

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2024

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-08443



TELOS CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)
19886 Ashburn Road, Ashburn, Virginia
(Address of principal executive offices)

52-0880974
(I.R.S. Employer Identification No.)
20147-2358
(Zip Code)

Registrant's telephone number, including area code: **(703) 724-3800**

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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report Yes No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2024 was approximately \$212.6 million based upon the last reported sale price of the registrant's common stock on The Nasdaq Stock Market LLC as of the close of business on that day.

As of March 3, 2025, the registrant had outstanding 72,552,120 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive Proxy Statement for the 2025 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2024 are incorporated by reference in Part III of this Annual Report on Form 10-K.

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Special Note Regarding Forward-Looking Statements

This annual report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, in the future the Company, and others on its behalf, may make statements that constitute forward-looking statements. Such forward-looking statements may include, without limitation, statements relating to the Company's plans, objectives or goals; future economic performance or prospects; the potential effect on the Company's future performance of certain contingencies; and assumptions underlying any such statements. You are cautioned not to place undue reliance on the Company's forward-looking statements.

Words such as "believes," "anticipates," "expects," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. The forward-looking statements are and will be based upon management's then current views and assumptions regarding future events and operating performance and are only applicable as of the dates of such statements. The Company does not intend to update these forward-looking statements except as may be required by applicable laws.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described or implied in forward-looking statements will not be achieved. The Company cautions you that these important factors could cause results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements, including the risks described under the caption "Risk Factors" in this Annual Report on Form 10-K.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance. Given these risks, uncertainties and other factors, many of which are beyond our control, we caution you not to place undue reliance on these forward-looking statements. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments, or otherwise.

PART I

Item 1. Business

Business Overview

Telos Corporation is a Maryland corporation headquartered in Ashburn, Virginia. Telos Corporation, together with its subsidiaries (the "Company" or "Telos" or "We"), offers 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 endows our customers with capabilities to reach new markets, serve their stakeholders more effectively, and successfully defend the nation or their enterprise with confidence in their security and privacy.

Our mission is to protect people, organizations, and information through trusted solutions that proactively manage risk, compliance, and persistent digital identity. We do this by developing robust, reliable, and uncompromising solutions for our customers, creating a workplace that engages and inspire our employees, and providing value to our shareholders to ensure a lasting legacy of excellence. In the current global environment, our mission is more critical than ever. The emergence of each new information and communications technology ("ICT") introduces new vulnerabilities, as security is still too often overlooked in solution development. Networks and applications meant to enhance productivity and profitability often jeopardize an organization due to poor planning, misconfiguration, or an unknown gap in security. Ransomware, insider threats, cybercrime, and advanced persistent threats continue to menace public and private enterprises across all industries.

Cybersecurity, cloud security, and enterprise security of the modern organization share much in common, yet also call for a diverse range of skills, capabilities, and experience in order to meet the requirements of security-conscious customers. Our vision is to create a more secure, interconnected world as the trusted leader in innovative digital security solutions that safeguard people, organizations, and information. Decades of experience in developing, orchestrating, and delivering solutions across these three domains give us the vision and the confidence to provide solutions that empower and protect the enterprise at an integrated, holistic level. Our experience in addressing challenges in one area of an enterprise helps us meet requirements in others. We understand that a range of complementary capabilities may be needed to solve a single challenge, and we also recognize when a single solution might address multiple challenges. Our security solutions span these three domains: cybersecurity, cloud security and enterprise network security.

Our Business Segments

We conduct our business through 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 line of business.

Additional information regarding our segments is presented in [Note 18 – Segment Information](#) to the consolidated financial statements at Item 8 of this Form 10-K.

Security Solutions Segment:

The Security Solutions segment focuses on cybersecurity, cloud, identity solutions, and secure messaging. Cybersecurity solutions help our customers ensure the ongoing security, integrity and compliance of their on-premises and related cloud-based systems by reducing threats and vulnerabilities to foil cyber adversaries before they can attack. Our security engineers and subject matter experts assess our customers' cybersecurity environments and design, engineer, and operate systems needed to strengthen their cybersecurity postures. Our cloud solutions leverage the specialized skills and experience needed to help our customers plan, engineer, execute, and accelerate secure cloud migrations while assuring ongoing management and security of enterprise cloud technology environments. Our identity solutions deliver digital identity, biometric, and nationwide enrollment services and address Know Your Customer and identity management challenges for enterprises working within regulated and critical infrastructure environments. Our secure messaging services are used to securely transmit messages that provide direction and establish a formal position, commitment, or responses requiring the authority of an organization. Security Solutions represented 71% and 53% of total revenues for fiscal years 2024 and 2023, respectively.

The Security Solutions segment offers the following solutions and services:

- ***Xacta®:***

Xacta® is a premier platform for enterprise cyber risk management and security compliance automation, delivering security awareness for systems in the cloud, on-premises, and in hybrid and multi-cloud environments. Xacta delivers automated cyber risk and compliance management solutions to large commercial and government enterprises. Across the United States ("U.S.") federal government, Xacta is a leading commercial cyber risk and compliance management solution. With use cases including cyber risk management, risk remediation management, security authorization, compliance management, audit management, inventory management, vulnerability management, continuous compliance monitoring, and vendor and supply chain risk management, Xacta administers the key elements of more than 100 leading regulations and policies for IT security compliance, including the National Institute of Standards and Technology ("NIST") Risk Management Framework ("RMF"), RMF for Department of Defense ("DoD") IT, Committee on National Security Systems Instruction No. 1253, NIST Cybersecurity Framework, the Federal Risk and Authorization Management Program ("FedRAMP") and the DoD's Cybersecurity Maturity Model Certification ("CMMC") program.

- ***Cybersecurity Services:***

We offer solutions and services for the full cybersecurity lifecycle, including Risk Management Framework ("RMF") consulting services, assessment and compliance, engineering and evaluation, operations, and penetration testing. With a pedigree in information and cybersecurity that spans three decades, our multi-certified cybersecurity personnel provide services and solutions that deliver continuous security assurance for business, government, and public sector critical infrastructure.

- ***Telos Automated Message Handling System ("Telos AMHS™"):***

Telos AMHS is a web-based organizational message distribution and management solution for mission-critical communications; the recognized gold standard for organizational messaging in the U.S. government. Telos AMHS is used by military field operatives for critical communications on the battlefield using the Defense Information System Agency's Organizational Messaging Service and its specialized communications protocols. Telos AMHS is also used by the Intelligence Community ("IC") for timely situational awareness and assessment reporting utilizing the Director of National Intelligence's Information Transport Service, Organizational Messaging data standards and computing infrastructure. Because Telos AMHS supports timely and reliable delivery for authoritative communications, its uses include terrorist warnings, "eyes-only" messages, military execution orders, intelligence information, overflight clearances, and Emergency Action Messages for nuclear command and control. Information exchanged at this level and for these purposes requires operational requirements for time-sensitive, guaranteed delivery, precedence, high availability, and reliability.

- ***Digital Identity Solutions:***

- *IDTrust360®* is an enterprise digital trusted identity risk platform for extending flexible hybrid cloud identity services. This platform is enabled for mobile, enterprise environments and custom digital identity services that mitigate threats by integrating advanced technologies that fuse biometrics, credentials, and other identity-centric data used to continuously monitor trust. IDTrust360 is a commercially owned and operated platform with direct interfaces to the Federal Bureau of Investigation's ("FBI") criminal records, Department of Homeland Security's ("DHS") terrorist watch list service, U.S. Department of Treasury's pay.gov, other government identity risk management systems, and numerous commercial identity, intelligence, and risk-based data sources. We actively engage with federal customers to integrate vital event records, government identification document records, and other fingerprint-based biometric records hosted across multiple agencies. This enables Telos to offer NIST-compliant digital identity services aligned with federal security mandates.
- *ONYX®*, a mobile touchless fingerprint software development kit, enables secure biometric authentication by leveraging standard smartphone cameras to capture and process high-quality fingerprint images without physical contact. It uses artificial intelligence ("AI") neural networks for finger detection and automatic acquisition, along with a patented image processing algorithm to generate precise, machine-matchable fingerprints. Targeting markets such as financial services, healthcare, government, and enterprise security, ONYX is ideally suited for use cases including mobile banking, field identification for law enforcement, telemedicine identity verification, secure access control, and remote onboarding. Its value proposition lies in delivering a cost-effective, scalable, and user-friendly biometric solution that eliminates the need for specialized hardware, enhances security with liveness detection, and supports seamless integration across iOS and Android platforms, empowering organizations to strengthen identity management and combat fraud efficiently

Telos' sovereign, reusable *Identity-as-a-Service Solution ("IDaaS")* is designed for the use of government agencies, mobile network operators, banking organizations and others who need to incorporate a zero-trust method of identity verification into existing know-your-customer and onboarding processes, while striving to remain in front of international data protection and privacy regulations. This user-controlled system empowers individuals to hold and manage their own identity data, presenting it securely to relying parties or verifiers while ensuring trust through server-side biometric authentication powered by our proprietary ONYX technology. Organizations leveraging the IDaaS solution offered by Telos save on the cost and effort of onboarding new users without worrying about the complexities of verifying individual identities. The solution provides fully proofed and vetted reusable identities to reduce risk across all identity-related enterprise events, and fosters trust across markets such as financial services, healthcare, government, and enterprise security for use cases like digital wallets, remote onboarding, and secure access control. We maintain government certifications and designations that distinguish Telos ID, including TSA PreCheck® enrollment provider, Aviation Channeling Services provider, FBI-approved Channeler, and Financial Industry Regulatory Authority Electronic Fingerprint Submission provider.

Secure Networks Segment:

With a focus on enterprise security, the Secure Networks segment provides secure networking architectures and solutions to our customers through secure mobility solutions and network management and defense services. Our net-centric solutions enable collaboration and connectivity to increase efficiency, reduce costs, and improve mission outcomes. Telos provides an extensive range of wired and wireless, fixed and deployable, classified and unclassified voice, data, and video secure network solutions and services to support defense and civilian missions. Our capabilities include network design, operations and sustainment, system integration and engineering, network security and compliance, deployable comms, service desk, defensive cyber operations, and program management. Secure Networks represented 29% and 47% of total revenues for the years ended December 31, 2024 and 2023, respectively.

The Security Networks segment offers the following solutions and services:

- **Secure Mobility:**

We offer solutions for business and government that enable work off-premise and minimize operational and security concerns across and beyond the enterprise. Our secure mobility team brings credentials to every engagement, supplying deep expertise and experience, highly desirable clearances and industry-recognized certifications for network engineering, mobility, and security. We also offer secure mobility professional services, such as consulting and deployment services, to deliver integrated communications solutions that meet even the most complex needs of civilian, defense, and commercial customers.

- **Network Management and Defense:**

We provide services for operating, administrating, and defending complex enterprise networks and services for defensive cyber operations. Our diverse network management and defense capabilities address common and uncommon requirements in many industries and disciplines, from military to government agencies. Telos network engineers, security specialists, and program managers are experienced with advanced DoD and federal networks and are certified in the leading tools, technologies, and best practices for network management and administration. We ensure the consistency and continuity of network management services required in today's mission-critical network environments.

Drivers for Future Growth

We are pursuing multiple strategies in order to grow our business, which include:

- *Ramp our pre-existing programs.* Capitalizing on organic growth opportunities is a key to our core business. Our strategy includes increasing the scope of our existing contracts through renewal or expansion of our offerings.
- *Rebuild our contract vehicles portfolio.* Notable contracts with our key customers, mainly U.S. federal government agencies, require bidders to be pre-approved on registered contract vehicles. We strive to have prime or subcontractor positions on a wide range of contracts to allow our customers and potential customers an opportunity to access our solutions and services through Indefinite Delivery / Indefinite Quantity ("IDIQ") and definite contract vehicles.
- *Broaden our reach within the U.S. federal government.* We have historically focused on the U.S. federal government and believe we are an established leader in providing security solutions to federal agencies. Nonetheless, we believe the U.S. federal government continues to represent a significant growth opportunity, and we expect to continue to invest in products and solutions to serve additional customers within the U.S. federal government.

For example, Xacta is included on DHS's Continuous Diagnostics and Mitigation Approved Product List to provide federal agencies with innovative security tools, which we believe presents us with an excellent opportunity to pursue contracts with additional federal agencies. In addition, Xacta is available for use in the Amazon Web Services ("AWS") GovCloud (U.S.), Oracle and Azure Government.

- *Leverage our diverse security solutions to target market expansion.* Our offerings are designed to have broad applications and include cloud and network security risk and compliance, secure messaging, and identity vetting through biometric capture and analysis. We believe we are well-positioned to sell our capabilities into a dynamic and growing commercial opportunity set and will continue innovating to address emerging and unique requirements.

For example, we have leveraged core Xacta functionality to meet the needs of large financial services and customer relationship management ("CRM") firms. We have also leveraged our U.S. federal government identity management qualifications to improve the speed and accuracy of vetting results for more than 100 airports, air carriers, and general aviation operators across the country. We intend to continue innovating and developing additional offerings for cloud, mobile, and Internet of Things ("IoT") devices.

- *Pursue strategic investments and partnerships.* We believe that our markets remain fragmented, with many niche players providing limited product solutions targeting narrow customer segments. Given the breadth of our solution set and our customer end markets, we believe we are well-positioned to opportunistically invest in and/or build partnerships with smaller companies, and incorporate their technology or deploy their solutions across a larger customer set. We believe a targeted and opportunistic investment strategy will be a force multiplier for our organic growth opportunity.
- *Invest strategically into groundbreaking research and development for our intellectual property.* We believe artificial intelligence – large language models can offer an unparalleled advantage to our customers in automation and cost savings, a cornerstone of our Xacta platform. Telos has begun making strategic investments to bring meaningful AI capabilities to our platform.

Our Customers

Our primary customers include the U.S. federal government, large commercial businesses, state and local governments, and international customers. Our consolidated revenues are largely attributable to prime contracts or subcontracts with our contractors engaged in work for the U.S. government, with the remaining attributable to state and local governments, and commercial markets.

Our U.S. federal government customers include the DoD, the IC, and multiple civilian and public sector agencies, including DHS, the U.S. Department of Justice, the U.S. Department of Energy, the U.S. Department of the Treasury, the U.S. Social Security Administration, the U.S. Environment Protection Agency, and more. These customers have a number of subsidiary agencies with separate budgets and procurement functions. Our contracts may be with the highest level of these agencies or with the subsidiary agencies of these customers.

Our commercial customers include some of the largest technology, communications, and professional services companies in the U.S.

Sales and Marketing

As part of our sales and marketing investments, we also make corporate investments in functional areas such as contracts, solution architects, lead generation tools, and operations to ensure our back-office systems and processes scale for business growth.

Sales

We sell our products and services leveraging a direct sales approach, with a small subset being executed through a handful of partner organizations. Our customer acquisition success extends to commercial customers and vendors seeking to do business with the U.S. federal government, however our largest portion of revenue lies with the U.S. government itself.

Our sales strategy is to establish a customer foothold with one of our solutions and work to achieve rapid success. We then leverage this customer relationship to generate interest in other solutions from the Telos portfolio. We have a variety of upsell opportunities that allow us to expand our presence within a customer account.

Much of our business is awarded through the submission of formal competitive bids; however, a portion of our revenue is awarded through limited competition or sole-source contracts.

Partner Organizations

Our sales team works with partner organizations like AWS, Microsoft Azure, and IBM to pursue mutual customers and leverage their marketplace platforms and marketing programs.

Marketing

We build market awareness of Telos and our solutions through a variety of marketing programs, including regular briefings with industry analysts, public relations activities, trade show exhibitions, speaking engagements, and digital marketing. We will continue investing in these activities and targeting additional vertical-specific content creation, targeted advertising and brand awareness campaigns, social media campaigns, and search engine marketing.

Our sales team works hand in hand with our marketing team and various subject matter experts to develop targeted awareness campaigns for our various solutions that generate valuable leads and contacts.

Research and Development

We developed proprietary software-based solutions in various platforms related to security and cyber risk management. We invest substantial resources in research and development to innovate new solutions, enhance our offerings and grow opportunities by developing new features and modules for our existing platforms. See [Note 2 - Significant Accounting Policies](#) (under the caption "Research and Development") included in our notes to consolidated financial statements.

We are leveraging our improved agile innovation and rapid automated development practices to rapidly establish prototypes that we can fully test for suitability and to pre-establish enterprise risk level across a variety of government networks and clouds. We are committed to and view our continued investment in research and development as a key factor to our long-term business success.

Human Capital Resources

As of December 31, 2024, we had 519 employees, of which 504 were full-time employees. As of December 31, 2024, approximately 89% of our workforce was located in the United States. Approximately 294 of our U.S.-based employees held U.S. security clearances, and 26% self-identified as veterans of U.S. military service as of that date. Our employees are not represented by a labor union or covered by a collective bargaining agreement. We have not experienced any work stoppages, and we consider relations with our employees to be good.

Telos places a strong emphasis on supporting our people. Our management team is committed to maintaining a corporate culture that fosters mutual respect and job satisfaction for our people while delivering innovation and value to customers and shareholders. This commitment is reflected in our core values:

Always with integrity, at Telos we:
Build trusted relationships,
Work hard together,
Design and deliver superior solutions, *and*
Have fun doing it.

These values are woven throughout the fabric of Telos; they are reflected in our hiring practices, reinforced regularly, and reviewed during appraisals. Employees are encouraged to challenge themselves and each other to exhibit the core values in all activities.

Our employees are given avenues of communication and interaction should they observe activities inconsistent with our core values. While employees are encouraged first to speak openly about any issues, a 24/7 hotline provides an opportunity to express concerns anonymously.

We consider the foundational value of integrity to be a non-negotiable requirement of employment, and an expectation of suppliers, partners, and our customers. We guard our reputation and will take necessary action to protect it. An essential part of our brand promise is always to engage employees, customers, partners, suppliers, and investors with integrity.

As part of our effort to improve our disclosures around human capital issues, we provided a public report pursuant to the Sustainability Accounting Standards Board ("SASB") Software & IT Service Standard, which addresses, in part, metrics relating to recruiting and managing a global, diverse and skilled workforce.

Talent Acquisition and Retention

We operate in a very competitive environment for talent. To ensure we can attract the most well-qualified employees, we employ strategic sourcing methods, innovative recruitment campaigns, and inclusive outreach initiatives to attract a diverse pool of candidates. This involves leveraging various channels, such as job boards, social media platforms, and diversity-focused partnerships, to engage with candidates from different backgrounds and experiences.

We continuously make improvements to our employee value proposition, including enhancements on benefits available to employees, increasing paid time off and parental leave, accelerating the vesting period for stock matched by the Company in employees' 401(k) plans, instituting a new performance management program, and various supplemental programs to support our employees' physical, mental and financial well-being.

In addition, at Telos, we help our employees succeed by providing flexibility in where and how they work. The employees' ability to work remotely or in a hybrid arrangement is a strategy that helps us attract, hire and retain the best people, regardless of their specific location. This strategy increases employee empowerment and satisfaction, drives efficiency, and enables us to hire from a broad and diverse talent pool.

We are committed to providing a work environment free of discrimination and harassment, where our employees can do their best work, bring their whole selves to work, feel supported, and in turn, support others. We strive to create a working environment where everyone feels included and respected and has an equal opportunity to contribute. We promote collaboration and encourage employees to maximize their potential by bringing varied views, experiences, and perspectives to their work. Our objective is to continue to improve our hiring, development, training, advancement, and retention of talent and to foster a synergistic environment at Telos.

