



# Second Quarter 2023 Earnings

August 9, 2023



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## FINANCIAL PERFORMANCE SUMMARY

# DELIVERED \$32.9M OF REVENUE AND 37.6% GROSS MARGIN

### 2Q 2023 Summary

- Delivered \$32.9M of revenue vs. guidance of \$28M to \$32M
  - Security Solutions (“SS”) down 44% YoY (vs. guidance of down high-40% to mid-50%); Down 13% sequentially; Results exceeded guidance primarily due to the sale of a large perpetual software license
  - Secure Networks (“SN”) down 37% YoY (vs. guidance of down mid-30% to low-40%); Up 2% sequentially; Results in line with guidance
- Delivered 37.6% gross margin vs. guidance of 28.0% to 31.5%
  - Sale of a large perpetual software license in SS was a major driver
  - Strong program management and better utilization of billable labor
  - Revenue mix slightly more favorable (weighted toward SS) than forecasted
- Below the Line (BTL) expenses lower than projections
  - Cash BTL expenses (i.e. adjusted for capitalized software, stock-based compensation, restructuring costs, and D&A) lower than projections primarily due to ongoing cost management actions
  - Capitalization of R&D higher than projected
- Delivered breakeven Adjusted EBITDA, above high end of guidance range, due to better than forecasted gross profit and lower BTL expenses

	2Q 2023 Actual	2Q 2023 Guidance
Revenue	\$32.9M	\$28M to \$32M
Revenue Growth	-41% YoY -7% Sequential	-50% to -43% YoY -21% to -9% Sequential
Gross Profit	\$12.4M 37.6% Margin +4 bps YoY	28.0% to 31.5% Margin -951 to -601 bps YoY
Adjusted EBITDA <sup>(1)</sup>	(\$0.0M) -0.0% Margin	(\$8.0M) to (\$6.0M) -28.6% to -18.8% Margin
Adjusted EPS <sup>(1)</sup>	(\$0.03)	

**Exceeded High End of Guidance Range on Key Financial Metrics**

**Notes:**

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



# RECENT BUSINESS HIGHLIGHTS

## NOTABLE EVENTS

- Key Xacta® renewals include the **Central Intelligence Agency, U.S. Department of the Treasury, U.S. Department of the Interior, Office of Naval Intelligence, National Archives, U.S. Environmental Protection Agency, Oracle and SAP** as well as new orders from **NASA**, the **Virginia Department of Education** and the **National Endowment for the Arts**
- AMHS received **two new awards** – one from a foreign government customer and one from a federal government customer – and also secured several contract renewals, including with the **Drug Enforcement Administration and U.S. Department of the Treasury**
- Received a new contract award for Telos ACA software and services from a **federal government customer**
- Achieved key operational milestones on the TSA PreCheck® program:
  - Official Telos PreCheck website is operational (<https://tsaprecheckbyteloos.tsa.dhs.gov/>)
  - Seven enrollment sites are now open across four states



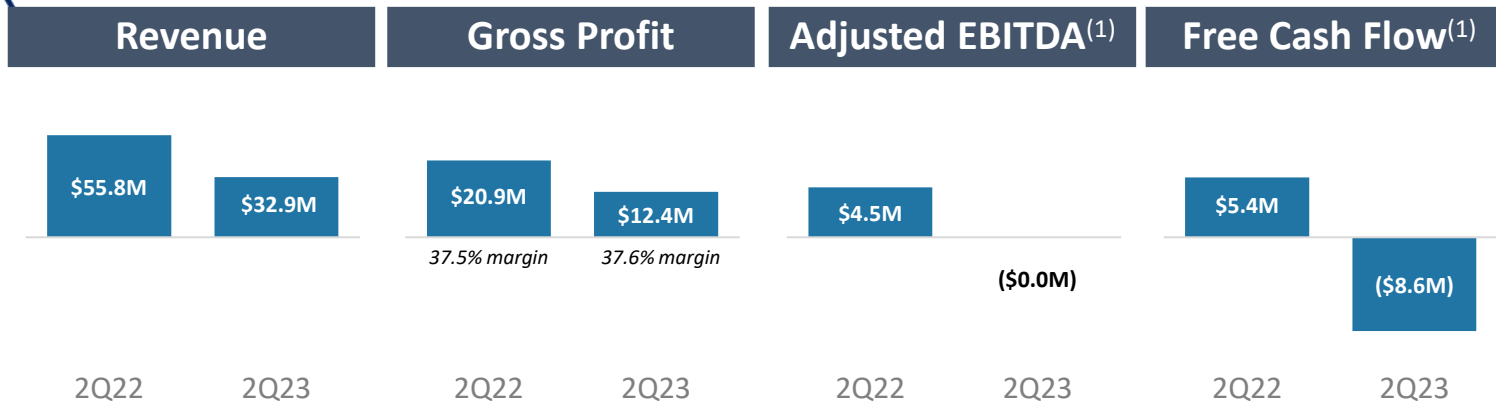
Continued Customer Success with Telos Solutions in Priority Federal Government End Markets



