Inventories, net of obsolescence reserve of \$852 and \$851, respectively	1,887	3,311
Prepaid expenses	3,985	3,059
Deferred program expenses	192	5
Other current assets	778	781
Total current assets	<u>153,166</u>	<u>144,114</u>
Property and equipment, including capitalized software development costs, net of accumulated depreciation of \$37,948 and \$36,891, respectively	23,863	22,397
Operating lease right-of-use assets	1,305	1,464
Goodwill	14,916	14,916
Other assets	990	926
Total assets	<u>\$ 194,240</u>	<u>\$ 183,817</u>

**TELOS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(amounts in thousands)

	March 31, 2021	December 31, 2020
	(Unaudited)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 31,765	\$ 20,899
Accrued compensation and benefits	7,261	8,474
Contract liabilities	6,751	5,654
Finance lease obligations – short-term	1,368	1,339

Operating lease obligations – short-term	660	677
Other current liabilities	3,188	1,903
Total current liabilities	50,993	38,946
Finance lease obligations – long-term	13,951	14,301
Operating lease liabilities – long-term	788	941
Deferred income taxes	661	652
Other liabilities	1,883	1,873
Total liabilities	68,276	56,713
Commitments and contingencies		
Stockholders' equity		
Common stock	103	103
Additional paid-in capital	284,470	270,800
Accumulated other comprehensive income	12	44
Accumulated deficit	(158,621)	(143,843)
Total stockholders' equity	125,964	127,104
Total liabilities and stockholders' equity	\$ 194,240	\$ 183,817

**TELOS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(amounts in thousands)

	Three Months Ended March	
	31,	
	2021	2020
Operating activities:		
Net loss	\$ (14,778)	\$ (1,460)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Stock-based compensation	13,670	----
Dividends from preferred stock recorded as interest expense	----	956
Depreciation and amortization	1,360	1,389
Amortization of debt issuance costs	----	235
Deferred income tax provision	9	10
Other noncash items	5	(1)
Changes in other operating assets and liabilities	(9,584)	614
Cash (used in) provided by operating activities	(9,318)	1,743
Investing activities:		
Capitalized software development costs	(2,165)	(1,507)
Purchases of property and equipment	(480)	(210)
Cash used in investing activities	(2,645)	(1,717)
Financing activities:		
Payments under finance lease obligations	(321)	(294)
Amendment fee paid to lender	----	(100)
Cash used in financing activities	(321)	(394)
Decrease in cash and cash equivalents	(12,284)	(368)
Cash and cash equivalents, beginning of period	106,045	6,751
Cash and cash equivalents, end of period	\$ 93,761	\$ 6,383
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 196	\$ 739

Enterprise EBITDA and Adjusted EBITDA (Unaudited)	Three Months Ended March	
	31,	
	2021	2020
Net (loss) income attributable to Telos Corporation	\$ (14,778)	\$ (2,244)
Adjustments:		
Net income attributable to non-controlling interest	----	784
Non-operating expense (income)	1,054	(8)
Interest expense	196	2,017
Provision for (benefit from) income taxes	34	(146)
Depreciation and amortization	1,360	1,389
Enterprise EBITDA	(12,134)	1,792
Stock-based compensation expense	13,670	----
Adjusted EBITDA	\$ 1,536	\$ 1,792

Adjusted Net Loss and Adjusted EPS (Unaudited)	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
	Net Loss Attributable to Telos Corporation (in thousands)	Diluted Earnings Per Share	Net Loss Attributable to Telos Corporation (in thousands)	Diluted Earnings Per Share
Reported GAAP measure	\$ (14,778)	\$ (0.23)	\$ (2,244)	\$ (0.06)
Adjustments:				
Non-operating expense (income)	1,054	0.02	(8)	----
Stock-based compensation expense	13,670	0.21	----	----
Adjusted non-GAAP measure	\$ (54)	\$ 0.00	\$ (2,252)	\$ (0.06)
Weighted-average shares of common stock outstanding	64,625		38,073	