Seasonality

We generally experience seasonality due to our key customers' fiscal year ends and procurement cycles. We derive a substantial portion of our revenue from the U.S. government, whose fiscal year ends on September 30 of each year, which may impact our third fiscal quarter. In addition, our quarterly results may be impacted by the number of working days in a given quarter. See *"Risk Factors — We are subject to the seasonality of U.S. government spending."*

Government Contracts and Regulation

Our business is heavily regulated, and we must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. government and other contracts. U.S. government contracts generally are subject to the Federal Acquisition Regulation ("FAR") and Defense Federal Acquisition Regulation Supplement ("DFARS"), which sets forth policies, procedures and requirements for acquiring goods and services by the U.S. government, and agency-specific regulations that implement or supplement the FAR or DFARS. These regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, security, contract pricing and cost, contract termination, and adjustments and audit requirements. These laws and regulations, among other things:

- Impose specific and unique cost accounting practices that may differ from Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP" or "GAAP") and therefore require reconciliation;
- Define allowable and unallowable costs and otherwise govern our right to reimbursement under various cost-type U.S. government contracts;
- Require compliance with U.S. government Cost Accounting Standards;
- Require reviews by the Defense Contract Audit Agency, Defense Contract Management Agency and other U.S. government agencies for compliance with government requirements for a contractor's business system; and
- Restrict the use and dissemination of, and require the protection of, unclassified contract-related information and information classified for national security purposes and the export of certain products and technical data.

U.S. government customers employ several contracting methods to purchase services and products. Budgetary pressures and reforms in the procurement process have caused many U.S. government customers to increasingly purchase services and products using contracting methods that allow them to select multiple contract winners or pre-qualify certain contractors to provide services or products on established general terms and conditions rather than through single-award contracts. The predominant contracting methods through which U.S. government agencies procure services and products include definitive award contracts, IDIQ contracts, Blanket Purchase Agreements ("BPAs"), U.S. General Service Administration ("GSA") schedule contracts and other transactional agreements ("OTA").

Government contracts are subject to congressional funding. Consequently, at the outset of a program, a contract is usually partially funded, and Congress annually determines if additional funds are to be appropriated to the contract. All of our government customers have the right to terminate their contract with us at their convenience or in the event that we default. Most of our contracts have cancellation terms that permit us to recover all or a portion of our incurred costs and fees for work performed where the U.S. government issues a termination for convenience.

A portion of our business is classified by the U.S. government and cannot be specifically described. The operating results of these classified programs are included in our consolidated financial statements.

These regulations and risks are described in more detail below under [Item 1A, "Risk Factors"](#) in this Annual Report on Form 10-K.

Environmental, Social, and Governance Matters

We strive to operate our business in an environmentally responsible manner and in support of sustainable long-term financial performance. Our Environmental, Social and Governance ("ESG") task force is charged with addressing climate and environmentally-related risks and opportunities, including our publicly-disclosed climate transition plan. The Company publicly reports certain climate change-related information via CDP and provides public sustainability disclosures using the SASB Software & IT Service Standard. By making these disclosures, however, we have not concluded that the information disclosed is material to our business and this information is not incorporated by reference into and is not a part of this Annual Report on Form 10-K. The Board of Directors authorized the Nominating and Corporate Governance Committee to oversee the Company's ESG efforts, which include climate-related risks and opportunities.

See [Item 1A, "Risk Factors,"](#) for discussion of risks related to global climate and ESG matters.

Company Website and Available Information

Our corporate headquarters is located at 19886 Ashburn Road, Ashburn, Virginia 20147, and our telephone number is (703) 724-3800. Our website can be accessed at www.telos.com, which contains information about our Company and operations. Through a link on the Investor Relations section of our website, copies of each of our filings with the U.S. Securities and Exchange Commission ("SEC") can be viewed and downloaded free of charge as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. The information on our website is not incorporated by reference into and is not part of this Annual Report on Form 10-K.

The SEC also maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including Telos.

Item 1A. Risk Factors

In your evaluation of the Company and business, you should carefully consider the risks and uncertainties as described below, together with the information included elsewhere in this Annual Report on Form 10-K and other documents we file with the SEC. These factors, as well as additional risks and uncertainties not currently known to us or that we currently believe are immaterial, may currently have, or may have, a significant impact on our business, operating results or financial condition. Actual results could differ materially from those projected in the forward-looking statements contained in this Form 10-K as a result of the risk factors discussed below and elsewhere in this Form 10-K.

Business and Operational Risks

Our business could be negatively affected by cyber or other information security breaches, threats or other disruptions.

We routinely experience cybersecurity threats, threats to our information technology infrastructure and attempts to gain access to our sensitive information, as do our customers, suppliers, prime and subcontractors, and joint venture partners. We experience similar security threats at customer sites that we operate and manage as a contractual requirement. The threats we face vary from attacks common to most industries to more advanced and persistent, highly organized adversaries who target us because we protect national security information. While we have security measures in place to protect our data and the data of our customers or end-users of our services, our services and underlying infrastructure may in the future be materially breached or compromised as a result of the following:

- Third-party attempts to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information to gain access to our customers' data, our data or our IT systems;
- Efforts by individuals or groups of hackers and sophisticated organizations, including state-sponsored organizations or nation-states;
- Cyberattacks on our internally built infrastructure;
- Vulnerabilities resulting from enhancements and updates to our existing solutions;
- Vulnerabilities in the products or components across the broad ecosystem that our services operate in or are dependent on;
- Vulnerabilities existing within newly acquired or integrated technologies and infrastructures;
- Vulnerabilities existing within third-party software or services that we employ;
- Attacks on, or vulnerabilities in, the many different underlying networks and services that power the Internet that our products depend on, most of which are not under our control or the control of our vendors, partners, or customers; and
- Employee or contractor errors or intentional acts that compromise our security systems.

To the extent possible, these risks are mitigated by our ability to maintain and improve information security governance policies, enhanced processes and internal security controls, including our ability to escalate and respond to known and potential risks. Although we have developed systems and processes designed to assess, identify, and manage material cybersecurity risks, we can provide no assurances that such systems and processes will provide absolute security. In the normal course of business, we are the target of malicious cyberattack attempts. To date, any such attempts have not been material to us, including to our reputation or business operations, or had a material financial impact, but there can be no assurance that future cyberattacks will not be material.

A security breach or incident could result in unauthorized parties obtaining access to, or the denial of authorized access to, our IT systems or data, or our customers' systems or data, including intellectual property, proprietary, sensitive, or other confidential information. A security breach or incident could result in the unauthorized disclosure of large quantities of our customers' personally identifiable information. A security breach could also result in a loss of confidence in the security of our services, damage our reputation, negatively impact our future sales, disrupt our business and lead to increases in insurance premiums and legal and financial exposure and liability. Finally, the detection, prevention and remediation of known or potential security vulnerabilities, including those arising from third-party hardware or software, may result in additional financial burdens due to additional direct and indirect costs, such as additional infrastructure capacity spending to mitigate any system degradation.

If our customers do not renew their subscriptions or contracts for our solutions and services and expand our relationships with them, our revenue could decline and our results of operations would be adversely impacted.

To continue to maintain and grow our business, it is important that our existing customers renew their subscriptions or contracts for our solutions and services when existing contract terms expire. Our customers have no obligation to renew or extend their subscriptions or contracts for our solutions or services after the expiration of the contractual periods, which vary in length, and in the normal course of business, some customers have elected not to renew or extend. It is difficult to predict attrition rates given the varying needs of our customer base. Our attrition rates may increase or fluctuate as a result of a number of factors, including customer dissatisfaction with our services, customers' spending levels, mix of customer base, decreases in the number of users at our customers, competition, pricing increases or changes, and deteriorating general economic conditions or budgetary constraints.

Our future success also depends in part on our ability to expand our relationships with our current customers by selling additional features, solutions and services, more subscriptions or enhanced editions of our solutions and services. This may also require increasingly sophisticated and costly sales efforts that are targeted at senior leaders. Similarly, the rate at which our customers purchase new or enhanced solutions and services depends on a number of factors, some of which are beyond our control.

If our efforts to maintain and expand our relationships with our existing customers are not successful, our business could be harmed.

The U.S. government may terminate, cancel, delay, modify or curtail our contracts at any time prior to completion and, if we do not replace them, this may adversely affect our future revenues and could adversely impact our earnings.

Many of the U.S. government programs in which we participate, both as a contractor or subcontractor, extend for several years and include one or more base years and one or more option years. These programs are typically funded on an annual basis. Under these contracts, the U.S. government generally has the right not to exercise options to extend or expand our contracts and may otherwise terminate, cancel, modify or curtail our contracts at its convenience.

First, the process may be delayed or disrupted. Changes in congressional schedules, administration priorities, negotiations for program funding levels or unforeseen world events can interrupt the funding for a program or contract. Second, funds for multi-year contracts can be changed in subsequent years in the appropriations process. In addition, the U.S. government has increasingly relied on IDIQ contracts and other procurement vehicles that are subject to a competitive bidding and funding process even after the award of the basic contract, adding an element of uncertainty to future funding levels. Delays in the funding process or changes in funding or funding priorities can impact the timing of available funds or can lead to changes in program content, delay or termination at the government's convenience.

Any decisions by the U.S. government to not exercise contract options or to terminate, cancel, delay, modify or curtail our major programs or contracts would adversely affect our revenues, revenue growth and profitability.

Federal government spending reductions, workforce changes, and policy shifts may impact our existing operations and future opportunities for new contracts.

Uncertainty exists regarding how future budget and program decisions will unfold, including the spending priorities of the new U.S. presidential administration and Congress, and what challenges budget reductions will present for us and our industry generally. The current administration's efforts to reduce the size and spending of the federal government pose several potential risks to our operations. The focus on reducing government spending may lead to fewer contracts being awarded, reduced contract values, or delays in the awarding of contracts. Changes in federal priorities may result in a shift away from governance, risk and compliance software solutions, cybersecurity, and digital identity services, potentially reducing demand for our offerings.

Budgetary constraints and spending freezes may lead to delays in contract awards and renewals, as well as modifications or terminations of existing contracts. This could disrupt our revenue streams and require adjustments to our operations and workforce. As federal agencies adjust their spending priorities, there may be a reduction in new business opportunities, limiting our growth prospects and market expansion efforts.

Terminations, reductions in force, and hiring freezes within federal agencies may lead to a loss of institutional knowledge and expertise, resulting in delays or disruptions in project execution. Workforce shortages may also affect contract management and oversight, impacting the quality and timeliness of our service delivery.

The uncertainty surrounding federal budget allocations, workforce changes, and policy shifts may hinder our ability to execute long-term strategic initiatives and build and maintain long-term relationships with key government stakeholders. As federal agencies face staffing challenges and budget constraints, there may be increased competition among contractors for limited government resources and attention, leading to more stringent contract terms and lower profit margins.

We continue to monitor these developments closely and are actively engaging with stakeholders to mitigate potential adverse impacts. However, there can be no assurance that we will be able to fully offset the effects of any reductions in federal government spending, workforce changes, or policy shifts on our business operations and customer relationships.

We are dependent on a few key customer contracts for a significant portion of our future revenue, and a significant reduction in goods and services or delay in implementation to one or more of these contracts would reduce or delay our future revenue and could materially affect our anticipated operating results.

A small number of our large customer contracts are expected to comprise a significant portion of our future revenue. Our business will likely be harmed if any of our key customer contracts generate less revenue than we forecast, and the termination or delay of a large contract or multiple contracts could have a material adverse effect on our revenue and profitability. Adverse events affecting the programs subject to these contracts, such as a significant decline in the traveling public or any significant supply chain delay, could also negatively affect our ability to process transactions under those contracts, which could adversely affect our revenue and the results of operations.

A failure to attract, train, retain and motivate key and skilled employees, including key members of our management team, would adversely affect our ability to execute our strategy and may disrupt our operations.

Our business relies heavily upon the expertise and services of our employees. Our success depends upon the continued services of our highly qualified and experienced executive officers and other key members of management. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives. Such changes in our executive management team may be disruptive to our business.

We are also substantially dependent on the continued service of our existing highly trained and skilled personnel, particularly our business development and operations group, because of the complexity of our services and technologies. The technology industry is subject to substantial and continuous competition for engineers and other subject matter experts with high levels of experience in designing, developing and managing software, cybersecurity, and Internet-related services, as well as competition for sales executives, data scientists and operations personnel. Competition for skilled personnel is intense and many U.S. government programs also require contractors to have security clearances, which can be difficult and time-consuming to obtain.

We may not be successful in attracting and retaining qualified personnel. From time to time, we have experienced, and we expect to continue to experience, difficulty in hiring, developing, integrating and retaining highly skilled employees with appropriate qualifications. These difficulties may be amplified by evolving restrictions on immigration, travel, or the availability of visas for skilled technology workers. These difficulties could be further amplified by the high cost of living in the Washington D.C. metropolitan area, where our headquarters is located. If we fail to attract new personnel or fail to retain and motivate our current key employees or group, our business and future growth prospects could be severely harmed.

Due to the competitive bidding process to obtain U.S. government contracts, both upon initial issuance and re-competition, and the likelihood of bid protest, we may be unable to achieve or sustain revenue growth and profitability.

Many of our U.S. government contracts are awarded through a competitive bidding process upon initial award and renewal, and we expect this will continue. There is often significant competition and pricing pressure as a result of this process. The competitive bidding process presents a number of risks, including the following:

- From time to time we expend substantial funds and time to prepare bids and proposals for contracts that are ultimately awarded to one of our competitors;
- From time to time we are unable to accurately estimate the resources and costs that will be required to perform any contract we are awarded, which results in substantial cost overruns and decreased margins;
- From time to time we encounter expense and delay when our competitors protest or challenge awards of contracts, and any such protest or challenge could result in a requirement to resubmit bids on modified specifications or in the termination, reduction or modification of the awarded contract;
- From time to time the protest of contracts awarded to us results in the delay of program performance and the generation of revenue while the protest is pending; and
- From time to time we are not given the opportunity to re-compete for U.S. government contracts previously awarded to us, and we may incur expenses to protest such a decision and ultimately may not succeed in competing for or winning such contract renewal.

The U.S. government contracts for which we compete typically have multiple option periods, and if, as happens from time to time, we fail to win a contract or a task order, we generally will be unable to compete again for that contract for several years. If we fail to win new contracts or to receive renewal contracts upon re-competition, it may result in additional costs and expenses and possible loss of revenue, and we will not have an opportunity to compete for these contract opportunities again until such contracts expire.

Our competitive position and future profitability depend, in part, on our ability to develop new technologies.

Our ability to increase revenue from existing customers and attract new customers will depend, in part, on our ability to anticipate and respond effectively to rapid technological changes and market developments. Virtually all of the products we produce and sell are highly engineered and require sophisticated manufacturing and system integration techniques and capabilities. The government market in which we primarily operate is characterized by rapidly changing technologies. The product or program needs of our government and commercial customers change and evolve regularly. Accordingly, our future performance in part depends on our ability to identify emerging technological trends, devote adequate research and development resources, develop and manufacture competitive products, and bring those products to market quickly at cost-effective prices. If we fail to effectively anticipate, identify and respond to these changes in product or program needs in a timely manner, our business could be negatively impacted. Likewise, if we are unable to develop new products that meet customers' changing needs, future sales and earnings may be adversely affected.

Our financial results may fluctuate due to increasing variability in our security solutions' sales and implementation cycles.

We market the majority of our security solutions directly to U.S. government customers. The sale and implementation of our services to these entities typically involves a lengthy education process and a significant technical evaluation and commitment of capital and other resources, which adds uncertainty to our sales cycle. This process is also subject to the risk of delays associated with customers' internal budgeting and other procedures for approving large capital expenditures, deploying new technologies within their networks and testing and accepting new technologies that affect key operations.

As a result, the sales and implementation cycles associated with certain of our services can be difficult to predict and lengthy. Our quarterly and annual operating results could be materially harmed if orders forecasted for a specific customer for a particular period of time are not realized.

Failure to effectively develop and execute our sales and business development capabilities will harm our ability to grow our business.

Our ability to increase our customer base and achieve broader market acceptance of our solutions and services depends, to a significant extent, on our ability to perform at a high level in our business development, growth, sales and marketing operations and activities. We believe that selling and marketing our security solutions requires advanced sales skills, customer relationships and technical knowledge to generate interest and to effectively communicate our solutions or services to new markets.

We may not achieve anticipated revenue growth from our growth team if we are unable to hire and develop talented business development and sales personnel, if our new business development and sales personnel are unable to achieve desired productivity levels in a reasonable period of time, or if we are unable to retain our existing sales force.

We depend on computing infrastructure operated by third parties to support some of our solutions and customers, and to help complete critical business functions. Any errors, disruption, performance problems, or failure in their or our operational infrastructure could adversely affect our business, financial condition, and results of operations.

We rely on the technology, infrastructure, and software applications of certain third parties in order to host or operate certain key platform features or functions of our business. Additionally, we rely on third-party computer hardware and cloud capabilities in order to deliver our solutions and services. Our business is dependent on the integrity, security and efficient operation of this technology and infrastructure, and we do not necessarily control the operation or data security of the third parties we utilize.

If any of these third-party services experience errors, disruptions, security issues, or other performance deficiencies; if they are updated such that our solutions become incompatible; if these services, software, or hardware fails or becomes unavailable due to extended outages, interruptions, defects, or otherwise; or if they are no longer available on commercially reasonable terms or prices (or at all), these issues could result in errors or defects in our solutions, failure of our solutions to perform, decline in our revenue and margins, damage to our reputation and brand, exposure to legal or contractual liability, increase in our expenses, and interruption in our ability to manage our operations. In addition, our processes for managing our sales and servicing our customers could be impaired until equivalent services or technology, if available, are identified, procured, and implemented, all of which may take significant time and resources, increase our costs, and could adversely affect our business. Many of these third-party providers attempt to impose limitations on their liability for such errors, disruptions, defects, performance deficiencies, or failures, and if enforceable, we may have additional liability to our customers or third-party providers.

Furthermore, our solutions are, in many cases, important or essential to our customers' operations, including, in some cases, their cybersecurity or oversight and compliance programs, and subject to service level agreements. Any interruption in our service, whether as a result of an internal or third-party issue, could damage our brand and reputation, cause our customers to terminate or not renew their contracts with us or decrease the use of our solutions and services, require us to indemnify our customers against certain losses, result in our issuing credit or paying penalties or fines, subject us to other losses or liabilities, cause our solutions to be perceived as unreliable or unsecured, and prevent us from gaining new or additional business from current or future customers, any of which could harm our business, financial condition, and results of operations.

Moreover, to the extent that we do not effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business, financial condition, and results of operations could be adversely affected. The provisioning of additional cloud hosting capacity requires lead time. These third parties have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If these third parties increase pricing terms, terminate or seek to terminate our contractual relationship, establish more favorable relationships with our competitors, or change or interpret their terms of service or policies in a manner that is unfavorable with respect to us, we may be required to transfer to other cloud providers or invest in a private cloud. In that case, we could incur significant costs and experience possible service interruption in connection with doing so, or risk loss of customer contracts if they are unwilling to accept such a change.

A failure to maintain our relationships with our third-party providers (or obtain adequate replacements), and to receive services from such providers that do not contain any material errors or defects, could adversely affect our ability to deliver effective products and solutions to our customers and adversely affect our business and results of operations.

We depend on third parties for certain operational services and components of our products in order to fully perform under our contracts, and the failure or disruption of a third party to perform these services could have an adverse impact on our business.

We rely on subcontractors and other suppliers to provide materials, major components and subsystems for our products or to perform a portion of the services that we provide to our customers. Occasionally, we rely on only one or two sources of supply, which, if disrupted, could have an adverse effect on our ability to meet our commitments to customers. We depend on these subcontractors and suppliers to fulfill their contractual obligations in a timely and satisfactory manner in full compliance with customer requirements. If one or more of our suppliers or subcontractors is unable to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services per its contractual obligations, our ability to perform our obligations as a contractor may be adversely affected, and we may be exposed to liability.

Failure to adequately protect our intellectual property, technologies and proprietary rights could harm our business, competitive position, financial condition, and results of operations.

Our success depends, in part, on our internally developed technologies, patents and other intellectual property. Despite our precautions, it may be possible for a third party to copy or otherwise obtain and use our trade secrets or other forms of intellectual property without authorization. Furthermore, the laws of foreign countries may not protect our proprietary rights in those countries to the same extent U.S. law protects these rights in the United States. In addition, it is possible that others may independently develop substantially equivalent intellectual property. If we do not effectively protect our intellectual property, our business could suffer.