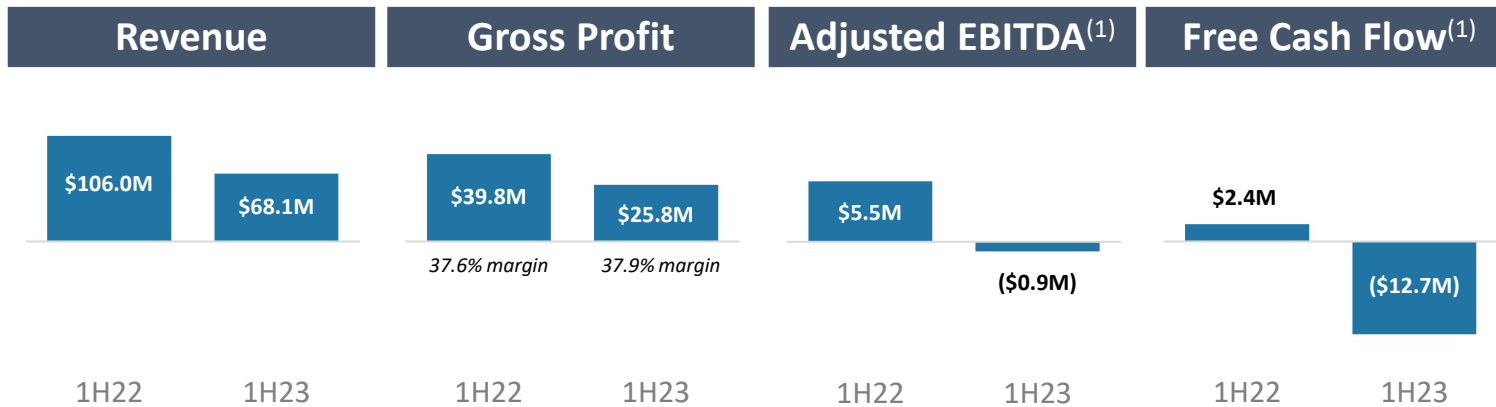
# FINANCIAL PERFORMANCE SUMMARY

## 2Q AND 1H 2023 YEAR-OVER-YEAR COMPARISON

2Q YoY



1H YoY



- Revenue:** Security Solutions down 44% to \$17.2M primarily due to lower revenues on two ongoing programs. Secure Networks down 37% to \$15.7M primarily due to the successful completion of large programs.
- Gross Profit:** Down \$8.5M primarily due to lower revenues. SS gross margins up 222 bps to 56% primarily due to the sale of a large perpetual software license and lower indirect costs. SN gross margins down 13 bps to 18%
- Adjusted EBITDA:** Down \$4.5M to (\$0.0M); Lower gross profit partially offset by cost actions.
- Free Cash Flow:** Lower cash flow from operations and higher CAPEX/capitalized R&D. As expected, FCF was impacted by timing of discrete vendor payments in 2Q. Ended the quarter with \$103M of cash, no debt, and an undrawn \$30M revolving credit facility.

Ongoing Focus on Expense Management Buffering Adjusted EBITDA in 2Q and 1H

**Notes:**

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



# 2023 OUTLOOK

## 3Q 2023

	Guidance	
	3Q 2023 Low End	3Q 2023 High End
Revenue	\$30M -53% YoY	\$34M -47% YoY
Adjusted EBITDA <sup>(1)</sup>	(\$8M)	(\$6M)

### Assumptions

- Revenue range primarily driven by risks and opportunities on preexisting programs
- SS revenue assumptions:
  - Down mid-50% to mid-40% YoY (down high teens to flat sequentially)
    - Primarily driven by Telos ID and Secure Communications YoY
- SN revenue assumptions:
  - Down low-50% to mid-40% YoY (down LSD to up MSD sequentially)
    - Primarily driven by the successful completion of large programs that generated significant revenue in 2022
- Gross margin down ~250 bps to up ~125 bps YoY (down ~700 bps to ~350 bps sequentially, primarily due to the sale of a large perpetual software license sale in 2Q)
  - Less favorable mix between SS and SN YoY
    - SS to contribute approximately 48% to 51% (vs. 51% in 2022)
- Cash BTL expenses (i.e. adjusted for capitalized software, stock based compensation, restructuring costs, and D&A) approximately \$2.0M higher excluding management reserve due to 2H 2023 growth investments in business development, information assurance, Telos ACA, and TSA PreCheck, and approximately \$3.5M to \$4.0M higher including management reserve

### 3Q Revenues Comparable to 2Q; Growth Investments in 2H

**Notes:**

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





## 2023 OUTLOOK

# UPDATED GUIDANCE vs. PRIOR GUIDANCE

	Updated Guidance	
	FY 2023 Low End	FY 2023 High End
Revenue	\$122M -44% YoY	\$137M -37% YoY
Adjusted EBITDA <sup>(1)</sup>	(\$19M)	(\$14M)

	Prior Guidance	
	FY 2023 Low End	FY 2023 High End
Revenue	\$115M -47% YoY	\$140M -35% YoY
Adjusted EBITDA <sup>(1)</sup>	(\$27M)	(\$17M)