To protect our intellectual property rights, we may be required to spend significant resources to monitor and protect our rights. In the future, we may have to resort to litigation to enforce our intellectual property rights, protect our trade secrets, or determine the validity and scope of the proprietary rights of others. Regardless of outcome, this type of litigation could result in substantial costs and diversion of management and technical resources. The inability to adequately protect and enforce our intellectual property and other proprietary rights could seriously harm our business, results of operations and financial condition.

Our earnings and profitability may vary based on the mix of our contracts and may be adversely affected by our failure to estimate and manage costs, time, and resources accurately.

Generally, our customer contracts are either firm-fixed-price ("FFP") or cost-reimbursable. Under FFP contracts, which represented approximately 75% of our 2024 revenues, we receive a fixed price irrespective of the actual costs we incur, and consequently, we carry the burden of any cost overruns. Due to their nature, fixed-price contracts inherently have more risk than cost-reimbursable contracts, particularly fixed-price development contracts where the costs to complete the development stage of the program can be highly variable, uncertain and difficult to estimate. Under cost-reimbursable contracts, subject to a contract-ceiling amount in certain cases, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance-based. If our costs exceed the contract ceiling and are not authorized by the customer or are not allowable under the contract or applicable regulations, we may not be able to obtain reimbursement for all such costs and our fees may be reduced or eliminated. In addition, because many of our contracts involve advanced designs and innovative technologies, we may experience unforeseen technological difficulties and cost overruns.

Under both types of contracts, we must accurately estimate the likely volume of work that will occur, costs and resource requirements involved, and assess the probability of completing individual transactions or milestones within the contracted time period and amount to maximize or earn profit on these contracts. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts, we may not realize their full benefits. Cost overruns or poor cost controls could lower earnings, or may incur a net loss on a contract, and cause a negative impact on our results of operations.

We will face risks associated with the growth of our business in new commercial markets and with new customer verticals, and we may not be able to achieve organic growth nor have the necessary resources to dedicate to the overall growth of our business.

To increase our revenue and achieve and maintain profitability, we plan to expand our operations in new commercial markets, including those where we may have limited operating experience, and may be subject to increased business, technology and economic risks that could affect our financial results. In the future, we may increasingly focus on commercial customers, including in the banking, financial services, healthcare, manufacturing, telecommunication, airlines and aerospace, insurance, retail, transportation, shipping and logistics, and energy industries, as well as other critical infrastructure industries. Entering new verticals and expanding in the verticals in which we are already operating will continue to require significant resources and there is no guarantee that such efforts will be successful or beneficial to us.

Although sales to a new customer have often led to additional sales to the same customer or similarly situated customers, it is uncertain we will achieve the same penetration and organic growth in the future, and our reputation, business, financial condition, and results of operations could be negatively impacted. As we expand into and within new and emerging markets and heavily regulated industry verticals, we will likely face additional regulatory scrutiny, risks, and burdens from the governments and agencies that regulate those markets and industries.

Failure to deliver high-quality technical support services may adversely affect our relationships with our customers and our financial results.

Our customers depend on our support organization to resolve technical issues relating to our solutions and offerings. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. Increased customer demand for these services, without corresponding revenues, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on the reputation of our solutions, support and positive recommendations from our existing customers. Failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our offerings to existing and prospective customers, and our business, operating results and financial position.

Our growth depends, in part, on the success of our strategic relationship with our partner organizations.

To grow our business, we will continue to build, grow and maintain relationships with third parties, such as partner organizations, that provide complementary cybersecurity offerings. Identifying partners and negotiating relationships with them requires significant time and resources. The relationship we have with our partners, and that our partners have with our customers, provides our customers with enhanced value for our solutions and services.

Our agreements with our partners are generally non-exclusive; therefore, our partners may offer customer solutions from several companies, including solutions and services that compete with ours. If our partners do not effectively market and sell our solutions or services, or use greater efforts to market and sell their solutions or those of our competitors, or fail to meet the needs of our customers, or if we are unsuccessful in establishing or maintaining our relationships with our partners, our ability to compete in the marketplace or to grow our revenue could be impaired, and our results of operations could be adversely affected.

If we are unable to license third-party technology that is used in our products and services to perform key functions, the loss could have an adverse effect on our revenues.

We currently incorporate technology that we license from third parties, including software, into our solutions. The third-party technology licenses we use may not continue to be available on commercially reasonable terms or at all. Our business could suffer if we lost the right to use these technologies. Additionally, if we are unable to license technology from third parties, we may be forced to acquire or develop alternative technology, which we may be unable to do in a commercially feasible manner or at all, and may require us to use alternative technology of lower quality or performance standards. As a result, our margins and results of operations could be significantly harmed.

A third party could claim that the licensed software infringes a patent or other proprietary right. Litigation between the licensor and a third party or between a third party and us could lead to royalty obligations for which we are not indemnified or for which indemnification is insufficient, or we may not be able to obtain any additional license on commercially reasonable terms or at all. The loss of, or our inability to obtain or maintain, any of these technology licenses could delay the introduction of new products or services until equivalent technology, if available, is identified, licensed and integrated.

The inability to set optimal pricing structures for our solutions and services could adversely impact our business, financial condition and results of operations.

From time to time, we change our pricing model in response to competition, global economic conditions, and general reductions in our customers' spending levels, pricing studies, or changes in how our solutions are broadly consumed. Similarly, as we introduce new products and services, or as a result of the evolution of our existing solutions and services, we may have difficulty determining the appropriate price structure for our products and services. Further, as new and existing competitors introduce new products or services that compete with ours, or revise their pricing structures, we may be unable to attract new customers at the same price or based on the same pricing model as we have used historically. Moreover, as we continue to target selling our solutions and services to larger organizations, these larger organizations may demand substantial price concessions. We may also need to change pricing policies to accommodate government pricing guidelines for our contracts with federal, state, local, and foreign governments and government agencies.

If we are unable to modify or develop pricing models and strategies that are attractive to existing and prospective customers, while enabling us to significantly grow our sales and revenue relative to our associated costs and expenses in a reasonable period of time, our business, financial condition, and results of operations may be adversely impacted.

Sales to customers outside the United States expose us to risks inherent in international operations.

We sell our services outside the United States and are subject to unique risks and challenges associated with international business. These risks and challenges include, but are not limited to, (a) compliance with governmental laws and regulations, (b) foreign business practices, (c) tax environments, (d) protection of our intellectual property, and (e) regional economic and geopolitical conditions.

Although our international operations have historically generated a small proportion of our revenues, any of these factors could negatively impact our business and results of operations. In addition, these factors may also negatively impact our ability to successfully expand into emerging market countries, where we have little or no operating experience, where it can be costly and challenging to establish and maintain operations, including hiring and managing required personnel, and difficult to promote our brand, and where we may not benefit from any first-to-market advantage or otherwise succeed.

We may be subject to legal proceedings, regulatory disputes and governmental inquiries that could materially harm our business, operating results, and financial condition.

From time to time, in the ordinary course of business, we have been involved in legal proceedings and, in the future, may be subject to lawsuits, claims, government investigations and other proceedings. These may include lawsuits and claims related to securities compliance, contracts, subcontracts, intellectual property, employment and wage claims, and other matters. Our business may be adversely affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. Those contingencies include, but are not limited to, the cost of litigation and unpredictable court decisions. Adverse outcomes with respect to litigation, or a government inquiry, or any of these legal proceedings may result in significant settlement costs or judgments, penalties and fines, or harm our reputation, all of which could negatively affect our business, results of operations and financial conditions.

Potential future acquisitions, strategic investments, partnerships, divestitures, mergers or joint ventures may subject us to significant risks, any of which could harm our business.

We have in the past acquired, and may in the future seek to acquire or invest in complementary businesses, products or technologies to enhance our technical capabilities or otherwise capture growth opportunities.

Our long-term strategy may include identifying and acquiring, partnering with, investing in or merging with suitable candidates on acceptable terms, or divesting of certain business lines or activities. Partnerships, mergers, joint ventures, acquisitions, and divestitures include a number of risks and present financial, managerial and operational challenges, including but not limited to:

- Diversion of management attention from running our existing business;
- Possible material weaknesses in internal control over financial reporting;
- Increased expenses, including legal, administrative and compensation expenses related to newly hired or terminated employees;
- Increased costs to integrate the technology, personnel, customer base and business practices of the acquired company with us;
- Potential exposure to material liabilities not discovered in the due diligence process;

- Potential adverse effects on reported operating results due to possible write-down of goodwill and other intangible assets associated with acquisitions; and
- Unavailability of acquisition financing or unavailability of such financing on reasonable terms.

Any acquired business, technology, service or product could significantly underperform relative to our expectations and may not achieve the benefits we expect from possible acquisitions. For all these reasons, our pursuit of an acquisition, partnership, investment, divestiture, merger, or joint venture could cause its actual results to differ materially from those anticipated and/or negatively affect our business.

Public confidence in, and acceptance of, identity platforms and biometrics generally, and our solutions specifically, will be a key factor in our business's continued growth.

Our future profitability will depend, in part, on public confidence in and acceptance of identity platforms and biometrics generally. Continued acceptance of identity platforms and biometric information as a secure and reliable method to identify individuals, mitigate risk and minimize fraud is an important factor in our continued growth. While both identity platforms and biometrics have become more widely adopted, they may not achieve universal acceptance. The attractiveness of our solutions to our customers is impacted by a number of factors, including the willingness of individuals to provide their personal information, including biometric information, to private or governmental entities, the level of confidence that such information can be stored safely and securely, and trust that such information will not be misused or breached. Certain individuals may never accept the use of biometrics as being safe. If identity platforms and biometrics do not achieve universal acceptance, or our solutions are not competitive with our industry players, our growth could be limited, which could materially adversely affect our business, results of operations and financial condition.

On the other hand, any negative associations or perceptions with our solutions or biometrics could impede our business growth and could adversely affect our business, results of operations and financial condition. Likewise, any breaches of our information technology systems, particularly on the use and collection of biometric information, may subject us to significant reputational, financial, legal or operational consequences.

Any decline or disruption in the travel industry could materially adversely affect our business, results of operations and financial condition.

One of our growth strategies is to increase revenue from our TSA PreCheck enrollment offerings. Accordingly, our performance is dependent in part on the strength of the travel industry. Our revenue is therefore susceptible to declines in or disruptions to leisure and business travel that may be caused by factors entirely out of our control, including, but not limited to, prolonged extreme weather, natural or man-made disasters, travel-related health concerns (including pandemics and epidemics or other outbreak of contagious diseases), restrictions related to travel, stay-at-home orders, wars and military actions, terrorist attacks, sources of political uncertainty or political events, protests, foreign policy changes, regional hostilities, general economic conditions (such as a recession or inflation), changes in regulations, labor unrest or travel-related accidents. Because these events or concerns, and the full impact of their effects, are largely unpredictable, they can dramatically and suddenly affect travel behavior and other activities by consumers, and therefore demand for our TSA PreCheck services, which could materially adversely affect our business, results of operations and financial condition. Additionally, as the Real ID Act will require passengers having compliant identification to travel by air in the United States by May 7, 2025, such regulation, if not extended, may decrease the number of travelers with compliant identification and, therefore, negatively impact the demand for our PreCheck services, which could materially adversely affect our business, results of operations and financial condition.

Actions that we are taking to restructure our business to improve profitability may not be as effective as anticipated.

We committed to a restructuring plan to streamline our workforce and realign our cost structure with the volume of our business. We executed the restructuring plan in early 2023, incurring restructuring-related costs, including employee severance and related benefit costs and external consulting and advisory fees related to the implementation of the restructuring plan. In addition, we undertook another restructuring action in the third quarter of 2024 in an effort to optimize our strategic priorities, and incurred severance and related benefit costs. We may be unable to realize the expected improved profitability and efficiency from our restructuring efforts.

We are subject to payment processing risk.

In certain instances, our customers pay for our products and services using their credit or debit cards as a payment method. Under this arrangement, we rely on third-party systems to process payments. Acceptance and processing of these payment methods are subject to certain rules and regulations, and require payment of interchange and other fees. The increases in payment processing fees, any disruption in our payment processing systems, material changes in the payment network, delays in receiving payments from third-party payment processors, or changes to rules or regulations concerning payment processing could adversely impact our results of operations.

Goodwill and intangible assets represent significant assets on our balance sheet and any impairment on these assets could negatively impact our results of operations, and shareholders' equity.

As of December 31, 2024, goodwill and intangible assets, net was 31% of our total assets. Goodwill and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable, and at least annually in the case of goodwill. The impairment test is based on several factors, estimates and assumptions requiring judgment. Adverse changes in macroeconomic conditions, industry and market consideration, overall financial performance, market capitalization and relevant entity-specific events could result in an impairment of goodwill and intangible assets.

For instance, in the third quarter of 2024, we decided to discontinue the development and/or sale of all or part of certain solutions for selected capitalized software projects, and certain projects which we ceased to use before the end of its useful life. As a result, we recognized an impairment loss on intangible assets of \$11.7 million as of December 31, 2024. Any future impairment of goodwill and intangible assets could have a negative impact on our results of operations and shareholders' equity in the period in which they are recognized.

Artificial Intelligence is an emerging technology and may involve significant risks and uncertainties.

The field of AI is characterized by rapid technological advancements and is subject to significant risks and uncertainties. Our future success is dependent on our ability to develop, integrate, and effectively utilize AI technologies especially in our Xacta solution. Given that this is a new and complex technology, we may face challenges related to the designing, developing, and implementing AI processes and procedures, including the risk of unforeseen operational failures. Further, this technology is subject to evolving industry standards and regulatory constraints. Failures to effectively address these risks and uncertainties may materially and adversely affect our business and results of operations.

Industry, Legal and Regulatory Risks

The business environment in which we operate is highly competitive, and we may not be able to compete successfully against existing or future competitors.

We operate in an intensely competitive market and diverse industry segment, and we expect competition to increase in the future from established businesses and new market entrants. Based on our current market analysis, no single company or small group of companies is in a dominant competitive position. Some large competitors offer capabilities in a number of markets that overlap many of the same areas in which we offer services, while certain companies are focused upon only one or a few of such markets. Some firms that compete with us in multiple areas include large, established defense contractors. In addition, we compete with smaller specialty companies, including risk and compliance management companies, organizational messaging companies, and security consulting organizations, and companies that provide secure network offerings. If we are unable to anticipate or react to these challenges or do not compete effectively, our competitive position could weaken and could result in a decline in revenue or reduced revenue growth, price reductions or reduced gross margins, and loss of market share, all of which could adversely affect our business.

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.

Our customers are substantially U.S. government agencies. The customer relationship with the U.S. government involves certain unique risks. The programs we participate in must compete with other programs and policy imperatives during the budget and appropriations process.

If government funding relating to our contracts with the U.S. government becomes unavailable, or is reduced or delayed, or planned orders are reduced, our contracts or subcontracts may be terminated or adjusted by the U.S. government or the prime contractor. Our operating results could also be adversely affected by spending caps or changes in the budgetary priorities of the U.S. government, as well as delays in program starts or the award of contracts or task orders under contracts.

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 a series of continuing resolutions to extend sufficient funds only for U.S. government agencies to continue operating. Moreover, the national debt threatened to reach the statutory debt ceiling, 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.

We are subject to the seasonality of U.S. government spending.

We derive a substantial portion of our revenues from U.S. government contracting, and as a result, we are subject to the annual seasonality of U.S. government purchasing. Because the U.S. government fiscal year ends on September 30, it is common for U.S. government agencies to award extra tasks in the weeks immediately prior to the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds. As a result of this seasonality, we have historically experienced higher revenues in the second half of our fiscal year, with the pace of orders typically substantially reduced during the first half of our fiscal year.

We are required to comply with stringent, complex and evolving laws, rules, regulations and standards, as well as contractual obligations relating to privacy, data protection and security, technology protection, and other matters. Any actual or perceived failure to comply with these requirements could have a material effect on our business.

We are subject to a variety of local, state, national, and international laws and directives and regulations in the United States and abroad that involve matters central to our business, including privacy and data protection, data security, data storage, retention, transfer and deletion, technology protection, and personal information. Foreign data protection, data security, privacy, and other laws and regulations can impose different obligations or be more restrictive than those in the United States. These U.S. federal, state and foreign laws and regulations, which, depending on the regime, may be enforced by private parties or government entities, are constantly evolving and can be subject to significant change, and they are likely to remain uncertain for the foreseeable future. In addition, the application, interpretation, and enforcement of these laws and regulations are often uncertain, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. A number of proposals are pending before U.S. federal, state, and foreign legislative and regulatory bodies that could significantly affect our business.

The overarching complexity of privacy and data protection laws and regulations around the world pose a compliance challenge that could manifest in costs, damages, or liability in other forms as a result of failure to implement proper programmatic controls, failure to adhere to those controls, or the malicious or inadvertent breach of applicable privacy and data protection requirements by us, our employees, our business partners, or our customers.

In addition to government regulation, self-regulatory standards and other industry standards may legally or contractually apply to us, be argued to apply to us, or we may elect to comply with such standards or to facilitate our customers' compliance with such standards. Because privacy, data protection, and information security are critical competitive factors in our industry, we may make statements on our website, in marketing materials, or in other settings about our data security measures and our compliance with, or our ability to facilitate our customers' compliance with, these standards.

We also expect that there will continue to be new proposed laws and regulations concerning privacy, data protection, and information security, and we cannot yet determine the impact such future laws, regulations and standards, or amendments to or re-interpretations of existing laws and regulations, industry standards, or other obligations may have on our business. New laws, amendments to or re-interpretations of existing laws and regulations, industry standards, and contractual and other obligations may require us to incur additional costs and restrict our business operations. As these legal regimes relating to privacy, data protection, and information security continue to evolve, they may result in ever-increasing public scrutiny and escalating levels of enforcement and sanctions. Furthermore, because the interpretation and application of laws, standards, contractual obligations and other obligations relating to privacy, data protection, and information security are uncertain, these laws, standards, and contractual and other obligations may be interpreted and applied in a manner that is, or is alleged to be, inconsistent with our data management practices, our policies or procedures, or the features of our solutions. If so, in addition to the possibility of fines, lawsuits, and other claims, we could be required to fundamentally change our business activities and practices or modify our solutions, which could have an adverse effect on our business. We may be unable to make such changes and modifications in a commercially reasonable manner or at all, and our ability to fulfill existing obligations, make enhancements, or develop new solutions and features could be limited. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our solutions.

These existing and proposed laws and regulations can be costly to comply with and can make our solutions and services less effective or valuable, delay or impede the development of new products, result in negative publicity, increase our operating costs, require us to modify our data handling practices, limit our operations, impose substantial fines and penalties, require significant management time and attention, or put our data or technology at risk. Any failure or perceived failure by us or our solutions to comply with U.S. or applicable foreign laws, regulations, directives, policies, industry standards, or legal obligations relating to privacy, data protection, or information security, or any security incident that results in loss of or the unauthorized access to, or acquisition, use, release, or transfer of, personal information, personal data, or other customer or sensitive data or information may result in governmental investigations, inquiries, enforcement actions and prosecutions, private claims and litigation, indemnification or other contractual obligations, other remedies, including fines or demands that we modify or cease existing business practices, or adverse publicity, and related costs and liabilities, which could significantly and adversely affect our business and results of operations.

We are subject to substantial oversight from federal agencies that have the authority to suspend our ability to bid on contracts.

As a U.S. government contractor, we are subject to oversight by many agencies and entities of the U.S. government that may investigate and make inquiries about our business practices and conduct audits of contract performance and cost accounting. Depending on the results of any such audits and investigations, the U.S. government may make claims against us. Under U.S. government procurement regulations and practices, an indictment of a U.S. government contractor could result in that contractor being fined and/or suspended for a period of time from eligibility for bidding on, or for the award of, new U.S. government contracts. A conviction could result in debarment for a specified period of time, and debarment could materially and negatively affect our business and operating results.

We are subject to governmental export and import controls that could impair our ability to compete in international markets and subject us to liability if we are not in full compliance with applicable laws.

Some of our solutions are subject to export and import controls, including, without limitation, the Department of State's Directorate of Defense Trade Controls, the Commerce Department's Export Administration Regulations, U.S. Customs regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Control. If we fail to comply with these U.S. export control laws and import laws, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers. Obtaining the necessary authorizations, including any required license, may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities.