## Updated Guidance Assumptions

- SS revenue assumptions:
  - Down mid-40% to high-30% YoY
    - Expected lower revenues on two ongoing programs (~\$50M) and a program loss (~\$10M), partially offset by initial ramp of TSA PreCheck and new contracts within Secure Communications (already won)
    - Range primarily driven by risks and opportunities on preexisting programs
- SN revenue assumptions:
  - Down low-40% to mid-30% YoY
    - Successful completion of large programs in 2022 and 2023 (~\$45M), and expected lower revenues on some ongoing programs (~\$5M)
    - Range primarily driven by supply chain risks and opportunities
- Assumes any new business wins for the remainder of the year will primarily convert to revenue beginning in 2024
- Total company 1H revenues represent approximately 50% - 55% of full-year revenue (vs. 49% in 2022)
- Gross margin down ~150 bps to ~flat YoY; SS revenues weighted low-to-mid-50% of total (vs. 56% in 2022)
- Cash BTL expenses (i.e. adjusted for capitalized software, stock based compensation, restructuring costs, and D&A) approximately \$1.5M lower excluding management reserve and approximately \$2.0M to \$3.5M higher including management reserve
- Notable updates from prior guidance: New AMHS and ACA business wins, lower revenues on preexisting programs in Telos ID, higher revenues on preexisting programs in SN, higher gross margins, higher capitalization of R&D, higher cash BTL expenses

**Raising Midpoint of Guidance Range to Reflect 1H Performance and Growth Investments in 2H**

**Notes:**

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



## SUMMARY

**Exceeded high end of guidance range on key financial metrics; new business wins and continued focus on expense management driving improved profit outlook**

**Raising midpoint of full-year guidance ranges**

**Continued investment in business development capability and pipeline to rebuild backlog and revenue base**

**Aligning investments in solutions portfolio to customer demands and priority end markets**



# Appendix



# NON-GAAP FINANCIAL MEASURES

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

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



# 2023 ADDITIONAL MODELING INPUTS

	2022 Full Year	2023E Full Year	2023E 3Q	2023E Full Year YoY Commentary
Gross Margin	36.4%	34.9% - 36.4%	30.4% - 34.2%	<ul style="list-style-type: none"> <li>SS slightly down to slightly up YoY, SN slightly down to flat.</li> <li>Less favorable mix shift between SS and SN</li> </ul>
Stock Based Compensation (SBC)	\$64.7M	\$35M - \$40M	\$9M - \$11M	<ul style="list-style-type: none"> <li>Final vesting/amortization of IPO-related grants through end of 2022</li> <li>~\$1M included in COS for FY, up to ~\$0.3M in COS for 3Q</li> </ul>
Depreciation & Amortization	\$5.9M	\$10M - \$12M	\$3.5M - \$4.5M	<ul style="list-style-type: none"> <li>Higher amortization due to development initiatives achieving key milestones</li> <li>~90% is included in BTL Expenses</li> </ul>
Share Count	67.6M	69M - 70M	~70M	
Tax Rate	(0.01%)	-	-	<ul style="list-style-type: none"> <li>Not meaningful</li> </ul>
CAPEX & Capitalized Software	\$13.7M	\$15M - \$17M	\$3.0M - \$4.0M	<ul style="list-style-type: none"> <li>Capitalization higher YoY due to investment in growth initiatives</li> <li>2022 includes \$1M of CAPEX; 2023 includes ~\$0.7M of CAPEX</li> </ul>
Cash Below The Line Expenses <sup>(1)</sup>	\$77.6M	\$79.6M - \$81.1M	\$20.9M - \$21.4M	<ul style="list-style-type: none"> <li>YoY expected to be lower due to \$6.5M of labor savings, partially offset by \$5M of misc. higher costs partially due to growth initiatives. Range includes management reserve of \$3.5M to \$5.0M</li> </ul>
Below The Line Expenses <sup>(2)</sup>	\$69.5M	\$73.3M - \$74.8M	\$21.0M - \$21.5M	<ul style="list-style-type: none"> <li>YoY driven by cost savings and management reserve described above in addition to ~\$4.0M higher depreciation and ~\$2.0M higher R&amp;D capitalization</li> </ul>

**Notes:**

- Cash below the line expenses (adjusted for capitalized software, restructuring costs, stock based compensation and D&A).
- P&L below the line expenses excluding stock based compensation and restructuring costs (cash below the line expenses above plus D&A, net of R&D capitalization).



# 2022 AND 2023 GAAP AND ADJUSTED FIRST HALF RESULTS

(Amounts in thousands, unaudited)

	2022												2023															
	Q1				Q2				1H				Q1					Q2					1H					
	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	
<b>Revenue</b>																												
Security Solutions	26,919	-	-	26,919	30,819	-	-	30,819	57,738	-	-	57,738	19,773	-	-	-	19,773	17,196	-	-	-	17,196	36,969	-	-	-	36,969	
Secure Networks	23,241	-	-	23,241	24,972	-	-	24,972	48,213	-	-	48,213	15,449	-	-	-	15,449	15,715	-	-	-	15,715	31,164	-	-	-	31,164	
<b>Total</b>	<b>50,160</b>	<b>-</b>	<b>-</b>	<b>50,160</b>	<b>55,791</b>	<b>-</b>	<b>-</b>	<b>55,791</b>	<b>105,951</b>	<b>-</b>	<b>-</b>	<b>105,951</b>	<b>35,222</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,222</b>	<b>32,911</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,911</b>	<b>68,133</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68,133</b>	
<b>Gross Profit</b>																												
Security Solutions	15,051	857	-	15,908	16,433	747	-	17,180	31,484	1,604	-	33,088	10,274	272	-	10,546	9,551	153	-	-	9,704	19,825	425	-	-	20,250		
Secure Networks	3,820	150	-	3,970	4,496	115	-	4,611	8,316	265	-	8,581	3,208	54	-	3,262	2,808	72	-	-	2,880	6,016	126	-	-	6,142		
<b>Total</b>	<b>18,871</b>	<b>1,007</b>	<b>-</b>	<b>19,878</b>	<b>20,929</b>	<b>862</b>	<b>-</b>	<b>21,791</b>	<b>39,800</b>	<b>1,869</b>	<b>-</b>	<b>41,669</b>	<b>13,482</b>	<b>326</b>	<b>-</b>	<b>13,808</b>	<b>12,359</b>	<b>225</b>	<b>-</b>	<b>-</b>	<b>12,584</b>	<b>25,841</b>	<b>551</b>	<b>-</b>	<b>-</b>	<b>26,392</b>		
<b>Gross Margin</b>																												
Security Solutions	55.9%	3.2%	0.0%	59.1%	53.3%	2.4%	0.0%	55.7%	54.5%	2.8%	0.0%	57.3%	52.0%	1.4%	0.0%	53.3%	55.5%	0.9%	0.0%	0.0%	56.4%	53.6%	1.1%	0.0%	0.0%	54.8%		
Secure Networks	16.4%	0.6%	0.0%	17.1%	18.0%	0.5%	0.0%	18.5%	17.2%	0.5%	0.0%	17.8%	20.8%	0.3%	0.0%	21.1%	17.9%	0.5%	0.0%	0.0%	18.3%	19.3%	0.4%	0.0%	0.0%	19.7%		
<b>Total</b>	<b>37.6%</b>	<b>2.0%</b>	<b>0.0%</b>	<b>39.6%</b>	<b>37.5%</b>	<b>1.5%</b>	<b>0.0%</b>	<b>39.1%</b>	<b>37.6%</b>	<b>1.8%</b>	<b>0.0%</b>	<b>39.3%</b>	<b>38.3%</b>	<b>0.9%</b>	<b>0.0%</b>	<b>39.2%</b>	<b>37.6%</b>	<b>0.7%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>38.2%</b>	<b>37.9%</b>	<b>0.8%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>38.7%</b>		
<b>SG&amp;A</b>																												
Sales and Marketing	5,252	1,668	-	3,584	4,741	1,420	-	3,321	9,993	3,088	-	6,905	1,643	58	-	1,585	1,793	43	-	-	1,750	3,436	101	-	-	3,335		
Research and Development	5,430	1,295	-	4,135	4,489	692	-	3,797	9,919	1,987	-	7,932	2,833	770	-	2,063	2,646	847	-	-	1,799	5,479	1,617	-	-	3,862		
General and Administrative	24,556	11,961	-	12,595	25,735	14,102	-	11,633	50,291	26,063	-	24,228	21,976	8,345	1,200	12,431	17,387	6,630	-	(3)	10,760	39,363	14,975	-	1,197	23,191		
<b>Total</b>	<b>35,238</b>	<b>14,924</b>	<b>-</b>	<b>20,314</b>	<b>34,965</b>	<b>16,214</b>	<b>-</b>	<b>18,751</b>	<b>70,203</b>	<b>31,138</b>	<b>-</b>	<b>39,065</b>	<b>26,452</b>	<b>9,173</b>	<b>-</b>	<b>1,200</b>	<b>21,826</b>	<b>7,520</b>	<b>-</b>	<b>(3)</b>	<b>14,309</b>	<b>48,278</b>	<b>16,693</b>	<b>-</b>	<b>1,197</b>	<b>30,388</b>		
<b>EBIT / Operating Income (Loss)</b>	<b>(16,367)</b>	<b>15,931</b>	<b>-</b>	<b>(436)</b>	<b>(14,036)</b>	<b>17,076</b>	<b>-</b>	<b>3,040</b>	<b>(30,403)</b>	<b>33,007</b>	<b>-</b>	<b>2,604</b>	<b>(12,970)</b>	<b>9,499</b>	<b>-</b>	<b>1,200</b>	<b>(2,271)</b>	<b>(9,467)</b>	<b>7,745</b>	<b>-</b>	<b>(3)</b>	<b>(1,725)</b>	<b>(22,437)</b>	<b>17,244</b>	<b>-</b>	<b>1,197</b>	<b>(3,996)</b>	