Furthermore, the U.S. export control laws and economic sanctions laws prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments and persons. Even though we take precautions to prevent our solutions from being provisioned or provided to U.S. sanctions targets in violation of applicable regulations, our solutions could be provisioned to those targets despite such precautions. Any such sales could have negative consequences, including government investigations, penalties and reputational harm. Changes in our solutions or changes in export and import regulations may create delays in the introduction, sale and deployment of our solutions in international markets or prevent the export or import of our solutions to certain countries, governments or persons altogether. Any decreased use of our solutions or limitation on our ability to export or sell our solutions may adversely affect our business, financial condition and results of operations.

Risks Related to Our Financial Reporting and Common Stock

We may fail to meet our publicly announced guidance and other expectations about our business and operating results, which may cause our stock price to decline.

From time to time, we release guidance in our quarterly earnings conference calls, quarterly earnings releases, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which includes forward-looking statements, is based on projections prepared by our management. Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. Our aim is to state possible outcomes as high and low ranges to provide a sensitivity analysis as variables are changed but are not intended to imply that actual results could not fall outside of the suggested ranges. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such third parties.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances beyond our control could result in the actual operating results being different from our guidance, and the differences may be adverse and material. In light of the foregoing, investors are urged not to rely upon our guidance when making an investment decision regarding our common stock.

Furthermore, if we make downward revisions to our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet the expectations of securities analysts, investors or other interested parties, the price of our common stock may decline.

Our quarterly operating results fluctuate and may fall short of prior periods, our projections or the expectations of securities analysts or investors, which could adversely affect the trading price of our stock.

Our operating results have fluctuated from quarter to quarter at points in the past, and they may do so in the future. Therefore, the results of any one quarter may not be a reliable indication of results to be expected for any other quarter or for any year. If we fail to increase our results over prior periods, to achieve our projected results or to meet the expectations of securities analysts or investors, our stock price may decline, and the decrease in the stock price may be disproportionate to the shortfall in our financial performance. Results may be affected by various factors, including those described in these risk factors.

We cannot guarantee that our share repurchase program will be fully implemented or that it will enhance long-term stockholder value.

In May 2022, our Board of Directors approved a share repurchase program ("SRP") for the repurchase of up to \$50.0 million of our outstanding shares of our common stock. As of December 31, 2024, approximately \$38.7 million remained available under the stock repurchase program. The repurchase program has no termination date and may be suspended for periods, amended or discontinued at any time. We are not obligated to repurchase a specified number or dollar value of shares. Share repurchases under the program will be made from time to time in private transactions or open market purchases, as permitted by securities laws and other legal requirements. There can be no guarantee about the timing of our share repurchases, or that the volume of such repurchases will increase. The stock repurchase program could affect the price of our common stock, increase volatility, diminish our cash reserves, and even if fully implemented may not enhance long-term stockholder value.

If we fail to maintain an effective system of internal control, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), the rules and regulations of Nasdaq, and other securities rules and regulations that impose various requirements on public companies. Our management and other personnel devote substantial time and resources to comply with these rules and regulations. Such compliance has increased, and will continue to increase, our legal, accounting and financial compliance costs, makes some activities more difficult, time-consuming and costly, and places significant strain on our personnel, systems and resources. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting, and to report any material weaknesses in such internal control.

We are continuing to develop and refine our disclosure controls, internal control over financial reporting and other procedures that are designed to ensure information required to be disclosed by us in our consolidated financial statements and in the reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. Our current controls and any new controls we develop may become inadequate because of changes in conditions in our business. Additionally, to the extent we acquire other businesses, the acquired company may not have a sufficiently robust system of internal controls and we may uncover new deficiencies. Weaknesses in our internal controls may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our results of operations, may result in a restatement of our consolidated financial statements for prior periods, could cause us to fail to meet our reporting obligations, and could result in an adverse opinion regarding our internal control over financial reporting from our independent registered public accounting firm, and lead to investigations or sanctions by regulatory authorities. Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and results of operations and could cause a decline in the price of our stock.

Section 404 of the Sarbanes-Oxley Act requires our management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting. We are also required to have our independent registered public accounting firm attest to, and issue an opinion on, the effectiveness of our internal control over financial reporting. If we are unable to assert that our internal control over financial reporting is effective, or if, when required, our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline.

General Risk Factors

If our judgments or estimates relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could be adversely affected.

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires management to make judgments, estimates, and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of our common stock. Significant judgments, estimates, and assumptions used in preparing our consolidated financial statements include, or may in the future include, those related to revenue recognition, goodwill and other long-lived assets, and income taxes.

Weakened global economic conditions may adversely affect our industry, business, operating results and financial condition.

Our overall performance depends in part on worldwide economic and geopolitical conditions. The United States and other key international economies have experienced cyclical downturns from time to time in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. These economic conditions can arise suddenly and the full impact of such conditions can remain uncertain at any point in time. In addition, geopolitical developments, such as the invasion of Ukraine by Russia and the conflict in Gaza, can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets. Moreover, these conditions can affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our solutions and services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscription contracts, or affect attrition rates, all of which could adversely affect our future sales and operating results.

Our systems and the third-party systems upon which we and our customers rely are also vulnerable to damage or interruption from catastrophic occurrences or events outside our control.

Our systems and the third-party systems upon which we and our customers rely are also vulnerable to damage or interruption from catastrophic occurrences, telecommunication failures, cybersecurity threats, social unrest, geopolitical and similar events, or acts of misconduct. Despite any precautions we may take, the occurrence of a catastrophic disaster or other unanticipated problems at our or our third-party vendors' hosting facilities, or within our systems or the systems of third parties upon which we rely, could result in interruptions, performance problems, or failure of our infrastructure, technology, or solutions, which may adversely impact our business. In addition, our ability to conduct normal business operations could be severely affected. In the event of significant physical damage to one of these facilities, it may take a significant period of time to achieve full resumption of our services, and our disaster recovery planning may not account for all eventualities. In addition, any negative publicity arising from these disruptions could harm our reputation and brand and adversely affect our business.

We may also be impacted by natural disasters, wars, terrorist attacks, power outages, public health crises (epidemics or pandemics), or other events outside our control. If major disasters such as earthquakes, floods, hurricanes, tornadoes, fires, or other events occur, or our information system or communications network breaks down, operates improperly, or is unusable, our headquarters and other facilities may be seriously damaged, or we may have to stop or delay production and delivery of our solutions and services.

Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our solutions and services to our customers, and could decrease demand for our offerings. We may incur shutdowns, delays, disruptions or expenses relating to such events outside of our control, which could have a material adverse impact on our business, operating results and financial condition. Moreover, any significant natural disaster, pandemic, or other catastrophic or force majeure events could affect our personnel, supply chain, or service providers' ability to provide materials and perform services on a timely basis. Acts of terrorism and other geopolitical unrest could also potentially cause disruptions in our business or the business of our supply chain, services providers, or the economy as a whole. Because we do not carry insurance for all these possible losses, and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected by such an event outside our control.

Increased scrutiny of our environmental, social and governance responsibilities may result in additional costs and risks, and may adversely impact our reputation, employee retention, and willingness of customers and suppliers to do business with us.

Investor advocacy groups, institutional investors, investment funds, proxy advisory services, stockholders, and customers are increasingly focused on companies' ESG practices. Additionally, public interest and legislative pressure related to public companies' ESG practices continue to change. If our ESG practices fail to meet regulatory requirements or investor or other industry stakeholders' evolving expectations and standards for responsible corporate citizenship in areas including environmental stewardship, support for local communities, Board of Director and employee diversity, human capital management, employee health and safety practices, product quality, supply chain management, corporate governance and transparency and employing ESG strategies in our operations, our brand, reputation and employee retention may be negatively impacted and customers and suppliers may be unwilling to do business with us. In addition, as we work to align our ESG practices with industry standards, we may expand our disclosures in these areas and doing so may result in additional costs and require additional resources to monitor, report, and comply with our various ESG practices. If we fail to adopt ESG standards or practices as quickly as stakeholders desire, report on our ESG efforts or practices accurately, or satisfy the expectations of stakeholders, our reputation, business, financial performance and growth may be adversely impacted.

Changes in accounting principles or their application to us could result in unfavorable accounting charges or effects, which could adversely affect our results of operations and growth prospects.

We prepare consolidated financial statements in accordance with U.S. GAAP. In particular, we make certain estimates and assumptions related to the adoption and interpretation of these principles, including the recognition of our revenue and the accounting of our stock-based compensation expense with respect to our consolidated financial statements. If these assumptions turn out to be incorrect, our revenue or our stock-based compensation expense could materially differ from our expectations, which could have a material adverse effect on our financial results. A change in any of these principles or guidance, or in their interpretations or application to us, may have a significant impact on our reported results, as well as our processes and related controls, and may retroactively affect previously reported results or our forecasts, which may negatively impact our financial statements. For example, any recent new standards issued by the Financial Accounting Standards Board could materially impact our consolidated financial statements. The adoption of these new standards may potentially require enhancements or changes in our processes or systems and may require significant time and cost on behalf of our financial management. This may, in turn, adversely affect our results of operations and growth prospects.

Global climate-related risks could negatively affect our business.

There are inherent climate-related risks wherever business is conducted. Access to clean water and reliable energy in the communities where we conduct our business, whether for our offices, vendors, customers or other stakeholders, is a priority. Any of our primary locations may be vulnerable to the adverse effects of climate change. Climate-related events, including the increasing frequency of extreme weather events and their impact on U.S. critical infrastructure, have the potential to disrupt our business, our third-party suppliers, or the operations and business of our customers, and may cause us to experience higher attrition, losses and additional costs to maintain or resume operations.

Increased public awareness and concern regarding global climate change may result in state, federal or international requirements to reduce or mitigate global warming, such as the imposition of carbon pricing mechanisms or stricter limits on greenhouse gas emissions. If environmental or climate-change laws or regulations are adopted or changed that impose significant new costs, operational restrictions or compliance requirements upon our business or our products, they could increase our capital expenditures, reduce our margins and adversely affect our financial position.

In addition, our reputation and client relationships may be damaged as a result of our practices related to climate change, including our involvement, or our clients' involvement, in certain industries or projects associated with causing or exacerbating climate change, as well as any decisions we make to continue to conduct or change our activities in response to considerations relating to climate change.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

The Company's processes to assess, identify, and manage material cybersecurity risks

We developed an ISO/IEC 27001-certified Information Security Management System ("ISMS") designed to enhance our corporate security measures, identify and mitigate information security risks, and protect and preserve the confidentiality, integrity, and continued availability of all information owned by the Company and that of its customers and suppliers in our control. Our ISO certification can be verified on the BSI Group website using certificate number IS 649202.

Our ISMS includes developing, implementing, and continually improving policies and procedures designed to safeguard information and ensure the availability of critical data and systems. These policies cover areas such as requiring secure coding practices and a secure development lifecycle process, monthly information security awareness training for all employees and enhanced training for specialized personnel, review and assessment by external, independent third parties, who certify and report on our weaknesses and internal response preparedness for the entire Company, and the performance of daily vulnerability scanning of our network infrastructure as well as annual third-party penetration testing.

Our cybersecurity risk assessment, identification, and management process consists of a dedicated Governance Risk and Compliance ("GRC") team, within our Information Security organization, that implements a repeatable, ISO/IEC 27001-compliant methodology to assess and track cybersecurity risk. This team, reporting to and working with the Chief Information Security Officer ("CISO"), identifies, tracks, and updates cybersecurity risks that threaten the Company directly and through third parties. The GRC team collaborates closely with risk owners throughout the Company, vendors, and suppliers, working with them in an effort to ensure their risks are identified, documented, and mitigated in a timely fashion.

In addition to our active ISO/IEC 27001 certification, the Company also assesses itself against the National Institute of Standards and Technology Special Publication 800-171 as required by the Defense Federal Acquisition Regulation Supplement. In accordance with our ISMS, we also actively monitor known threats that could affect our products and services and work with our suppliers to provide us with real-time reports of threats or vulnerabilities that may affect our enterprise-wide systems. Our program also includes a cyber incident response plan that provides controls and procedures for timely and accurate reporting of any material cybersecurity incident, as well as a business continuity plan that is designed to provide a clear framework for how the Company can continue in the event of any significant disruption in an effort to ensure that we can offer the same level of security, support, and excellence to all our customers. In the normal course, our Security and GRC teams engage assessors, consultants, and other third parties to assist in various cyber-related matters. For example, to maintain our ISO certification, the Company utilizes an external third party to conduct yearly audits of its ISMS. Our Information Security organization also leverages third-party advisors, as appropriate, for various tasks, such as conducting annual third-party penetration testing.

We conduct an enterprise risk assessment that includes an assessment of cybersecurity risk in context with other enterprise-level risks. Furthermore, our CISO and our General Counsel regularly discuss cybersecurity risk mitigation. We carry errors and omissions insurance that provides some protection against the potential losses arising from a cybersecurity incident. For additional information regarding potential cybersecurity risks, see relevant business and operational risks under [Item 1A, "Risk Factors,"](#) of this Annual Report on Form 10-K.

In the last three years, we have not experienced a material information security breach incident or any penalties or settlements related to the same, and the expenses we have incurred from information security breach incidents were immaterial.

Management's role and expertise in assessing and managing material cybersecurity risks

Our Information Security team, led by our CISO, is responsible for assessing and managing material cybersecurity risks. Certifications held by the Information Security team include CompTIA A+, Network+, Security+, CyberSecurity Analyst+ ("CYSA+"), Pentest+, Advanced Security Practitioner ("CASP"), EC-Council Certified Ethical Hacker ("CEH"), Certified Security Analyst ("ECSA"), Computer Hacking Forensic Investigator ("CHFI"), Associate Chief Information Security Officer ("ACCISO"), CMMC-AB Registered Practitioner ("RP"), ISC2 Certified Information Systems Security Professional ("CISSP"), Systems Security Certified Practitioner ("SSCP"), ISACA Certified Information Security Manager ("CISM"), PCAP – Certified Associate Python Programmer, & eLearnSecurity Junior Penetration Tester ("eJPT"). Our CISO's background includes over 18 years of experience in IT and Information Security. His formal education includes a Master's degree in Cybersecurity and Information Assurance and a Bachelor's degree in Computer Forensics. Certifications held by the CISO include CompTIA A+, Network+, & Security+, Microsoft Technology Associate ("MTA"), CMMC-AB RP, ISO 27001 Certified Lead Implementer Professional, EC-Council CEH & CHFI, ISACA Certified Data Privacy Solutions Engineer ("CDPSE") & Certified Information Security Manager ("CISM"), ISC2 CISSP, and Offensive Security Certified Professional ("OSCP"). Our CISO reports to our Chief Information Technology Officer ("CITO"), who in turn reports to our Chief Executive Officer ("CEO"). Each of our CITO and our CEO have extensive experience in cybersecurity matters.

Our CISO provides reports to the Audit Committee of our Board of Directors on a standing basis at each Audit Committee meeting, and as otherwise requested by the Chair of the Audit Committee or as determined necessary by the CISO or other members of senior management. The CISO is personally involved in, and responsible for, the risk assessment, identification and management process described above.

Board of Director's oversight of cybersecurity risks

The Board of Directors has oversight responsibility with respect to risk management and reviews matters with management as part of management's regular Board reporting. The Board of Directors has delegated responsibility for information security and cybersecurity risk oversight to the Audit Committee. In accordance with its charter, the Audit Committee discharges these responsibilities through various processes, including the option to use third-party advisers as and when it deems appropriate, and discusses with management the Company's major policies with respect to risk assessment and risk management. The Audit Committee regularly reports the results of these discussions to the Board of Directors. As noted above, the CISO reports to the Audit Committee at each regular Audit Committee meeting on the status of cybersecurity risk assessment, identification and management, as well as reporting information security incidents as they occur, if material, and providing periodic briefings about our information security program, our internal response preparedness, and assessments led by outside advisors. The Chair of the Audit Committee, in turn, reports on these topics to the Board of Directors as and when deemed necessary and/or material. Overall, our Board contains two directors with work experience related to cybersecurity issues or oversight.

Item 2. Properties

We lease approximately 191,700 square feet of space for our corporate headquarters, integration facility, and primary service depot in Ashburn, Virginia. The lease expires in May 2029.

We leased additional office space in facilities located in Maryland, Florida and Nevada under various leases expiring through July 2027.

We believe that the current space is substantially adequate to meet our operating requirements.

Item 3. Legal Proceedings

Information regarding legal proceedings may be found in [Note 19 – Commitments and Contingencies](#) to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Global Market under the symbol "TLS."

As of March 3, 2025, there were approximately 156 holders of record of Telos common stock, par value \$0.001 par value. The number of shareholders of record of our common stock may not be representative of the number of beneficial owners due to shares that may be held by depositories, brokers or nominees.

For information regarding securities authorized for issuance under our stock-based compensation plan, see [Note 12 – Stock-Based Compensation](#) to the Consolidated Financial Statements contained in Item 8.

Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered equity securities during the three months ended December 31, 2024, that were not registered under the Securities Act and were not previously disclosed on a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

Purchases of Equity Securities

On May 24, 2022, the Board of Directors authorized a Share Repurchase Program ("SRP"), pursuant to which the Company can repurchase up to \$50.0 million of issued and outstanding common stock. The shares may be repurchased 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 repurchases of common stock in fiscal year 2024, and approximately \$38.7 million remained available for future common stock repurchases under the SRP as of December 31, 2024.

Item 6. [Reserved]

None

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K ("10-K"). In addition to historical financial information, the following discussion and analysis contain forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events in future periods may differ materially from those anticipated or implied in these forward-looking statements as a result of many factors, including those discussed under [Item 1A, "Risk Factors,"](#) and elsewhere in this 10-K. See also ["Special Note Regarding Forward-Looking Statements"](#) at the beginning of this 10-K.

In this section, we discuss our financial condition, changes in financial condition and results of operations for the year ended December 31, 2024, compared to the year ended December 31, 2023.

Overview

For an overview of our business, including our business segments and a discussion of the services and products we provide, see [Item 1, "Business"](#) of this 10-K. Additional information regarding our segments is also presented in [Note 18 – Segment Information](#) to the consolidated financial statements at Item 8 of this 10-K.

As discussed under [Item 1A, "Risk Factors,"](#) we derive a substantial portion of our revenues from contracts and subcontracts with the U.S. government. Our revenues are generated from a number of contract vehicles and task orders. The U.S. government has increasingly relied on contracts that are subject to a competitive bidding process (including IDIQ, GSA schedules, OTA, and other multi-award contracts), resulting in greater competition and increased pricing pressure. We expect that a majority of the business that we seek in the foreseeable future will be awarded through a competitive bidding process.

Over the past several years we have sought to diversify and improve our operating margins through the evolution of our business from an emphasis on product reselling to that of an advanced solutions technologies provider. Although we continue to offer resold products through our contract vehicles or our prime partners' contracts, we focused on the transformation and growth on selling our software and service solutions, as well as designing and delivering Telos manufactured and branded technologies. We believe our contract portfolio is characterized as having low to moderate financial risk due to the limited number of long-term fixed-price development contracts. Our firm-fixed-price activities consist primarily of contracts for products and services at established contract prices. For 2024 and 2023, the Company's revenue derived from firm-fixed-price contracts was 75% and 79%, respectively; time-and-material contracts was 15% and 9%, respectively; and cost-plus contracts revenue was 10% and 12%, respectively.

Our business performance is affected by the overall level of U.S. government spending and the alignment of our offerings and capabilities with the budget priorities of the U.S. government. Approximately 88% of our revenues were generated from U.S. government agencies in fiscal year 2024. In addition, our overall performance depends, in part, on global economic and geopolitical conditions. Adverse changes in fiscal and economic conditions could materially impact our business. Some changes that could adversely impact our business include the implementation of future spending reductions, government shutdown and supply chain challenges. Despite the budget and competitive pressure affecting the industry, we believe we are well-positioned to expand existing customer relationships and benefit from opportunities that we have not previously pursued.