Interest Expense	(190)	-	-	(190)	(187)	-	-	(187)	(377)	-	-	(377)	(249)	-	-	(249)	(184)	-	-	-	(184)	(433)	-	-	-	(433)		
Other Income (Expense)	12	-	(12)	-	118	-	(118)	-	130	-	(130)	-	2,496	-	(2,496)	-	1,649	-	(1,649)	-	-	4,145	-	(4,145)	-	-		
<b>Earnings Before Taxes (EBT)</b>	<b>(16,545)</b>	<b>15,931</b>	<b>(12)</b>	<b>(626)</b>	<b>(14,105)</b>	<b>17,076</b>	<b>(118)</b>	<b>2,853</b>	<b>(30,650)</b>	<b>33,007</b>	<b>(130)</b>	<b>2,227</b>	<b>(10,723)</b>	<b>9,499</b>	<b>(2,496)</b>	<b>1,200</b>	<b>(2,520)</b>	<b>(8,002)</b>	<b>7,745</b>	<b>(1,649)</b>	<b>(3)</b>	<b>(1,909)</b>	<b>(18,725)</b>	<b>17,244</b>	<b>(4,145)</b>	<b>1,197</b>	<b>(4,429)</b>	
Tax Provision	(71)	-	-	(71)	(54)	-	-	(54)	(125)	-	-	(125)	(23)	-	-	(23)	(22)	-	-	-	(22)	(45)	-	-	-	(45)		
<b>Net Income (Loss)</b>	<b>(16,616)</b>	<b>15,931</b>	<b>(12)</b>	<b>(697)</b>	<b>(14,159)</b>	<b>17,076</b>	<b>(118)</b>	<b>2,799</b>	<b>(30,775)</b>	<b>33,007</b>	<b>(130)</b>	<b>2,102</b>	<b>(10,746)</b>	<b>9,499</b>	<b>(2,496)</b>	<b>1,200</b>	<b>(2,543)</b>	<b>(8,024)</b>	<b>7,745</b>	<b>(1,649)</b>	<b>(3)</b>	<b>(1,931)</b>	<b>(18,770)</b>	<b>17,244</b>	<b>(4,145)</b>	<b>1,197</b>	<b>(4,474)</b>	
Share Count	67,559	67,559	67,559	67,559	67,876	67,876	67,876	67,876	67,717	67,717	67,717	67,717	68,176	68,176	68,176	68,176	69,424	69,424	69,424	69,424	69,424	68,804	68,804	68,804	68,804	68,804		
<b>EPS</b>	<b>(0.25)</b>	<b>0.24</b>	<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.21)</b>	<b>0.25</b>	<b>(0.00)</b>	<b>0.04</b>	<b>(0.45)</b>	<b>0.49</b>	<b>(0.00)</b>	<b>0.03</b>	<b>(0.16)</b>	<b>0.14</b>	<b>(0.04)</b>	<b>0.02</b>	<b>(0.04)</b>	<b>(0.12)</b>	<b>0.11</b>	<b>(0.02)</b>	<b>(0.00)</b>	<b>(0.03)</b>	<b>(0.27)</b>	<b>0.25</b>	<b>(0.06)</b>	<b>0.02</b>	<b>(0.07)</b>	
<b>Net Income (Loss)</b>	<b>(16,616)</b>	<b>15,931</b>	<b>(12)</b>	<b>(697)</b>	<b>(14,159)</b>	<b>17,076</b>	<b>(118)</b>	<b>2,799</b>	<b>(30,775)</b>	<b>33,007</b>	<b>(130)</b>	<b>2,102</b>	<b>(10,746)</b>	<b>9,499</b>	<b>(2,496)</b>	<b>1,200</b>	<b>(2,543)</b>	<b>(8,024)</b>	<b>7,745</b>	<b>(1,649)</b>	<b>(3)</b>	<b>(1,931)</b>	<b>(18,770)</b>	<b>17,244</b>	<b>(4,145)</b>	<b>1,197</b>	<b>(4,474)</b>	
Other Income (Expense)	(12)	-	12	-	(118)	-	118	-	(130)	-	-	-	(2,496)	-	2,496	-	(1,649)	-	1,649	-	-	(4,145)	-	4,145	-	-		
Interest Expense	190	-	-	190	187	-	-	187	377	-	-	377	249	-	-	249	184	-	-	-	184	433	-	-	-	433		
Tax Provision	71	-	-	71	54	-	-	54	125	-	-	125	23	-	-	23	22	-	-	-	22	45	-	-	-	45		
Depreciation & Amortization	1,405	-	-	1,405	1,505	-	-	1,505	2,910	-	-	2,910	1,425	-	-	1,425	1,696	-	-	-	1,696	3,121	-	-	-	3,121		
<b>EBITDA</b>	<b>(14,962)</b>	<b>15,931</b>	<b>-</b>	<b>969</b>	<b>(12,531)</b>	<b>17,076</b>	<b>-</b>	<b>4,545</b>	<b>(27,493)</b>	<b>33,007</b>	<b>(130)</b>	<b>5,514</b>	<b>(11,545)</b>	<b>9,499</b>	<b>-</b>	<b>1,200</b>	<b>(846)</b>	<b>(7,771)</b>	<b>7,745</b>	<b>-</b>	<b>(3)</b>	<b>(29)</b>	<b>(19,316)</b>	<b>17,244</b>	<b>-</b>	<b>1,197</b>	<b>(875)</b>	
<b>Actuals</b>					<b>Actuals</b>				<b>Actuals</b>				<b>Actuals</b>				<b>Actuals</b>					<b>Actuals</b>						
<b>Cash Flow from Operations</b>	<b>249</b>				<b>7,883</b>				<b>8,132</b>				<b>(100)</b>				<b>(4,113)</b>					<b>(4,213)</b>						
Capitalized Software	(2,795)				(2,339)				(5,134)				(3,800)				(4,398)					(8,198)						
PPE	(546)				(95)				(641)				(223)				(47)					(270)						
CAPEX	(3,341)				(2,434)				(5,775)				(4,023)				(4,445)					(8,468)						
<b>Free Cash Flow</b>	<b>(3,092)</b>				<b>5,449</b>				<b>2,357</b>				<b>(4,123)</b>				<b>(8,558)</b>					<b>(12,681)</b>						

**Notes:**

Adjusted Net Income/(Loss), EBITDA, Adjusted EBITDA, Adjusted EPS and Free Cash Flow are non-GAAP financial measures.





# 2022 GAAP AND ADJUSTED FULL YEAR RESULTS

(Amounts in thousands, unaudited)

NOTE: As previously revised

	2022																							
	Q1				Q2				Q3				Q4				FY							
	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted		
<b>Revenue</b>																								
Security Solutions	26,919	-	-	26,919	30,819	-	-	30,819	32,440	-	-	32,440	30,276	-	-	-	30,276	120,454	-	-	-	120,454		
Secure Networks	23,241	-	-	23,241	24,972	-	-	24,972	31,153	-	-	31,153	17,067	-	-	-	17,067	96,433	-	-	-	96,433		
<b>Total</b>	<b>50,160</b>	<b>-</b>	<b>-</b>	<b>50,160</b>	<b>55,791</b>	<b>-</b>	<b>-</b>	<b>55,791</b>	<b>63,593</b>	<b>-</b>	<b>-</b>	<b>63,593</b>	<b>47,343</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47,343</b>	<b>216,887</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>216,887</b>		
<b>Gross Profit</b>																								
Security Solutions	15,051	857	-	15,908	16,433	747	-	17,180	15,577	823	-	16,400	14,887	579	-	355	15,821	61,948	3,007	-	355	65,310		
Secure Networks	3,820	150	-	3,970	4,496	115	-	4,611	5,368	106	-	5,474	3,411	120	-	223	3,754	17,095	491	-	223	17,809		
<b>Total</b>	<b>18,871</b>	<b>1,007</b>	<b>-</b>	<b>19,878</b>	<b>20,929</b>	<b>862</b>	<b>-</b>	<b>21,791</b>	<b>20,945</b>	<b>929</b>	<b>-</b>	<b>21,874</b>	<b>18,298</b>	<b>700</b>	<b>-</b>	<b>578</b>	<b>19,576</b>	<b>79,043</b>	<b>3,498</b>	<b>-</b>	<b>578</b>	<b>83,119</b>		
<b>Gross Margin</b>																								
Security Solutions	55.9%	3.2%	0.0%	59.1%	53.3%	2.4%	0.0%	55.7%	48.0%	2.5%	0.0%	50.6%	49.2%	1.9%	0.0%	1.2%	52.3%	51.4%	2.5%	0.0%	0.3%	54.2%		
Secure Networks	16.4%	0.6%	0.0%	17.1%	18.0%	0.5%	0.0%	18.5%	17.2%	0.3%	0.0%	17.6%	20.0%	0.7%	0.0%	1.3%	22.0%	17.7%	0.5%	0.0%	0.2%	18.5%		
<b>Total</b>	<b>37.6%</b>	<b>2.0%</b>	<b>0.0%</b>	<b>39.6%</b>	<b>37.5%</b>	<b>1.5%</b>	<b>0.0%</b>	<b>39.1%</b>	<b>32.9%</b>	<b>1.5%</b>	<b>0.0%</b>	<b>34.4%</b>	<b>38.6%</b>	<b>1.5%</b>	<b>0.0%</b>	<b>1.2%</b>	<b>41.3%</b>	<b>36.4%</b>	<b>1.6%</b>	<b>0.0%</b>	<b>0.3%</b>	<b>38.3%</b>		
<b>SG&amp;A</b>																								
Sales and Marketing	5,252	1,668	-	3,584	4,741	1,420	-	3,321	3,042	611	-	2,431	3,547	969	-	187	2,391	16,582	4,668	-	187	11,727		
Research and Development	5,430	1,295	-	4,135	4,489	692	-	3,797	3,981	897	-	3,084	3,018	922	-	221	1,875	16,918	3,805	-	221	12,891		
General and Administrative	24,556	11,961	-	12,595	25,735	14,102	-	11,633	22,706	13,400	-	9,307	26,396	13,226	-	1,781	11,389	99,393	52,689	-	1,781	44,923		
<b>Total</b>	<b>35,238</b>	<b>14,924</b>	<b>-</b>	<b>20,314</b>	<b>34,965</b>	<b>16,214</b>	<b>-</b>	<b>18,751</b>	<b>29,729</b>	<b>14,907</b>	<b>-</b>	<b>14,822</b>	<b>32,961</b>	<b>15,117</b>	<b>-</b>	<b>2,189</b>	<b>15,655</b>	<b>132,893</b>	<b>61,162</b>	<b>-</b>	<b>2,189</b>	<b>69,541</b>		
<b>EBIT / Operating Income (Loss)</b>	<b>(16,367)</b>	<b>15,931</b>	<b>-</b>	<b>(436)</b>	<b>(14,036)</b>	<b>17,076</b>	<b>-</b>	<b>3,040</b>	<b>(8,784)</b>	<b>15,836</b>	<b>-</b>	<b>7,052</b>	<b>(14,663)</b>	<b>15,817</b>	<b>-</b>	<b>2,767</b>	<b>3,921</b>	<b>(53,850)</b>	<b>64,660</b>	<b>-</b>	<b>2,767</b>	<b>13,578</b>		