Business Environment

U.S. Budget

In March 2024, the U.S. President proposed the annual appropriations for Fiscal Year ("FY") 2025 to fit within the tight caps set as part of the prior year's debt ceiling agreements. The FY2025 budget request included \$850 billion for the DoD base budget, in alignment with levels agreed to in the Fiscal Responsibility Act ("FRA") of 2023. This proposed budget will enable the DoD to make the investments necessary to execute the Administrations' 2022 National Security Strategy and 2022 National Defense Strategy. The President's FY2025 budget also proposed several increases for new, key cyber programs and initiatives. For FY2025, the White House had directed agencies to prioritize cyber investments in "secure by design" technologies and the modernization of legacy technology. In the wake of the President's Executive Order ("EO") on artificial intelligence last fall, the 2025 budget proposal includes plenty of AI-related spending, much of which intersects with cybersecurity and AI safety.

Congress was unable to enact any of its annual appropriations bills before the start of FY2025, which began on October 1, 2024. Instead, on December 20, 2024, the U.S. House and Senate passed a second Continuing Resolution ("CR") to extend federal spending and avert a government shutdown through March 14, 2025. The CR keeps the government operating at FY2024 funding levels, and ensures the federal government can receive adequate funding to operate for the duration of the CR. The current CR provides \$888 billion in base defense funding for 2025, an amount exceeding the \$850 billion cap on such funding established under the FRA. As of January 6, 2025, \$12 billion in Defense funding was designated as an emergency requirement, and is not constrained by the caps established by the FRA.

Appropriators in both chambers had been hoping to at least reach a topline spending agreement, but the momentum for a deal was derailed after the new Administration issued a slew of EOs since inauguration, including an order to freeze funding on several federal programs. While the Cybersecurity and Infrastructure Security Agency ("CISA") is viewed as vital for national security purposes and its programs will still continue, the new Administration has sworn to reduce the size and scope of CISA.

Of note, the CR did not address the federal debt ceiling, which is the limit that Congress imposes on the federal budget for authorized spending. In January 2025, the federal debt limit was reinstated at \$36.1 trillion to accommodate borrowing since its suspension through FRA. Until Congress acts to modify the limit, the Treasury Department relies on the available cash on hand and invoked authorities to use extraordinary measures to continue paying its debt obligations, without jeopardizing the "full faith and credit" of the U.S. government.

While there is no clear path to approval of the FY2025 budget, failure to do so poses uncertainty about actual funding and will impact federal customers' ability to move forward on their planned expenditures in FY2025.

Cybersecurity Landscape

The scope of cybersecurity is on the cusp of transformative changes. Cyber threats are not just escalating in frequency but are also becoming more sophisticated, thus challenging traditional security standards. In this rapidly evolving cybersecurity landscape, the need for vigilant defense is vital, and cybersecurity is a priority for organizations to mitigate their risk and keep safe from threats and exploitation. Understanding the threat environment and the impending trends (both current and future) is a matter of foresight and is crucial in designing effective security strategies. The DoD continues to invest in cybersecurity programs to protect the nation from malicious cyber actors and cyber campaigns. These investments strengthen cyber protection standards for the defense industrial base and cybersecurity of DoD networks. With this growing threat, below are some trends to consider when looking at the cybersecurity landscape:

Emerging Cyber and Counterintelligence Threats: The proposed FY2025 budget expands the Department of Justice's ("DOJ") ability to pursue threats through investments in the FBI's cyber and counterintelligence investigative capabilities. These investments sustain the FBI's cyber intelligence, counterintelligence, and analysis capabilities and include funding to enhance those cyber response and counterintelligence capabilities. The budget also includes funding to expand a new section within the DOJ's National Security Division to focus on cyber threats. These investments align with the National Cybersecurity Strategy that emphasizes a whole-of-nation approach to addressing ongoing cyber threats. Finally, the budget also provides for the DOJ to support the implementation of Executive Order 14110, "Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence."

Rising Threats, Rising Liability: Ransomware remains arguably the most severe cyber threat to enterprises in the commercial, state, and local government and education sectors. Phishing is one of the top distribution channels for ransomware. Modern phishing attacks have become adept at bypassing traditional security measures, using more personalized and technically advanced tactics to deceive users. One reason for the rise of ransomware attacks is that it is exceedingly profitable for cybercriminals, and ransomware victims generally settle the ransom rather than restoring the system from backups or dealing with the fallout from a data breach. Aside from the financial costs of paying the ransom and restoring the system, the consequences of a successful ransomware attack can include damage to the organization's reputation, stolen sensitive data being used for malicious purposes, and loss of business.

The Nation's Critical Systems Are Still at Risk: Critical infrastructure and industrial IoT are among the categories at greatest risk of cyberattacks. The IoT continues its rapid growth, interconnecting an increasing number of devices. However, this expansion brings with it a host of security challenges. The wide range of IoT devices make them attractive targets for cyberattacks, and their interrelated nature can lead to pervasive vulnerabilities.

Navigating a Changing Regulatory Landscape and Compliance: The regulatory landscape governing cybersecurity is developing swiftly. Over time, the government mandates stronger security in highly regulated industries. These government initiatives and audit fatigue continue to burden highly regulated organizations, with automation solutions recognized as the most effective remedy for the many repetitive and redundant tasks that security compliance requires.

Additionally, the SEC adopted new rules on cybersecurity risk management, strategy, governance and incident disclosure by public companies. The required reporting of this information leads many companies to proactively establish policies that will improve their cyber risk management posture and enable them to better withstand heightened public and regulatory scrutiny.

Identity Assurance and Privacy Protection are Essential for Today's Enterprises: Identity and access management continue 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. The shift to a Zero Trust framework represents a fundamental change in approach to cybersecurity, focusing on identity and access management, continuous monitoring and robust authentication mechanisms to establish a secure digital environment.

Enhancing Identity Security: The shift towards biometric authentication methods is redesigning identity verification in the digital domain. Integrating biometrics with multi-factor authentication can provide a robust defense against unauthorized access.

Artificial Intelligence: AI is set to play a critical role in cybersecurity. Cybercriminals are using AI to launch more sophisticated attacks that can quickly adapt to changing environments, making detection harder. AI's advanced data analysis capabilities are increasingly used for defensive measures over time. 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 in a timely manner before they cause damage. The proposed FY2025 budget provides \$455 million to extend the frontiers of AI for science and technology and to increase AI's safety, security, and resilience. These investments enhance the DoD's computing capabilities and support the development of AI testbeds to build foundation models for energy security, national security, and climate resilience as well as tools to evaluate AI capabilities to generate outputs that may represent nuclear, nonproliferation, biological, chemical, critical-infrastructure, and energy security threats or hazards.

Key Performance Measures

The primary financial performance measures we use to manage our business and monitor results of operations are revenue, gross profit, and Adjusted EBITDA. We evaluate our results of operations by considering the drivers causing changes in these measures. We evaluate significant trends and fluctuations in our contract portfolio over time due to contract awards and completions, changes in customer requirements and changes in the volume of product and software sales.

Backlog

Backlog is also 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.

Table MD&A 1: Backlog by Segment

	As of December 31,	
	2024	2023
	<i>(in thousands)</i>	
Security Solutions		
Funded	\$ 44,220	\$ 24,538
Unfunded	21,373	41,398
Total Security Solutions backlog	65,593	65,936
Secured Networks		
Funded	6,977	27,530
Unfunded	3,919	24,636
Total Secure Networks backlog	10,896	52,166
Total		
Funded	51,197	52,068
Unfunded	25,292	66,034
Total backlog	\$ 76,489	\$ 118,102

Increases in backlog is a result of the award of new contracts and the renewal or extension of existing contracts. Reductions in backlog arise from the completion or the early termination of contracts. See the relevant industry, legal and regulatory risks under [Item 1A, "Risk Factors,"](#) of this 10-K. We believe that comparisons of backlog period-to-period are difficult. We also believe that it is difficult to predict future revenue solely based on analysis of backlog. The actual timing of revenue from projects included in backlog will vary.

Financial Highlights

A number of factors have affected our fiscal year 2024 results, the most significant of which we have listed below. More details on these changes are presented below within our "Results of Operations" section.

- The decline in year-over-year revenue was primarily driven by the successful completion of certain programs and ramp-down of programs in Secure Networks without corresponding new business wins to backfill completed programs.
- Growth in TSA PreCheck revenue partially offset the year-over-year revenue decline and was driven by the increase in our enrollment locations and a full year of renewal operations as compared to only a partial year in fiscal year 2023.
- The reduction in gross margin was mainly driven by the impact of an impairment loss on intangible assets of \$5.3 million and higher amortization of software development costs. This was partially offset by a more favorable program mix.
- The assessment of our cost structure and investment priorities in fiscal year 2024 led to restructuring actions and the discontinued development and/or sale of selected solutions or parts of solutions that were not generating acceptable returns. These initiatives resulted in a \$1.3 million restructuring charge and a \$11.7 million of non-cash impairment of software development costs.
- Lower year-over-year gross profit was partially offset by reduced operating expenses.

Results of Operations

Consolidated Results

Table MD&A 2: Consolidated Financial Results Comparison

	For the Year Ended December 31,		
	2024	2023	Dollar Change
	<i>(dollars in thousands)</i>		
Revenue	\$ 108,272	\$ 145,378	\$ (37,106)
Cost of sales	73,843	92,436	(18,593)
Gross profit	34,429	52,942	(18,513)
<i>Gross margin</i>	31.8 %	36.4 %	
Operating expenses	90,302	93,257	(2,955)
<i>Operating expenses as percentage of revenue</i>	83.4 %	64.1 %	
Operating loss	(55,873)	(40,315)	(15,558)
Other income	4,023	6,715	(2,692)
Interest expense	(644)	(786)	142
Loss before income taxes	(52,494)	(34,386)	(18,108)
Provision for income taxes	(26)	(36)	10
Net loss	\$ (52,520)	\$ (34,422)	\$ (18,098)

Our business segments have different factors driving revenue fluctuations and profitability. The discussion of the changes in our net revenue and profitability is covered in greater detail under the 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.

Operating Expenses: Operating expenses decreased by 3% in 2024, compared to 2023. Research and development expenses decreased by \$3.3 million in 2024, compared to 2023, primarily due to the discontinued development of selected solutions or parts of solutions associated with the restructuring plan and lower stock-based compensation expenses. Selling, general and administrative expenses decreased by \$5.5 million in 2024, compared to 2023, primarily due to decreased cash incentive compensation expenses. These reductions were partially offset by an increase in impairment loss on intangible assets of \$5.9 million.

Other income: Other income decreased by 40% in 2024, compared to 2023, primarily due to the gain on early extinguishment of other financing obligation of \$1.4 million in 2023, without a similar gain in 2024. The remaining variance is attributable to decreased dividend income from money market placements.

Segment Results

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

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

	For the Year Ended December 31,		
	2024	2023	Dollar Change
	<i>(dollars in thousands)</i>		
Revenues	\$ 76,760	\$ 77,416	\$ (656)
Cost of sales (excluding impairment loss, depreciation and amortization)	37,352	34,270	3,082
Impairment loss on intangible assets	5,333	—	5,333
Depreciation and amortization	6,396	3,532	2,864
Total cost of sales	49,081	37,802	11,279
Gross profit	\$ 27,679	\$ 39,614	\$ (11,935)
Gross margin	36.1 %	51.2 %	

Security Solutions segment revenue decreased by 1% in 2024, compared to 2023, primarily due to the reduction in revenue from a long-term program, the completion of a short-term program in the prior year and the sale of a non-recurring perpetual license in the prior year, partially offset by the growth in the TSA PreCheck program.

Security Solutions segment gross profit decreased by 30% in 2024, compared to 2023, and gross margin decreased from 51.2% in 2023 to 36.1% in 2024, primarily due to the impairment loss on intangible assets in 2024, higher amortization of software development costs, and program mix within the portfolio.

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

	For the Year Ended December 31,		
	2024	2023	Dollar Change
	<i>(dollars in thousands)</i>		
Revenues	\$ 31,512	\$ 67,962	\$ (36,450)
Cost of sales (excluding impairment loss, depreciation and amortization)	24,754	54,622	(29,868)
Depreciation and amortization	8	12	(4)
Total cost of sales	24,762	54,634	(29,872)
Gross profit	\$ 6,750	\$ 13,328	\$ (6,578)
Gross margin	21.4 %	19.6 %	

Secure Networks segment revenue decreased by 54% in 2024, compared to 2023, primarily due to the successful completion of certain programs and ramp-down of certain programs without corresponding new business wins to backfill completed programs.

Secure Networks segment gross profit decreased by 49% in 2024, compared to 2023, primarily due to lower revenues. By contrast, the segment gross margin increased from 19.6% in 2023 to 21.4% in 2024, primarily due to a favorable program mix and strong program management.

Non-GAAP 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, Adjusted Earnings Per Share ("EPS"), Adjusted Gross Profit, Adjusted Gross Margin, Cash Gross Profit, Cash Gross Margin and Free Cash Flow are useful in evaluating our operating and cash flow 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 and cash 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 and cash flow performance that are not made under GAAP and do not represent, and should not be considered as an alternative to net (loss) income as determined by GAAP. We define EBITDA as net (loss) income, adjusted for non-operating (income) expense, interest expense, provision for (benefit from) income taxes, and depreciation and amortization. We define Adjusted EBITDA as EBITDA, adjusted for stock-based compensation expense, impairment loss on intangible assets, and restructuring expenses (adjustments). 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 of Directors, management and investors with clear representation of our core operating performance and trends, provide greater visibility into the long-term financial performance of the Company, and eliminate the impact of items that do not relate to the ongoing operating performance of the business. Further, Adjusted EBITDA is used by the Board of Directors and management to prepare and approve our annual budget, and from time to time, to evaluate the performance of certain management personnel when determining incentive compensation.

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

	For the Year Ended December 31,			
	2024		2023	
	Amount	Margin	Amount	Margin
	<i>(dollars in thousands)</i>			
Net loss	\$ (52,520)	(48.5)%	\$ (34,422)	(23.7)%
Other income	(4,023)	(3.7)%	(6,715)	(4.6)%
Interest expense	644	0.6%	786	0.5%
Provision for income taxes	26	—%	36	—%
Depreciation and amortization ⁽²⁾	11,867	11.0%	9,429	6.5%
EBITDA (Non-GAAP)	(44,006)	(40.6)%	(30,886)	(21.3)%
Stock-based compensation expense ⁽¹⁾	21,411	19.8%	24,396	16.8%
Impairment loss on intangible assets ⁽²⁾	11,706	10.8%	—	—%
Restructuring expenses ⁽³⁾	1,270	1.1%	1,132	0.8%
Adjusted EBITDA (Non-GAAP)	\$ (9,619)	(8.9)%	\$ (5,358)	(3.7)%

⁽¹⁾ The stock-based compensation adjustment to EBITDA is made up of stock-based compensation expense for the awarded service-based restricted stock units ("RSUs"), performance-based restricted stock units ("PSUs"), stock options, and other sources. Stock-based compensation expense for the awarded RSUs, PSUs and stock options was \$19.4 million and \$22.9 million for fiscal years 2024 and 2023, respectively. Stock-based compensation expense from other sources was \$2.1 million and \$1.5 million for the fiscal years 2024 and 2023, respectively. The other source of stock-based compensation consists of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion 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 a change in estimate that would add back to Adjusted EBITDA.

⁽²⁾ Due to its immaterial amount, the impairment loss on intangible assets of \$0.5 million for fiscal year 2023 was reported as part of depreciation and amortization in 2023.

⁽³⁾ The restructuring expenses include severance and other related benefit costs (including outplacement services and continuing health insurance coverage), external consulting and advisory fees related to implementing the restructuring plan.

Adjusted Net Loss and Adjusted EPS

Adjusted Net (Loss) Income and Adjusted EPS are supplemental measures of operating and cash flow performance that are not made under GAAP and do not represent, and should not be considered as alternatives to, net (loss) income and earnings per share as determined by GAAP. We define Adjusted Net (Loss) Income as net (loss) income, adjusted for non-operating (income) expense, stock-based compensation expense, impairment loss on intangible assets, and restructuring expenses (adjustments). 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 of Directors, management and investors with clear representation of our core operating performance and trends, provide greater visibility into the long-term financial performance of the Company, and eliminate the impact of items that do not relate to the ongoing operating performance of the business.

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

	For the Year Ended December 31,			
	2024		2023	
	Adjusted Net Loss	Adjusted Earnings Per Share	Adjusted Net Loss	Adjusted Earnings Per Share
	<i>(in thousands, except per share data)</i>			
Net loss	\$ (52,520)	\$ (0.73)	\$ (34,422)	\$ (0.50)
Adjustments:				
Other income	(4,023)	(0.06)	(6,715)	(0.10)
Stock-based compensation expense ⁽¹⁾	21,411	0.30	24,396	0.35
Impairment loss on intangible assets ⁽²⁾	11,706	0.16	—	—
Restructuring expenses ⁽³⁾	1,270	0.02	1,132	0.02
Adjusted net loss (Non-GAAP)	\$ (22,156)	\$ (0.31)	\$ (15,609)	\$ (0.23)
Weighted-average shares of common stock outstanding, basic	71,850		69,256	

⁽¹⁾ The stock-based compensation adjustment to EBITDA is made up of stock-based compensation expense for the awarded service-based RSUs, PSUs, stock options, and other sources. Stock-based compensation expense for the awarded RSUs, PSUs and stock options was \$19.4 million and \$22.9 million for fiscal years 2024 and 2023, respectively. Stock-based compensation expense from other sources was \$2.1 million and \$1.5 million for the fiscal years 2024 and 2023, respectively. The other source of stock-based compensation consists of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion 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 a change in estimate that would add back to Adjusted Net Loss.

⁽²⁾ Due to its immaterial amount, the impairment loss on intangible assets of \$0.5 million for fiscal year 2023 was reported as part of depreciation and amortization in 2023.

⁽³⁾ The restructuring expenses include severance and other related benefit costs (including outplacement services and continuing health insurance coverage), external consulting and advisory fees related to implementing the restructuring plan.

Adjusted Gross Profit, Cash Gross Profit, Adjusted Gross Margin and Cash Gross Margin

Adjusted Gross Profit, Cash Gross Profit, Adjusted Gross Margin and Cash Gross Margin are supplemental measures of operating and cash flow 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 Adjusted Gross Profit as gross profit, plus stock-based compensation expense, impairment loss on intangible assets, and restructuring expenses charged under cost of sales. We define Adjusted Gross Margin as Adjusted Gross Profit as a percentage of total revenue. We define Cash Gross Profit as Adjusted Gross Profit, plus depreciation and amortization. We define Cash Gross Margin as Cash Gross Profit as a percentage of total revenue.

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

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

	For the Year Ended December 31,			
	2024		2023	
	Amount	Margin	Amount	Margin
	<i>(dollars in thousands)</i>			
Gross profit	\$ 34,429	31.8 %	\$ 52,942	36.4 %
Adjustments:				
Stock-based compensation expense — cost of sales	828	0.8 %	900	0.6 %
Impairment loss on intangible assets – cost of sales	5,333	4.9%	—	—%
Restructuring expenses — cost of sales	341	0.3%	—	—%
Adjusted gross profit (Non-GAAP)	40,931	37.8%	53,842	37.0%
Depreciation and amortization — cost of sales	6,404	5.9 %	3,544	2.5 %
Cash gross profit (Non-GAAP)	\$ 47,335	43.7%	\$ 57,386	39.5%

Free Cash Flow

Free Cash Flow is a supplemental measure of operating and cash flow performance that is not made under GAAP and does not represent, and should not be considered as an alternative to, net cash flow (used in) provided by operating activities, as determined by GAAP. We define Free Cash Flow as net cash (used in) provided by operating activities, less net purchases of property and equipment, and capitalized software development costs.

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

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

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Net cash (used in) provided by operating activities	\$ (25,938)	\$ 1,587
Adjustments:		
Purchases of property and equipment, net	(2,252)	(926)
Capitalized software development costs	(11,505)	(14,552)
Free cash flow (Non-GAAP)	<u>\$ (39,695)</u>	<u>\$ (13,891)</u>

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

Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand, future operating cash flows, and, if needed, borrowings under our \$30.0 million senior secured revolving credit facility, with an expansion feature of up to \$30.0 million of additional revolver capacity. 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 December 31, 2024, we had cash and cash equivalents of \$54.6 million and our working capital was \$69.3 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.

Table MD&A 9: Cash Flows Information

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Net cash (used in) provided by operating activities	\$ (25,938)	\$ 1,587
Net cash used in investing activities	(16,757)	(15,478)
Net cash used in financing activities	(1,984)	(6,151)
Net change in cash, cash equivalents, and restricted cash	<u>\$ (44,679)</u>	<u>\$ (20,042)</u>

For the year ended December 31, 2024, net cash used in operating activities was \$25.9 million, compared with net cash provided by operating activities of \$1.6 million in 2023, an increase in cash outflow of \$27.5 million compared year over year. The change in cash flow from operating activities is primarily driven by the Company's operating losses, the timing of receipts of customer payments, and the timing of payments to vendors and employees, adjusted for certain non-cash items that do not impact cash flows from operating activities.

Net cash used in investing activities for the years ended December 31, 2024, increased by \$1.3 million in cash outflow compared to the same period in 2023, primarily due to the cash outflow from the purchase of an investment of \$3.0 million in 2024, with no similar transaction in 2023. This is partially offset by a decrease of \$1.7 million in capital expenditures in 2024.

For the year ended December 31, 2024, net cash used in financing activities was \$2.0 million, compared to \$6.2 million in 2023. This is primarily attributable to decreases in payments of tax withholding related to the net share settlement of equity awards of \$0.5 million in 2024, compared with \$3.7 million in 2023, and a \$0.6 million payment for the Diamond Fortress Technologies ("DFT") holdback in February 2023, with no similar payment in 2024.

Commitments from Contractual Obligations

The Company does not have any other material cash requirements from contractual obligations. As of December 31, 2024, we had contractual commitments to make payments under existing lease obligations on various office space and equipment under non-cancelable operating and finance leases, and an obligation under a service agreement. We reported current and long-term lease liabilities; see [Note 13 - Leases](#) in the consolidated financial statements within this 10-K.

Table MD&A 10: Contractual Obligations

	Total	Due within one year
	<i>(in thousands)</i>	
Finance lease obligations ⁽¹⁾	\$ 10,658	2,314
Operating lease obligations ^{(1) (2)}	692	248
Service agreement obligation	10,000	1,250
Total contract obligations	<u>\$ 21,350</u>	<u>\$ 3,812</u>
	\$ 1,201	\$ 473

⁽¹⁾ Represents interest expense included in this amount.

⁽²⁾ Amount includes operating lease right-of-use obligations and short-term leases with terms of 12 months or less. We have various lease agreements pursuant to ASC 842, "Leases" that require us to record the present value of the minimum lease payments for such lease properties.

There were no outstanding commitments that were considered material for capital expenditures on December 31, 2024.

From time to time, we may be subject to various audits, reviews, investigations, lawsuits and claims related to our business. See [Note 19 - Commitments and Contingencies](#) to the consolidated financial statements within this Annual Report for further discussion of other commitments and contingencies.

Revolving Credit Facility

On December 30, 2022, we entered into a senior secured credit facility with JPMorgan Chase Bank, N.A. ("Credit Agreement") that provides for a \$30.0 million senior secured revolving credit facility, with the option of issuing letters of credits thereunder and with an uncommitted expansion feature of up to \$30.0 million of additional revolver capacity, maturing on December 30, 2025. On April 12, 2023, we amended our Credit Agreement and revised certain provisions on the terms of the covered collateral. See [Note 10 - Debt and Other Obligations](#) to the consolidated financial statements contained within this Annual Report for additional information.

The Credit Agreement contains customary terms and conditions, including certain covenant requirements. As of December 31, 2024, there were no outstanding balances under the revolving credit facility and we were in compliance with all covenants contained in the Credit Agreement.

Other Financing Obligations

In November 2022, we entered into a Master Purchase Agreement ("MPA") with a third party for \$9.1 million relating to software licenses under a specific delivery order with a customer, resulting in proceeds from other financing obligations. On February 9, 2023, when the third-party buyer notified us that it would not exercise the option period, we transferred all the rights, title and interest in the underlying licenses in exchange for the extinguishment of the outstanding financing obligations. The extinguishment of the other financing obligations resulted in a gain of \$1.4 million in 2023. See [Note 10 – Debt and Other Obligations](#) to the consolidated financial statements combined within this Annual Report for a detailed discussion of our debt financing arrangements.

Under the MPA, if the customer terminates the delivery order for non-renewal and the buyer reasonably concludes that the customer's actions constitute grounds for filing a claim, the buyer and Telos will cooperate in preparing such a claim. During the third quarter of 2024, the buyer, through Telos, filed a claim against the customer.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. Management evaluates these estimates and assumptions on an ongoing basis. Our estimates and assumptions have been prepared on the basis of the most current reasonably available information, and may change in the future as more current information is available.

Management believes that our critical accounting policies are those that are both material to the presentation of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments difficult, subjective and complex have to do with making estimates about the effect of matters that are inherently uncertain; as a result, actual results could differ from those estimates.

The critical accounting policies requiring estimates, assumptions, and judgments that we believe have the most significant impact on our consolidated financial statements in fiscal year 2024 are described below. This is not intended to be a comprehensive list of all significant accounting policies that are more fully described in the notes to consolidated financial statements contained within this report.

Revenue Recognition

Although most of our revenue is recognized concurrently with billing or with the passage of time, some of our revenue requires us to make estimates. The timing of the satisfaction of performance obligations varies across our businesses due to our diverse product and service mix, customer base, and contractual terms. Significant judgment can be required in determining certain performance obligations, and these determinations could change the amount of revenue and profit recorded in a given period. Our contracts may have a single performance obligation or multiple performance obligations. When there are multiple performance obligations within a contract, we allocate the transaction price, net of any discounts, to each performance obligation based on the standalone selling price of the product or service underlying each performance obligation. The standalone selling price is either based on estimated or actual costs plus a reasonable profit margin or the observable price of a good or service when Telos sells that good or service separately in similar circumstances and to similar customers. The transaction price for our contracts represents our best estimate of the consideration we will receive and includes assumptions regarding variable consideration, as applicable. The transaction price is allocated to each distinct performance obligation within the contract and recognized as revenue when, or as, the performance obligation is satisfied.

Our contracts may also include various types of variable considerations such as claims (i.e., indirect rate or other equitable adjustments) or incentive fees and we include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. The estimated amounts are based on an assessment of our anticipated performance and all other information that is reasonably available to us.

For contracts where revenue is recognized over time, we recognize revenue based on progress towards completion of the performance obligation, using costs incurred to date relative to the total estimated cost at completion to measure progress on a proportional performance basis for our contracts. Due to the nature of the work required to be performed on certain contracts, the estimation of total revenue and cost at completion is complex, subject to many variables and requires significant judgment. Contract estimates are based on various assumptions, including labor and subcontractor costs, materials and other direct costs and the complexity of the work to be performed. A significant change in one or more of these estimates could affect the profitability of our contracts. We review and update our contract-related estimates regularly and recognize adjustments in estimated profit on contracts on a cumulative catch-up basis, which may result in an adjustment increasing or decreasing revenue to date on a contract in a particular period that the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate. As a result of the changes in contract estimates, we recorded immaterial catch-up revenue adjustments during the year ended December 31, 2024, and 2023.

Goodwill and Other Long-Lived Assets

We evaluate the impairment of goodwill and other long-lived assets in accordance with Accounting Standards Codification ("ASC") 350, "Intangibles – Goodwill and Other." Management annually reviews goodwill and other long-lived assets for impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If we determine that the carrying value of the goodwill and other long-lived assets may not be recoverable, we will record an impairment charge for the amount by which the carrying value of the goodwill and other long-lived assets exceeds its fair value.

Goodwill is not amortized, but rather tested for potential impairment as of December 31 each year. The goodwill impairment test is performed at the reporting unit level. Accounting requirements provide that a reporting entity may perform an optional qualitative assessment on an annual basis to determine whether events occurred or circumstances changed that would more likely than not reduce the fair value of a reporting unit below its carrying amount. If an initial qualitative assessment identifies that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or the optional qualitative assessment is not performed, a quantitative analysis is performed.

In testing goodwill for impairment, we first assess the qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after the assessment, we determine that an impairment indicator exists, we perform the quantitative goodwill impairment test. The Company performs the quantitative goodwill impairment test by calculating the fair value of the reporting unit and comparing it to its respective carrying value including goodwill. If the fair value is less than the carrying value, the amount of impairment expense is equal to the difference between the reporting unit's fair value and the reporting unit's carrying value.

Determining the fair value of a reporting unit requires management's judgment and involves the use of significant estimates and assumptions, including forecasted revenue, operating margins, capital expenditures, and selection and use of an appropriate discount rate commensurate with the risk inherent in each of our reporting units' current business models. We utilize the weighted average cost of capital as derived by certain assumptions specific to our facts and circumstances as the discount rate. Our estimate of cash flows and discount rate are subject to change due to the economic environment. A relatively small change in the underlying assumptions, including if the financial performance of the reporting unit does not meet expectations in future years, may cause a change in the results of the impairment assessment in future periods and, as such, could result in goodwill impairment.

For fiscal year 2024, we performed a qualitative assessment of our reporting units and determined that it is more likely than not that the estimated fair value of the reporting units exceeds their carrying value and thus, we did not proceed to the two-step goodwill impairment test.

Due to the nature of our business and other factors described in [Item 1A, "Risk Factors,"](#) of this Annual Report on Form 10-K, the profitability of our individual reporting units may periodically be affected by downturns in customer demand, operational challenges, and other factors. If material adverse conditions occur that impact one or all of our reporting units, our determination of future fair value might not support the carrying amount of our reporting units, and the related goodwill may be impaired. We will continue to monitor any changes to our assumptions and will evaluate goodwill as deemed warranted during future periods.

We amortize intangible assets over their respective estimated useful lives, and review them for impairment whenever events or changes in business circumstances indicate the carrying value may not be recoverable.

We evaluated our intangible assets for potential impairment. As a result of the assessment, we identified conditions demonstrating an impairment of certain software development costs. An impairment charge of \$11.7 million and \$0.5 million was recorded in the consolidated statements of operations for the years ended December 31, 2024, and 2023, respectively.

For further discussion of the methods used and factors considered in our estimates as part of the impairment testing for goodwill and intangible assets, see [Note 2 - Significant Accounting Policies](#) on Goodwill and Intangible Assets, [Note 7 - Goodwill](#) and [Note 8 - Intangible Assets, Net](#) to the consolidated financial statements contained within this Annual Report.

Income Taxes

We account for income taxes in accordance with ASC 740, "Income Taxes." Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect our best estimate of current and future taxes to be paid. We record net deferred assets to the extent we believe these assets will more likely than not be realized. The realizability of net deferred tax assets is based on all available evidence, including future taxable income projections, tax planning strategies, and reversal of taxable temporary differences. We regularly review our deferred tax assets for recoverability and establish a valuation allowance when management believes it is more likely than not that such asset will not be recovered, taking into consideration historical operating results, expectations of future earnings, tax planning strategies and the expected timing of the reversals of existing temporary differences.

Recent Accounting Pronouncements

See [Note 2 - Significant Accounting Policies](#) of the consolidated financial statements contained within this Annual Report for a discussion of recently issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, we are exposed to a variety of financial risks, such as interest rate risk, foreign currency translation risk, and counterparty risk, which can affect our operations and profitability.

Our cash and cash equivalents include highly liquid investments that have a maturity of three months or less at the date of purchase, and would not be significantly affected by increases or decreases in interest rates, mainly due to the short-term nature of these instruments. The majority of our business is transacted in U.S. dollars, and the impact of the foreign currency fluctuation as we report for our foreign subsidiary upon translation of its financials into U.S. dollars was insignificant. Further, we do not enter into financial instruments for trading purposes.

Item 8. Consolidated Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Telos Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Telos Corporation and its subsidiaries (the “Company”) as of December 31, 2024 and 2023, and the related consolidated statements of operations, comprehensive loss, changes in stockholders’ equity and cash flows for each of the two years in the period ended December 31, 2024, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2024 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition

As described in Note 3 to the consolidated financial statements, the Company's total revenue was \$108.2 million for the year ended December 31, 2024. Revenue is recognized 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. Revenue is recognized using a variety of input and output methods that approximate the progress towards complete satisfaction of the performance obligation, including costs incurred, labor hours expended, and, for firm-fixed price stand ready obligations, time-elapsed measures. The majority of revenue is recognized over time, as control is transferred continuously to customers who receive and consume the services performed by the Company. For performance obligations in which control does not continuously transfer to the customer, the Company recognizes revenue at the point in time in which the customer obtains control of the transferred product or service.

The principal considerations for our determination that performing procedures relating to revenue recognition is a critical audit matter are a high degree of auditor effort in performing procedures and evaluating audit evidence related to the Company's revenue recognition.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process. These procedures also included, among others, (i) testing a sample of revenue recognized by obtaining and inspecting source documents, such as invoices, customer purchase orders, customer sales agreements, cost support, shipping documents, evidence of performance, customer acceptance support, and payment receipts from customers and (ii) testing a sample of outstanding customer invoice balances as of December 31, 2024 by obtaining subsequent payment receipts and, for invoices not yet paid, obtaining and inspecting source documents, such as invoices, customer purchase orders, customer sales agreements, shipping documents and payment receipts from customers.

/s/ PricewaterhouseCoopers LLP
Washington, District of Columbia
March 10, 2025

We have served as the Company's auditor since 2022.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands, except per share amounts)</i>	
Revenue – services	\$ 103,581	\$ 135,175
Revenue – products	4,691	10,203
Total revenue	108,272	145,378
Cost of sales – services (excluding impairment loss, depreciation and amortization)	59,271	83,159
Cost of sales – products (excluding impairment loss, depreciation and amortization)	2,835	5,733
Impairment loss on intangible assets	5,333	—
Depreciation and amortization	6,404	3,544
Total cost of sales	73,843	92,436
Gross profit	34,429	52,942
Operating expenses:		
Research and development expenses	8,442	11,760
Selling, general and administrative expenses	75,487	81,010
Impairment loss on intangible assets	6,373	487
Total operating expenses	90,302	93,257
Operating loss	(55,873)	(40,315)
Other income	4,023	6,715
Interest expense	(644)	(786)
Loss before income taxes	(52,494)	(34,386)
Provision for income taxes	(26)	(36)
Net loss	\$ (52,520)	\$ (34,422)
Net loss per share:		
Basic	\$ (0.73)	\$ (0.50)
Diluted	\$ (0.73)	\$ (0.50)
Weighted-average share outstanding:		
Basic	71,850	69,256
Diluted	71,850	69,256

See accompanying notes to consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Net loss	\$ (52,520)	\$ (34,422)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(8)	(5)
Actuarial loss on pension liability adjustment	(61)	—
Other comprehensive loss	(69)	(5)
Comprehensive loss	\$ (52,589)	\$ (34,427)

See accompanying notes to consolidated financial statements.

**TELOS CORPORATION
CONSOLIDATED BALANCE SHEETS**

	As of December 31,	
	2024	2023
	<i>(in thousands, except per share and share data)</i>	
Assets:		
Cash and cash equivalents	\$ 54,578	\$ 99,260
Accounts receivable, net	19,172	30,424
Inventories, net	1,783	1,420
Prepaid expenses	15,092	7,520
Other current assets	793	1,367
Total current assets	91,418	139,991
Property and equipment, net	4,283	3,457
Finance lease right-of-use assets, net	5,391	6,612
Operating lease right-of-use assets	622	216
Goodwill	17,922	17,922
Intangible assets, net	30,410	39,616
Other assets	8,189	885
Total assets	\$ 158,235	\$ 208,699
Liabilities and Stockholders' Equity:		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 4,300	\$ 13,750
Accrued compensation and benefits	7,608	14,569
Contract liabilities	6,838	6,728
Finance lease obligations – current portion	1,877	1,730
Operating lease obligations – current portion	210	97
Other current liabilities	1,302	2,324
Total current liabilities	22,135	39,198
Finance lease obligations – non-current portion	7,641	9,518
Operating lease obligations – non-current portion	418	123
Deferred income taxes	813	813
Other liabilities	91	44
Total liabilities	31,098	49,696
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value, 250,000,000 shares authorized, 72,514,652 shares and 70,239,890 shares issued and outstanding as of December 31, 2024 and 2023, respectively	111	109
Additional paid-in capital	454,502	433,781
Accumulated other comprehensive loss	(129)	(60)
Accumulated deficit	(327,347)	(274,827)
Total stockholders' equity	127,137	159,003
Total liabilities and stockholders' equity	\$ 158,235	\$ 208,699

See accompanying notes to consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Net loss	\$ (52,520)	\$ (34,422)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Stock-based compensation	21,411	24,396
Depreciation and amortization	11,867	8,942
Impairment loss on intangible assets	11,706	487
(Recovery from) provision for doubtful accounts, net	(20)	152
Deferred income tax provision	—	55
(Gain) loss on disposal of fixed assets	(9)	2
Accretion of discount on acquisition holdback	—	2
Amortization of debt issuance costs	70	69
Provision for inventory obsolescence	108	—
Gain on early extinguishment of other financing obligations	—	(1,427)
Changes in other operating assets and liabilities:		
Accounts receivable	11,272	9,493
Inventories	(471)	1,457
Prepaid expenses, other current assets and other assets	(11,455)	(3,058)
Accounts payable and other accrued payables	(9,417)	(8,817)
Accrued compensation and benefits	(7,395)	6,602
Contract liabilities	110	283
Other current liabilities and other liabilities	(1,195)	(2,629)
Net cash (used in) provided by operating activities	(25,938)	1,587
Cash flows from investing activities:		
Capitalized software development costs	(11,505)	(14,552)
Purchase of investment	(3,000)	—
Purchases of property and equipment, net	(2,252)	(926)
Net cash used in investing activities	(16,757)	(15,478)
Cash flows from financing activities:		
Payments under finance lease obligations	(1,730)	(1,592)
Payment of tax withholding related to net share settlement of equity awards	(457)	(3,742)
Proceeds from exercise of stock options	203	—
Payments of DFT holdback amount	—	(564)
Repurchase of common stock	—	(139)
Payments for debt issuance costs	—	(114)
Net cash used in financing activities	(1,984)	(6,151)
Net change in cash, cash equivalents, and restricted cash	(44,679)	(20,042)
Cash, cash equivalents and restricted cash, beginning of period	99,396	119,438
Cash, cash equivalents and restricted cash, end of period	\$ 54,717	\$ 99,396

See accompanying notes to consolidated financial statements.

TELOS CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
<i>(in thousands)</i>						
Balance December 31, 2022	67,431	\$ 106	\$ 412,708	\$ (55)	\$ (240,405)	\$ 172,354
Net loss	—	—	—	—	(34,422)	(34,422)
Foreign currency translation loss	—	—	—	(5)	—	(5)
Stock-based compensation	—	—	22,874	—	—	22,874
Restricted stock unit award vested, net of shares withheld to cover tax withholding	2,032	2	(3,743)	—	—	(3,741)
Issuance of common stock for 401K match	777	1	1,942	—	—	1,943
Balance December 31, 2023	70,240	109	433,781	(60)	(274,827)	159,003
Net loss	—	—	—	—	(52,520)	(52,520)
Foreign currency translation loss	—	—	—	(8)	—	(8)
Actuarial loss on pension liability adjustment	—	—	—	(61)	—	(61)
Stock-based compensation	—	—	19,359	—	—	19,359
Restricted stock unit award vested, net of shares withheld to cover tax withholding	1,792	2	(459)	—	—	(457)
Issuance of common stock upon exercise of stock options	113	—	203	—	—	203
Issuance of common stock for 401K match	370	—	1,618	—	—	1,618
Balance December 31, 2024	72,515	\$ 111	\$ 454,502	\$ (129)	\$ (327,347)	\$ 127,137

See accompanying notes to consolidated financial statements.

TELOS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Telos Corporation, together with its subsidiaries (collectively, the "Company" or "Telos" or "We" or "Our"), 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") and Teloworks, Inc. ("Teloworks").