Interest Expense	(190)	-	-	(190)	(187)	-	-	(187)	(181)	-	-	(181)	(316)	-	-	-	(316)	(874)	-	-	-	(874)		
Other Income (Expense)	12	-	(12)	-	118	-	(118)	-	518	-	(518)	-	702	-	(702)	-	-	1,350	-	(1,350)	-	-		
<b>Earnings Before Taxes (EBT)</b>	<b>(16,545)</b>	<b>15,931</b>	<b>(12)</b>	<b>(626)</b>	<b>(14,105)</b>	<b>17,076</b>	<b>(118)</b>	<b>2,853</b>	<b>(8,447)</b>	<b>15,836</b>	<b>(518)</b>	<b>6,871</b>	<b>(14,277)</b>	<b>15,817</b>	<b>(702)</b>	<b>2,767</b>	<b>3,605</b>	<b>(53,374)</b>	<b>64,660</b>	<b>(1,350)</b>	<b>2,767</b>	<b>12,704</b>		
Tax Provision	(71)	-	-	(71)	(54)	-	-	(54)	(8)	-	-	(8)	79	-	-	-	79	(54)	-	-	-	(54)		
<b>Net Income (Loss)</b>	<b>(16,616)</b>	<b>15,931</b>	<b>(12)</b>	<b>(697)</b>	<b>(14,159)</b>	<b>17,076</b>	<b>(118)</b>	<b>2,799</b>	<b>(8,455)</b>	<b>15,836</b>	<b>(518)</b>	<b>6,863</b>	<b>(14,198)</b>	<b>15,817</b>	<b>(702)</b>	<b>2,767</b>	<b>3,684</b>	<b>(53,428)</b>	<b>64,660</b>	<b>(1,350)</b>	<b>2,767</b>	<b>12,649</b>		
Share Count	67,559	67,559	67,559	67,559	67,876	67,876	67,876	67,876	67,493	67,493	67,493	67,493	67,313	67,313	67,313	67,313	67,313	67,559	67,559	67,559	67,559	67,559		
<b>EPS</b>	<b>(0.25)</b>	<b>0.24</b>	<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.21)</b>	<b>0.25</b>	<b>(0.00)</b>	<b>0.04</b>	<b>(0.13)</b>	<b>0.23</b>	<b>(0.01)</b>	<b>0.10</b>	<b>(0.21)</b>	<b>0.23</b>	<b>(0.01)</b>	<b>0.04</b>	<b>0.05</b>	<b>(0.79)</b>	<b>0.96</b>	<b>(0.02)</b>	<b>0.04</b>	<b>0.19</b>		
<b>Net Income (Loss)</b>	<b>(16,616)</b>	<b>15,931</b>	<b>(12)</b>	<b>(697)</b>	<b>(14,159)</b>	<b>17,076</b>	<b>(118)</b>	<b>2,799</b>	<b>(8,455)</b>	<b>15,836</b>	<b>(518)</b>	<b>6,863</b>	<b>(14,198)</b>	<b>15,817</b>	<b>(702)</b>	<b>2,767</b>	<b>3,684</b>	<b>(53,428)</b>	<b>64,660</b>	<b>(1,350)</b>	<b>2,767</b>	<b>12,649</b>		
Other Income (Expense)	(12)	-	12	-	(118)	-	118	-	(518)	-	518	-	(702)	-	702	-	-	(1,350)	-	1,350	-	-		
Interest Expense	190	-	-	190	187	-	-	187	181	-	-	181	316	-	-	-	316	874	-	-	-	874		
Tax Provision	71	-	-	71	54	-	-	54	8	-	-	8	(79)	-	-	-	(79)	54	-	-	-	54		
Depreciation & Amortization	1,405	-	-	1,405	1,505	-	-	1,505	1,517	-	-	1,517	1,463	-	-	-	1,463	5,890	-	-	-	5,890		
<b>EBITDA</b>	<b>(14,962)</b>	<b>15,931</b>	<b>-</b>	<b>969</b>	<b>(12,531)</b>	<b>17,076</b>	<b>-</b>	<b>4,545</b>	<b>(7,267)</b>	<b>15,836</b>	<b>-</b>	<b>8,569</b>	<b>(13,200)</b>	<b>15,817</b>	<b>-</b>	<b>2,767</b>	<b>5,384</b>	<b>(47,960)</b>	<b>64,660</b>	<b>-</b>	<b>2,767</b>	<b>19,467</b>		
<b>Actuals</b>																								
<b>Cash Flow from Operations</b>	<b>249</b>				<b>7,883</b>				<b>11,986</b>				<b>(3,610)</b>					<b>16,508</b>						
Capitalized Software	(2,795)				(2,339)				(3,446)				(4,128)					(12,708)						
PPE	(546)				(95)				(174)				(194)					(1,009)						
<b>CAPEX</b>	<b>(3,341)</b>				<b>(2,434)</b>				<b>(3,620)</b>				<b>(4,322)</b>					<b>(13,717)</b>						
Net cash - software presale	-				-				-				8,457					8,457						
<b>Free Cash Flow</b>	<b>(3,092)</b>				<b>5,449</b>				<b>8,366</b>				<b>525</b>					<b>11,248</b>						