On March 13, 2024, the Board of Directors unanimously approved the dissolution of Telos APAC Pte. Ltd. ("Telos APAC"), a pre-operating foreign subsidiary, pursuant to a plan of complete liquidation and dissolution. Telos APAC was dissolved on October 7, 2024. The dissolution of this subsidiary did not have a material impact on the Company's business, results of operations and financial condition.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principle of Consolidation

The accompanying 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 the Telos Corporation. All intercompany transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC").

Basis of Comparison

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year's presentation. In the current year, we reclassified sales and marketing expenses and general and administrative expenses, and presented them together as selling, general and administrative ("SG&A") expenses on the consolidated statements of operations. In addition, we presented impairment loss as a separate line item from research and development ("R&D") expenses on the consolidated statements of operations. The reclassifications had no impact on gross profit, total operating expenses or net loss in the consolidated statement of operations.

Segment Reporting

Operating segments are defined as components of an enterprise for which separate discrete financial information is available and evaluated regularly by the chief operating decision maker ("CODM"), or decision-making group, in deciding how to allocate resources and assess performance. We identified our Chief Executive Officer as the CODM.

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 business lines. We eliminate any inter-segment revenues and expenses upon consolidation. See [Note 18 – Segment Information](#) for further information.

Use of Estimates

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

Management evaluates these estimates and assumptions on an ongoing basis, including those relating to revenue recognition on cost estimation on certain contracts, allowance for credit losses, inventory obsolescence, valuation allowance for deferred tax assets, income taxes, certain assumptions related to share-based compensation, valuation and impairment 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.

Concentrations

Financial instruments that subject us to concentrations of credit risk consist primarily of cash and cash equivalents, and accounts receivable.

In consideration that a large amount of our working capital and total assets are held in cash and cash equivalents, we are exposed to credit risk in the event of default by the financial institutions to the extent of the amounts held in excess of federal insurance limits. Due to the financial strength and high credit quality of the financial institutions where the accounts are held, we do not believe that this credit risk makes it reasonably possible that a near-term severe impact risk of loss will occur.

The Company's receivables are primarily due from the U.S. government, or from prime contractors to whom we are subcontractors and the end customer is the U.S. government, and are generally considered collectable from the perspective of the customer's ability to pay. We believe that the credit risk associated with our receivables is limited due to the creditworthiness of our customers. We maintain an allowance for estimated potential credit losses.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Restricted cash represents funds that are held in our money market account but precluded from use of general business needs through contractual requirements. We report our restricted cash balance within "Other assets" on the consolidated balance sheets, see [Note 9 – Other Balance Sheet Components](#).

Contract Balances

The timing of revenue recognition may differ from the timing of billing and cash receipts from customers. Amounts are invoiced as work progresses, either at periodic intervals or upon achievement of contractual milestones. We record a contract asset when revenue is recognized prior to invoicing, or a contract liability when cash is received in advance or when milestone payments from customers exceed revenue earned to date.

A contract asset is a right to consideration that is conditional upon factors other than the passage of time. Contract liabilities include deferred revenue, customer advances and billings in excess of revenue. Contract assets and liabilities are recorded net on a contract-by-contract basis and are classified based on the contract's operating cycle at the end of each reporting period.

Accounts Receivable

Accounts receivable includes the following:

Billed Receivables: Billed receivables are balances where an invoice has been prepared and issued and is collectible under standard contract terms. Where we anticipate that an invoice will be issued within a short period of time and where the funds are considered collectible within standard contract terms, we include this balance as billed accounts receivable.

Unbilled Receivables: Unbilled receivables are balances that have not yet been billed due to timing, most commonly just a month delayed from the timing of revenue recognition and the actual bill being presented to the customer. The Company has fulfilled all requirements in order to bill the customer and collect the funds.

Contract Assets: Contract assets are receivables for which the right to consideration is conditional upon factors other than the passage of time. The timing of these billings is generally driven by contractual terms, which may have billing milestones that are different from revenue recognition milestones.

Both billed and unbilled balances are recorded at their face amount less an allowance for credit losses over the contractual payment terms of the receivable. Collectability of these amounts is periodically reviewed based upon management's knowledge and analysis of available information as of the balance sheet date, including any specific circumstances related to overdue balances, length of time that the receivable has been outstanding, historical bad debts and aging trends, and other general and contract specific factors. The allowance for credit losses is adjusted based on such evaluation. Accounts receivable balances are written off against the allowance when management deems the balances uncollectible.

Our contract asset balance is recorded at the net amount expected to be billed for services performed once the objective criteria laid out by the contract has been met.

Inventories

Inventories are valued at the lower of cost or net realizable value, where cost is determined using the weighted-average method. The value of inventory is adjusted for damaged, obsolete, excess and slowing-moving inventory. Net realizable value of inventory is estimated based on the historical obsolescence experience and planned usage.

Inventories are substantially comprised of finished goods purchased for customers, such as off-the-shelf hardware and software, and component computer parts used in connection with system integration services that we perform.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is recorded over the assets' estimated useful lives using the straight-line method, which is three to five years for furniture and equipment. Leasehold improvements are amortized over the shorter of their useful life or the remaining terms of the lease.

Upon sale or retirement of property and equipment, the costs and related accumulated depreciation and amortization are eliminated from the accounts and any gain or loss on such disposition is reflected in the consolidated statements of operations. For the years ended December 31, 2024, and 2023, such amounts are negligible.

Repairs and maintenance costs are expensed as incurred. Major renewals and improvements are capitalized and depreciated over their estimated useful lives.

Leases

We determine if an arrangement is a lease and we account for leases in accordance with ASC Topic 842, "Leases." We entered into contractual arrangements primarily for the use of real estate facilities and certain other equipment. We determine the classification of the lease under these arrangements, if any, at inception based on (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefits from the use of the asset throughout the period, and (3) whether we have a right to direct the use of the asset.

Leased property meeting certain criteria is capitalized at the present value of the related minimum lease payments. Amortization of a finance lease ROU asset is computed using the straight-line method over the lesser of the lease term or the useful life of the related asset.

In accordance with ASC 842, we recorded operating lease ROU assets, which represent our right to use an underlying asset for the lease term, and operating lease liabilities, which represent our obligation to make lease payments. Our operating leases are generally for equipment and office spaces. The amount of operating lease liabilities due within 12 months are recorded in other current liabilities, with the remaining operating lease liabilities recorded as non-current liabilities in our consolidated balance sheets based on their contractual due dates. The operating lease ROU assets and liabilities are recognized as of the lease commencement date at the present value of the lease payments over the lease term. On lease arrangements where leases include options to extend the term of the lease, we include the impact of the options on the lease term, when we are reasonably certain that we will exercise such options. Most of our leases do not provide an implicit rate that can readily be determined. Therefore, we use a discount rate based on our incremental borrowing rate on all operating leases. Some of our operating leases contain lease and non-lease components, which we account for as a single component. Operating lease expense is recognized as rent expense on a straight-line basis over the lease term, and recorded within our consolidated statement of operations.

The related lease payments on short-term lease arrangements (leases of one year or less) are recognized as expense on a straight-line basis over the lease term.

ROU assets are assessed for potential impairment whenever there is evidence that events or changes in circumstances indicate that the carrying value of the asset may not be recoverable and the carrying amount of the assets exceeds its estimated fair value.

Software Development Costs

We account for development costs of software in accordance with ASC Topic 985-20 ("ASC 985-20"), "Software – Costs of Software to be Sold, Leased, or Marketed" and ASC Topic 350-40 ("ASC 350-40") "Internal Use Software," depending on the intended use of the software being developed. Under ASC 985-20, all costs of developing software prior to establishing its technological feasibility are research and development costs and are expensed as incurred. Once technological feasibility has been established, subsequent costs should be capitalized until the software begins to be marketed or is released to customers, after which the capitalized costs should be amortized and reviewed for impairment. Under ASC 350-40, we capitalize certain software development costs when the preliminary project stage is completed and the software has entered the application development stage. Once substantial testing is complete and the software is ready to be used, capitalization of costs ceases.

Capitalized software development costs are amortized on a straight-line basis over the estimated economic life of the application, ranging from two to five years, beginning when the asset is ready for its intended use.

ASC 350-40 also requires hosting arrangements that are service contracts to follow the guidance for internal-use software to determine which implementation costs can be capitalized. In accordance with ASC 350-40, (i) capitalized implementation costs are classified in the same balance sheet line item as the amounts prepaid for the related hosting arrangement, (ii) amortization of capitalized implementation costs is presented in the same income statement line item as the service fees for the related hosting arrangement, and (iii) cash flows related to capitalized implementation costs are presented within the same category of cash flow activity as the cash flow for the related hosting arrangements (i.e. operating activity). As of December 31, 2024, and 2023, the net carrying value of the capitalized implementation costs related to hosting arrangements that were incurred during the application development stage aggregated to \$0.17 million and \$0.23 million, respectively. These costs are related primarily to the implementation of a new enterprise resource planning system. The Company begins amortizing the capitalized implementation costs after all substantial testing is complete and ready for its intended use, and amortized over the expected term of the arrangement on a straight-line basis.

Goodwill and Intangible Assets

Goodwill is recorded for the difference between the aggregate consideration paid for an acquisition and the fair value of net tangible and intangible assets acquired and liabilities assumed. Goodwill is not amortized, but rather tested for potential impairment. We evaluate the impairment of goodwill in accordance with ASC 350, which requires goodwill to be assessed on at least an annual basis, as of December 31 each year, for impairment using a fair value basis. Between annual evaluations, if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount, then impairment must be evaluated. Such circumstances could include, but are not limited to, (1) a significant adverse change in legal factors or business climate, (2) a loss of key contracts or customers, or (3) negative operating performance indicators. The Company performs its goodwill impairment test at the reporting unit level.

We may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If an impairment indicator exists based on the qualitative assessment, we perform the quantitative goodwill impairment test. When performing a quantitative impairment test, we calculate the estimated fair value of the reporting unit and compare the results with its respective carrying value, including goodwill. If the estimated fair value is determined to be less than the carrying value, we recognize an impairment loss equal to the difference between the reporting unit's fair value and the reporting unit's carrying value, up to the amount of goodwill associated with the reporting unit.

The evaluation is based on the estimation of the fair values at the reporting unit level in comparison to the reporting unit's net asset-carrying values. The Company uses industry-accepted valuation models and set criteria that are reviewed and approved by management. The methodology used to assess impairment is a combination of the income approach (i.e., discounted cash flow ("DCF") method) and the market approach (i.e., Comparable Public Company ("CPC") method) to determine the fair value.

In the application of the income approach, the estimated fair value of the reporting unit is determined using a DCF analysis, which requires management's judgment with respect to forecasted revenue streams and operating margins, capital expenditures and the selection and use of an appropriate discount rate commensurate with the risk inherent in each of our reporting unit's current business model. We utilize the weighted average cost of capital as derived by certain assumptions specific to our facts and circumstances as the discount rate.

In the application of the market approach, the CPC method uses value multiples or ratio to the reporting accounting data (such as revenue) in measuring the market's perception of the reporting unit's enterprise value. Value multiples or ratio reflect the trends in growth and performance, and the comparable public companies provide a reasonable basis for comparison to the relative investment characteristic of the business being valued. The Company analyzes the relationship between the comparable companies' performance and applies a control premium based on the multiples of comparable companies. The control premium is management's estimate of how much a market participant would be willing to pay over the fair market value in consideration of benefits that flow from control of the entity.

The results of the income and market approaches are weighted to determine the estimated fair value of the reporting unit. The weighting is judgmental and is based on the perceived level of appropriateness of the valuation methodology. Estimating the fair value involves the use of assumptions and significant judgments that are based on a number of factors, including actual operating results. A relatively small change in the underlying assumptions may cause a change in the results of the impairment assessment in future periods and, as such, could result in goodwill impairment.

The Company's goodwill is amortized and deducted over a 15-year period for tax purposes. See [Note 7 – Goodwill](#) for additional information.

Intangible assets with finite lives are carried at cost, less accumulated amortization. Amortization is computed using the method that best reflects how their economic benefits are utilized or, if a pattern of economic benefits cannot be reliably determined, on a straight-line basis over their estimated useful lives.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets, including property and equipment, for potential impairment whenever there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. If such evaluation indicates that the carrying amount of the asset exceeds its estimated future undiscounted cash flows or its estimated fair value, an impairment loss is recognized to reduce the asset's carrying amount to its estimated fair value. Considerable management judgment is necessary to estimate its fair value. Accordingly, actual results could differ from such estimates. No events have been identified that caused an evaluation of the recoverability of long-lived assets.

In addition to the recoverability assessment, the Company routinely reviews the remaining lives of its long-lived assets. Any reduction in the useful life assumptions will result in increased depreciation or amortization expense in the period when such determinations are made, as well as in subsequent periods. There are no changes in the estimated useful lives of long-lived assets for the periods presented.

Fair Value Measurements

U.S. GAAP provides a framework for measuring fair value and expands disclosures about fair value measurements. The framework requires the valuation of investments using a three-tiered approach. The statement requires fair value measurement to be classified and disclosed in one of the following categories:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities;
- Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

This hierarchy requires the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

Except for the fair value of investment, the fair value of certain non-derivative financial instruments, including receivables, accounts payable and other accrued liabilities, approximates the carrying value due to the short-term nature of these instruments. See [Note 9 – Other Balance Sheet Components](#) for further details on investment.

Research and Development

Research and development expenses consist primarily of employee-related expenses (such as salaries, taxes, benefits and stock-based compensation), allocated overhead costs and outside services costs related to the development and improvement of the Company's software. Research and development costs are generally expensed as incurred, except for costs incurred in connection with the development of software that qualify for the capitalization as described in our software development costs policy. Amortization of capitalized software development costs, not charged under cost of sales, are also reported as part of research and development expenses.

Selling, General and Administrative Expenses

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

Advertising Costs

Advertising costs are expensed and included in selling, general and administrative expenses when incurred. Advertising expenses were \$0.7 million and \$0.8 million for the years ended December 31, 2024, and 2023, respectively.

Income Taxes

We account for income taxes in accordance with ASC 740, "Income Taxes." Under ASC 740, deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences and income tax credits. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates that are applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized for differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Any change in tax rates on deferred tax assets and liabilities is recognized in net income in the period in which the tax rate change is enacted. We record a valuation allowance that reduces deferred tax assets when it is "more likely than not" that deferred tax assets will not be realized.

We follow the provisions of ASC 740 related to accounting for uncertainty in income taxes. The accounting estimates related to liabilities for uncertain tax positions require us to make judgments regarding the sustainability of each uncertain tax position based on its technical merits. If we determine it is more likely than not that a tax position will be sustained based on its technical merits, we record the impact of the position in our consolidated financial statements at the largest amount that is greater than fifty percent likely of being realized upon ultimate settlement. These estimates are updated at each reporting date based on the facts, circumstances and information available. We are also required to assess at each reporting date whether it is reasonably possible that any significant increases or decreases to our unrecognized tax benefits will occur during the next 12 months.

Business Combinations

We evaluate acquisitions to determine whether it is a business combination or an asset acquisition and accounted for under U.S. GAAP using the acquisition method in accordance with ASC 805, *Business Combinations*. The Company allocates the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of purchase consideration over the values of these identifiable assets and liabilities, if any, is recorded as goodwill.

The accounting for business combinations requires management to make judgments and estimates of the fair value of assets acquired, including the identification and valuation of intangible assets, as well as liabilities and contingencies assumed. Such judgments and estimates directly impact the amount of goodwill recognized in connection with an acquisition. Estimating the fair value of acquired assets and assumed liabilities, including intangibles, requires judgment about expected future cash flows, weighted-average cost of capital, discount rates and expected long-term growth rates.

No business combinations occurred during the years ended December 31, 2024, and 2023.

Stock-Based Compensation

The Company grants stock-based compensation awards under the Amended and Restated 2016 Omnibus Long-Term Incentive Plan (the "2016 LTIP"). Our 2016 LTIP provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock and dividend equivalent rights to our senior executives, directors, employees, 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 restricted stock units granted are time-based ("Service-Based RSU" or "RSU") and performance-based ("Performance-Based RSU" or "PSU"). The Company issues new shares of common stock upon vesting of the restricted stock units under this plan.

- *Service-Based RSUs* granted to eligible employees as an incentive generally vest in installments over a period of up to three years from the date of grant. The grant date fair value per share is equal to the closing stock price on the date of grant.
- *Performance-Based RSUs* vest upon the achievement of a defined performance target during a defined performance period from the date of grant, or market conditions for its common stock, or certain operational milestone over a prescribed period. The fair value per share of these PSUs is equal to the closing stock price on the date of the grant or the fair value of the award on the grant date as determined through an independent valuation for PSUs with market conditions. In order to reflect the substantive characteristics of these market condition awards, the Company employs a Monte Carlo simulation valuation model to estimate the fair value for each tranche of the grant and corresponding requisite service period of the award. Monte Carlo approaches are a class of computational algorithms that rely on repeated random sampling to compute their results. This approach allows the calculation of the value of such PSUs based on a large number of possible stock price path scenarios. The risk-free rate is based on the U.S. treasury zero-coupon issues in effect at the time of grant over the performance period. The expense for these PSUs is recognized over the derived service period as determined through the Monte Carlo simulation model.

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, including the weighting and vesting schedule of RSUs and the performance conditions applicable to the PSUs.

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. These considerations directly affect the amount of compensation expense that will ultimately be recognized.

We recognize these stock-based payment transactions when services from the employees, directors and other eligible service providers are received and recognize a corresponding increase in additional paid-in capital in our 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 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 during which an employee is required to provide service in exchange for an award. Stock-based compensation expense for awards with performance conditions is estimated at each reporting date using management's expectation of the probable achievement of the specified performance targets and recognized over the requisite service period for each tranche on a graded-vesting basis. If such performance conditions are not or are no longer considered probable, no compensation expense for these awards is recognized, and any previously recognized expense is reversed. If the performance condition is achieved prior to the completion of the requisite service period, any unrecognized compensation expense will be recognized in the period the performance condition is achieved. Compensation expense for PSUs with market conditions is recognized based on the grant-date fair value calculated using the Monte Carlo model, as described above, or sooner if the market condition is achieved. Previously recognized expense for awards with market conditions will never be reversed subsequent to completion of the derived service period even if the market conditions are never achieved. We recognize forfeitures of stock-based compensation awards as they occur. Stock-based compensation expense is recognized as part of the cost of sales and operating expenses in our consolidated statements of operations. 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."

Net (Loss) Earnings per Share

Basic net (loss) earnings per share is computed by dividing the net (loss) earnings by the weighted-average number of common shares outstanding for the period, without consideration for potentially dilutive securities. Diluted net (loss) earnings per share is computed by dividing the net (loss) earnings by the weighted-average number of shares of common stock and dilutive common stock equivalents outstanding for the period determined using the treasury-stock and if-converted methods. Dilutive common stock equivalents are comprised of unvested restricted common stock.

Other Comprehensive (Loss) Income

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

Restructuring Expenses

The determination of when the Company accrues for involuntary termination benefits under restructuring plans depends on whether the termination benefits are provided under an ongoing benefit arrangement or under a one-time benefit arrangement. The Company accounts for ongoing benefit arrangements, such as those documented by employment agreements, in accordance with ASC 712 ("ASC 712"), "Compensation – Nonretirement Postemployment Benefits." Under ASC 712, liabilities for postemployment benefits are recorded at the time of obligations are probable of being incurred and can be reasonably estimated. When applicable, the Company records such costs into operating expenses.

From time to time, the Company initiates restructuring activities to execute management's strategy and optimize its cost structure. Restructuring activities may include streamlining its workforce or realignment of resources to support its business strategies and enhance operational efficiency.

2022 Restructuring Plan

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

The Company incurred a cumulative amount of \$3.9 million of restructuring expenses, which is the total expected cost of this restructuring plan. The actions under this restructuring plan were substantially completed in fiscal year 2023 and were fully paid in the third quarter of 2024.