**Notes:** Adjusted Net Income/(Loss), EBITDA, Adjusted EBITDA, Adjusted EPS and Free Cash Flow are non-GAAP financial measures.



# RECONCILIATIONS

## EBITDA, Adjusted EBITDA, EBITDA Margin and Adjusted EBITDA Margin (*Unaudited*)

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2023		June 30, 2022		June 30, 2023		June 30, 2022	
	Amount	Margin	Amount	Margin	Amount	Margin	Amount	Margin
	<i>(dollars in thousands)</i>							
Net loss	\$ (8,024)	(24.4) %	\$ (14,159)	(25.4) %	\$ (18,770)	(27.5) %	\$ (30,775)	(29.0) %
Other income	(1,649)	(5.0) %	(118)	(0.2) %	(4,145)	(6.1) %	(130)	(0.1) %
Interest expense	184	0.5 %	187	0.3 %	433	0.6 %	377	0.4 %
Provision for income taxes	22	0.1 %	54	0.1 %	45	0.1 %	125	0.1 %
Depreciation and amortization	1,696	5.2 %	1,505	2.7 %	3,121	4.5 %	2,910	2.7 %
EBITDA (Non-GAAP)	(7,771)	(23.6) %	(12,531)	(22.5) %	(19,316)	(28.4) %	(27,493)	(25.9) %
Stock-based compensation expense <sup>(1)</sup>	7,745	23.5 %	17,076	30.6 %	17,244	25.3 %	33,007	31.1 %
Restructuring expenses/(adjustments) <sup>(2)</sup>	(3)	— %	—	— %	1,197	1.8 %	—	— %
Adjusted EBITDA (Non-GAAP)	\$ (29)	(0.1) %	\$ 4,545	8.1 %	\$ (875)	(1.3) %	\$ 5,514	5.2 %

### Notes:

<sup>(1)</sup> The stock-based compensation adjustment to EBITDA is made up of stock-based compensation expense for the awarded restricted stock units (“RSUs”), performance-based restricted stock units (“PSUs”) and stock options, and of other sources. Stock-based compensation expense for the awarded RSUs, PSUs and stock options was \$5.7 million and \$13.6 million for the three and six months ended June 30, 2023, respectively, and \$16.4 million and \$30.7 million for the three and six months ended June 30, 2022, respectively. Stock-based compensation from other sources was \$2.1 million and \$3.7 million for the three and six months ended June 30, 2023, respectively, and \$0.7 million and \$2.3 million for the three and six months ended June 30, 2022, respectively. The other sources of stock-based compensation consist of accrued compensation, which the Company intends to settle in shares of the Company’s common stock. However, it is the Company’s discretion whether this compensation will ultimately be paid in stock or cash. The Company has the right to dictate the form of these payments up until the date at which they are paid. Any change to the expected payment form would result in out of quarter adjustments to this add back to Adjusted EBITDA.

<sup>(2)</sup> The restructuring expenses/(adjustments) 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.



# RECONCILIATIONS

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2023		June 30, 2022		June 30, 2023		June 30, 2022	
	Adjusted Net (Loss)/Income	Adjusted Earnings Per Share	Adjusted Net (Loss)/Income	Adjusted Earnings Per Share	Adjusted Net (Loss)/Income	Adjusted Earnings Per Share	Adjusted Net (Loss)/Income	Adjusted Earnings Per Share
	<i>(in thousands, except per share data)</i>							
Net loss	\$ (8,024)	\$ (0.12)	\$ (14,159)	\$ (0.21)	\$ (18,770)	\$ (0.27)	\$ (30,775)	\$ (0.45)
Adjustments:								
Other income	(1,649)	(0.02)	(118)	—	(4,145)	(0.06)	(130)	—
Stock-based compensation expense <sup>(1)</sup>	7,745	0.11	17,076	0.25	17,244	0.25	33,007	0.48
Restructuring expenses/(adjustments) <sup>(2)</sup>	(3)	—	—	—	1,197	0.01	—	—
Adjusted net (loss)/income (Non-GAAP)	\$ (1,931)	\$ (0.03)	\$ 2,799	\$ 0.04	\$ (4,474)	\$ (0.07)	\$ 2,102	\$ 0.03
Weighted-average shares of common stock outstanding, basic	69,424		67,876		68,804		67,717	

### Notes:

<sup>(1)</sup> The stock-based compensation adjustment to Net (Loss)/Income is made up of stock-based compensation expense for the awarded RSUs, PSUs and stock options, and of other sources. Stock-based compensation expense for the awarded RSUs, PSUs and stock options was \$5.7 million and \$13.6 million for the three and six months ended June 30, 2023, respectively, and \$16.4 million and \$30.7 million for the three and six months ended June 30, 2022, respectively. Stock-based compensation from other sources was \$2.1 million and \$3.7 million for the three and six months ended June 30, 2023, respectively, and \$0.7 million and \$2.3 million for the three and six months ended June 30, 2022, respectively. The other sources of stock-based compensation consist of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion whether this compensation will ultimately be paid in stock or cash. The Company has the right to dictate the form of these payments up until the date at which they are paid. Any change to the expected payment form would result in out of quarter adjustments to this add back to Adjusted Net (Loss)/Income.

<sup>(2)</sup> The restructuring expenses/(adjustments) 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.





# RECONCILIATIONS

Free Cash Flow (*Unaudited*)

	For the Three Months Ended		For the Six Months Ended	
	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
	<i>(in thousands)</i>			
Net cash (used in)/provided by operating activities	\$ (4,113)	\$ 7,883	\$ (4,213)	\$ 8,132
Adjustments:				
Purchases of property and equipment	(47)	(95)	(270)	(641)
Capitalized software development costs	<u>(4,398)</u>	<u>(2,339)</u>	<u>(8,198)</u>	<u>(5,134)</u>
Free cash flow (Non-GAAP)	<u>\$ (8,558)</u>	<u>\$ 5,449</u>	<u>\$ (12,681)</u>	<u>\$ 2,357</u>



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