2024 Restructuring Plan

Beginning in the third quarter of 2024, the Company undertook another restructuring action in an effort to optimize its strategic priorities and cost structure. As part of the 2024 restructuring plan, the Company decided to discontinue the development and/or sale of selected solutions or parts of solutions, which resulted in the impairment of capitalized software assets and a reduction in workforce. The restructuring charges under the 2024 restructuring plan include severance and related benefit costs. The Company accrues severance and related benefit costs under the 2024 restructuring plan when it is probable that a liability exists and the amount is reasonably estimated.

As of December 31, 2024, the cumulative amount of incurred severance and benefit costs related to the 2024 restructuring plan was \$1.3 million, of which \$0.2 million was allocated to the Security Solutions segment and \$0.1 million was allocated to the Secure Networks segment. The 2024 restructuring actions were substantially completed in fiscal year 2024 and will be fully paid in early fiscal year 2025.

In addition, as a result of the Company's decision to abandon the development or sale of selected solutions in the third quarter of 2024, the Company wrote off \$6.4 million of its previously capitalized software assets. This was reported as an impairment loss on intangible assets under operating expenses on the consolidated statement of operations.

Table 2.3: Restructuring Expenses and Impairment Loss

		For the Year Ended December 31,	
		2024	2023
Statements of Operations		<i>(in thousands)</i>	
2022 Restructuring Plan:			
Severance and related benefit costs (adjustments)	SG&A	\$ (10)	\$ (168)
Other related costs	SG&A	—	1,300
2024 Restructuring Plan:			
Severance and related benefit costs	Cost of sales	341	—
Severance and related benefit costs	R&D, SG&A	939	—
Total restructuring expenses		1,270	1,132
Impairment of intangible assets ⁽¹⁾	Impairment loss on intangible assets	6,373	—
Total restructuring expenses and impairment loss		\$ 7,643	\$ 1,132

⁽¹⁾ The recoverability evaluation of intangible assets resulted in an \$11.7 million impairment loss, of which \$5.3 million was recorded under cost of sales for the discontinued parts of certain solutions, and \$6.4 million was recorded under operating expenses as a result of the restructuring plan (see [Note 8 - Intangible Assets, Net](#)).

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 consolidated statements of operations.

Table 2.4: Summary of Changes in Restructuring Expenses Accrual

	Severance and related benefit costs ⁽¹⁾
	<i>(in thousands)</i>
Balance at December 31, 2023	\$ 400
Expenses (adjustments)	1,270
Cash payments	(1,633)
Balance at December 31, 2024	\$ 37

⁽¹⁾ Restructuring-related liabilities are reported as part of "Other current liabilities" in the Company's consolidated balance sheets, see [Note 9 - Other Balance Sheet Components](#) for further details.

Recently Accounting Pronouncements - Adopted

In June 2022, the FASB issued ASU No. 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions," which clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. This standard was effective for reporting periods beginning December 15, 2023. The adoption of this ASU did not have a material impact on our consolidated financial position, results of operations, and cash flows.

In November 2023, the FASB issued ASU No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which requires improvement on reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The standard was effective for fiscal year beginning after December 15, 2023, and requires application on a retrospective basis, and for interim periods within fiscal year beginning after December 15, 2024. We adopted this standard during the fourth quarter of fiscal year ended December 31, 2024, and disclosed the significant segment expense categories that are regularly provided to the CODM on an annual basis, as well as disclosing how segment measures of profit or loss are used by the CODM. The adoption of this standard only affected our disclosures, with no impact on our consolidated financial statements.

Recently Accounting Pronouncements - Not Yet Adopted

From time to time, new accounting standards are issued by the FASB or other standard-setting bodies, and are adopted by the Company as of the specified accounting date. Unless disclosed below, there are no issued standards not yet effective that are deemed applicable to the Company's consolidated financial statements.

In December 2023, 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) disclose specific categories in the rate reconciliation, and (2) 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 fiscal years beginning after December 15, 2024, with early adoption permitted. We are currently assessing the impact of the adoption of this ASU on our consolidated financial position, results of operations, and cash flows.

In November 2024, the FASB issued ASU 2024-03, "Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Topic 220): Disaggregation of Income Statement Expenses." This standard requires additional disclosure of certain amounts included in the expense captions presented on the statement of operations, as well as disclosures about selling expenses. The ASU is effective on a prospective basis, with the option for retrospective application. All public business entities are required to adopt the guidance in annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027, with early adoption permitted. We are in the process of assessing the impact of the adoption of this ASU on our consolidated financial statements.

3. REVENUE RECOGNITION

We recognize 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 Company follows the five-step model for recognizing revenue that includes identifying the contract with the customer, determining the performance obligation(s), determining the transaction price, allocating the transaction price to the performance obligation(s), and recognizing revenue as the performance obligations are satisfied. Timing of the satisfaction of performance obligations varies across our businesses due to our diverse product and service mix, customer base, and contractual terms. Significant judgment can be required in determining certain performance obligations, and these determinations could change the amount of revenue and profit recorded in a given period. Our contracts may have a single performance obligation or multiple performance obligations. When there are multiple performance obligations within a contract, we allocate the transaction price, net of any discounts, to each performance obligation based on the standalone selling price of the product or service underlying each performance obligation.

Our contracts with the U.S. government are generally subject to the Federal Acquisition Regulation and the price is typically based on estimated or actual costs plus a reasonable profit margin. As such, the standalone selling price of products or services in our contracts with the U.S. government is typically equal to the selling price stated in the contract. For non-U.S. government contracts with multiple performance obligations, the standalone selling price is the observable price of a good or service when Telos sells that good or service separately in similar circumstances and to similar customers.

Contracts are routinely and often modified to account for changes in contract requirements, specifications, quantities, or price. Depending on the nature of the modification, we determine whether to account for the modification as an adjustment to the existing contract or as a new contract. Generally, modifications are not distinct from the existing contract due to the significant interrelatedness of the performance obligations and are therefore accounted for as an adjustment to the existing contract, and recognized as a cumulative adjustment to revenue (as either an increase or reduction of revenue) based on the modification's effect on progress toward completion of a performance obligation.

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 84% of our revenue for the years ended December 31, 2024, and 2023, respectively. All of our business groups earn services revenue under a variety of contract types, including time and materials, firm-fixed-price, firm-fixed-price level of effort, and cost-plus fixed-fee contract types, which may include variable consideration.

Revenue is recognized using a variety of input and output methods that approximate the progress towards complete satisfaction of the performance obligation; including cost incurred, labor hours expended, and time-elapsed measures for our fixed-price stand ready obligations. For certain contracts, revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. This continuous transfer of control to the customer is supported by clauses in our contracts with U.S. government customers whereby the customer may terminate a contract for convenience and then pay for costs incurred plus a profit, at which time the customer would take control of any work in process. For non-U.S. government contracts where we perform as a subcontractor and our order includes similar FAR provisions as the prime contractor's order from the U.S. government, continuous transfer of control is likewise supported by such provisions. For other non-U.S. government customers, continuous transfer of control to such customers is also supported due to general terms in our contracts and rights to recover damages, which would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit.

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 transferred 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 16% of our revenue for the years ended December 31, 2024, and 2023, respectively.

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

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

Contract Estimates

Due to the transfer of control over time, revenue is recognized based on progress towards completion of the performance obligation. The selection of the method to measure progress toward completion requires judgment and is based on the nature of the performance obligations. We generally use the cost-to-cost measure of progress on a proportional performance basis for our long-term contracts because it best depicts the transfer of control to the customer, which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation, which includes both the actual costs already incurred and the estimated costs to complete. Revenues are recorded proportionally as costs are incurred. Due to the nature of the work required to be performed on certain of our performance obligations, the estimation of costs at completion is complex, subject to many variables and requires significant judgment. Contract estimates are based on various assumptions, including labor and subcontractor costs, materials and other direct costs and the complexity of the work to be performed. A significant change in one or more of these estimates could affect the profitability of our contracts. We review and update our contract-related estimates regularly and recognize adjustments in estimated profit on contracts on a cumulative catch-up basis, which may result in an adjustment increasing or decreasing revenue to date on a contract in a particular period that the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate.

Our contracts may include various types of variable consideration, such as claims (for instance, indirect rate or other equitable adjustments) or incentive fees. We include estimated amounts in the transaction price based on all of the information available to us, including historical information and future estimations, 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 have revised and re-submitted several years of incurred cost submissions reflecting certain indirect rate structure changes as a result of regular Defense Contract Audit Agency audits of incurred cost submissions. This resulted in signed final rate agreement letters through fiscal year 2022. We evaluated the resulting changes to revenue under the applicable cost-plus fixed-fee contracts, as variable consideration, and determined the most likely amount to which we expect to be entitled, to the extent that no constraint exists that would preclude recognizing this revenue or result in a significant reversal of cumulative revenue recognized. We included these estimated amounts of variable consideration in the transaction price and as performance on these contracts is complete, if any. An immaterial revenue adjustment was recorded during fiscal years ended December 31, 2024, and 2023.

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

Historically, most of our contracts do not include award or incentive fees. For incentive fees, we would include such fees in the transaction price to the extent we could reasonably estimate the amount of the fee. With limited historical experience, we have not included any revenue related to incentive fees in our estimated transaction prices. We may include in our contract estimates additional revenue for submitted contract modifications or claims against the customer when we believe we have an enforceable right to the modification or claim, the amount can be estimated reliably and its realization is probable. We consider the contractual/legal basis for the claim (in particular FAR provisions), the facts and circumstances around any additional costs incurred, the reasonableness of those costs and the objective evidence available to support such claims.

For our contracts that have an original duration of one year or less, we use the practical expedient applicable to such contracts and do not consider the time value of money. We capitalize sales commissions related to proprietary software and related services that are directly tied to sales. We do not elect the practical expedient to expense as incurred the incremental costs of obtaining a contract if the amortization period would have been one year or less. For the sales commissions that are capitalized, we amortize the asset over the expected customer life, which is based on recent and historical data.

Disaggregated Revenues

In addition to our segment reporting, as further discussed in [Note 18 – Segment Information](#), we disaggregate our revenue 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. Notably, 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 Year Ended December 31,			
	2024		2023	
	Amount	%	Amount	%
	<i>(dollars in thousands)</i>			
Federal government	\$ 94,951	88%	\$ 131,143	90%
State & local government, and commercial	13,321	12%	14,235	10%
Total revenue	<u>\$ 108,272</u>		<u>\$ 145,378</u>	

Table 3.2: Revenue by Contract Type

	For the Year Ended December 31,			
	2024		2023	
	Amount	%	Amount	%
	<i>(dollars in thousands)</i>			
Firm fixed-price	\$ 81,541	75%	\$ 114,188	79%
Time-and-materials	15,839	15%	13,535	9%
Cost plus fixed-fee	10,892	10%	17,655	12%
Total revenue	<u>\$ 108,272</u>		<u>\$ 145,378</u>	

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

	For the Year Ended December 31,	
	2024	2023
U.S. Department of Defense ("DoD")		
Security Solutions segment	24%	18%
Secure Networks segment	29%	47%
U.S. Department of Homeland Security ("DHS")		
Security Solutions segment	15%	N/A

Table 3.4: Contract Balances

	Balance Sheet Presentation	As of December 31,	
		2024	2023
		<i>(in thousands)</i>	
Billed account receivables ⁽¹⁾	Accounts receivable, net	\$ 10,014	\$ 17,818
Unbilled account receivables	Accounts receivable, net	5,412	8,022
Contract assets	Accounts receivable, net	3,746	4,584
Contract liabilities - current	Contract liabilities	6,838	6,728

⁽¹⁾ Net of allowance for credit losses.

The changes in the Company's contract assets and contract liabilities during the current period were primarily the result of the timing differences between the Company's performance, invoicing and customer payments. For the years ended December 31, 2024, and 2023, the amount of revenue recognized during the year that was included in the opening contract liabilities balance was \$5.9 million and \$5.4 million, respectively.

As of December 31, 2024, we had approximately \$51.2 million of remaining performance obligations, which we also refer to as funded backlog. We expect to recognize approximately 95% of our remaining performance obligations over the next 12 months, and the balance thereafter.

4. ACCOUNTS RECEIVABLE, NET

Table 4.1: Details of Accounts Receivable, Net

	As of December 31,	
	2024	2023
	<i>(in thousands)</i>	
Billed accounts receivables	\$ 10,070	\$ 18,101
Unbilled accounts receivable	5,412	8,022
Contract assets	3,746	4,584
Allowance for credit losses	(56)	(283)
Accounts receivable, net	\$ 19,172	\$ 30,424

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 88% and 91% of our billed and unbilled accounts receivable, as of December 31, 2024, and 2023, respectively, were directly with U.S. government customers. While we acknowledge the potentially material and adverse risk of such a significant concentration of credit risk, our past experience of collecting substantially all of such receivables provides us with an informed basis that such risk, if any, is manageable. We perform ongoing credit evaluations of all of our customers and generally do not require collateral or other guarantees from our customers. We maintain allowances for potential losses.

Table 4.2: Allowance for Credit Losses Activities

	Balance Beginning of Year	Provision for (Recovery from) Credit Losses ⁽¹⁾	Write-Offs ⁽²⁾	Balance End of Year
	<i>(in thousands)</i>			
For the Year Ended December 31, 2024	\$ 283	\$ (20)	\$ (207)	\$ 56
For the Year Ended December 31, 2023	134	152	(3)	283

⁽¹⁾ Current year account receivable reserves for expected credit losses and subsequent recoveries, net

⁽²⁾ Accounts receivable written-off

On July 15, 2016, the Company entered into an accounts receivable purchase agreement under which the Company could sell certain accounts receivable (balance not to exceed \$10.0 million) to a third party, or the "Factor," without recourse to the Company, with an availability period through June 30, 2022, and from year to year thereafter unless terminated in writing by the parties. There were no accounts receivable sold during 2024 and 2023, respectively. As of December 31, 2024, and 2023, there were no outstanding sold accounts receivable.

5. INVENTORIES, NET

Table 5.1: Details of Inventories, Net

	As of December 31,	
	2024	2023
	<i>(in thousands)</i>	
Gross inventory	\$ 1,916	\$ 2,179
Allowance for inventory obsolescence	(133)	(759)
Inventories, net	\$ 1,783	\$ 1,420

6. PROPERTY AND EQUIPMENT, NET

Table 6.1: Details of Property and Equipment, Net

	As of December 31, 2024			As of December 31, 2023		
	Gross Carrying Amount	Accumulated Depreciation and Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Depreciation and Amortization	Net Carrying Value
	<i>(in thousands)</i>					
Furniture and equipment	\$ 17,239	\$ (13,617)	\$ 3,622	\$ 16,213	\$ (13,363)	\$ 2,850
Leasehold improvement	3,396	(2,735)	661	3,211	(2,604)	607
Total	\$ 20,635	\$ (16,352)	\$ 4,283	\$ 19,424	\$ (15,967)	\$ 3,457

Table 6.2: Depreciation and Amortization Expense

	For the year ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Depreciation and amortization	\$ 1,646	\$ 2,230

7. GOODWILL

As discussed in [Note 2 – Significant Accounting Policies](#), we reported two operating and reportable segments: Security Solutions and Secure Networks. The two operating and reportable segments represent the reporting units for purposes of testing goodwill.

The goodwill balance was \$17.9 million as of December 31, 2024, and 2023, of which \$3.0 million is allocated to the Security Solutions segment and \$14.9 million is allocated to the Secure Networks segment.

The net assets attributable to the reporting units are determined based upon the estimated assets and liabilities attributable to the reporting units in deriving its free cash flows.

For fiscal year 2024, we performed a qualitative assessment of our reporting units and identified that it is more likely than not that the estimated fair value of the reporting units exceeds their carrying value and thus, we did not proceed to the two-step goodwill impairment test.

For fiscal year 2023, we performed a qualitative assessment of our reporting units and identified that it is more likely than not that the estimated fair value of our Security Solutions reporting unit exceeded its carrying value. In contrast, based on the initial qualitative assessment of our Secure Networks reporting unit, we determined that it is not more likely than not that the fair value of this reporting unit exceeds its carrying value, therefore we performed a quantitative impairment test. Based on the quantitative assessment of our Secure Networks reporting unit as of December 31, 2023, the estimated fair value exceeded its carrying value.

Based on the results of our annual impairment test of goodwill performed, the estimated fair value of our respective reporting units exceeded their respective carrying value, and no impairment charges were taken during the years ended December 31, 2024, and 2023.

8. INTANGIBLE ASSETS, NET

Table 8.1: Details of Intangible Assets, Net

	Estimated useful life	As of December 31, 2024			As of December 31, 2023		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
		<i>(in thousands)</i>					
Acquired technology	8 years	\$ 3,630	\$ (1,550)	\$ 2,080	\$ 3,630	\$ (1,097)	\$ 2,533
Customer relationships	3 years	40	(40)	—	40	(32)	8
Software development costs	2 - 5 years	27,366	(15,761)	11,605	35,312	(12,256)	23,056
Subtotal		31,036	(17,351)	13,685	38,982	(13,385)	25,597
In-process software development costs ⁽¹⁾		16,725	—	16,725	14,019	—	14,019
Total		\$ 47,761	\$ (17,351)	\$ 30,410	\$ 53,001	\$ (13,385)	\$ 39,616

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

In 2024, there were selected capital software projects for which the Company decided to discontinue the development and/or sale of all or part of certain solutions and certain projects that the Company ceased use before the end of its useful life. As a result of the Company's decision to abandon the associated software, the Company wrote off \$11.7 million of the previously capitalized software costs, of which \$5.3 million was recorded as "Impairment loss on intangible assets" under cost of sales within the Security Solutions segment, and \$6.4 million was recorded as "Impairment loss on intangible assets" under operating expenses in the Company's consolidated statements of operations during the fiscal year ended December 31, 2024.

In 2023, as a result of the impairment assessment, the Company identified conditions demonstrating impairment of certain software development costs and an impairment charge of \$0.5 million was reported as "Impairment loss on intangible assets" under operating expenses in the Company's consolidated statements of operations during the fiscal year ended December 31, 2023.

The Company did not recognize any impairment charges on other intangible assets for the periods presented.

Table 8.2: Amortization Expense

	For the year ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Amortization expense related to:		
Software development costs - cost of sales ⁽¹⁾	\$ 6,015	\$ 2,840
Software development costs - research and development	2,286	1,623
Other intangible assets - general and administrative	461	467
Total	<u>\$ 8,762</u>	<u>\$ 4,930</u>

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

Table 8.3: Estimated Future Amortization Expense of Intangible Assets, Net

	As of December 31, 2024	
	<i>(in thousands)</i>	
Year Ending December 31, 2025	\$	5,692
Year Ending December 31, 2026		3,698
Year Ending December 31, 2027		2,658
Year Ending December 31, 2028		1,373
Year Ending December 31, 2029		264
Thereafter		—
Total ⁽¹⁾	<u>\$</u>	<u>13,685</u>

⁽¹⁾ This does not include amortization of in-process software development costs, as estimation of the timing of future amortization expenses would be impractical.

Actual amortization expense in future periods could differ from these estimates as a result of impairments, future releases, future acquisitions, divestitures, and other factors.

9. OTHER BALANCE SHEET COMPONENTS

Table 9.1: Details of Other Assets

	As of December 31,	
	2024	2023
	<i>(in thousands)</i>	
Prepaid expenses – long-term portion	\$ 4,975	\$ 593
Investment ⁽¹⁾	3,000	—
Restricted cash	139	136
Other	75	156
Other assets	<u>\$ 8,189</u>	<u>\$ 885</u>

⁽¹⁾ In March 2024, the Company made a \$3.0 million investment in a privately held company via a simple agreement for future equity. The Company elected to apply the fair value option on this investment. The Company believes the fair value option best reflects the economics of the underlying transaction. The fair value of this investment was based on non-marketable observable inputs, which represent Level 3 measurement within the fair value hierarchy. Changes in the fair value of this investment are recognized within "Other Income (Expenses)" on the consolidated statements of operations, if any. During fiscal year 2024, there were no changes in the fair value of this investment.

Table 9.2: Details of Accounts Payable and Other Accrued Liabilities

	As of December 31,	
	2024	2023
	<i>(in thousands)</i>	
Accounts payable	\$ 1,153	\$ 8,307
Accrued payables	3,147	5,443
Accounts payable and other accrued liabilities	<u>\$ 4,300</u>	<u>\$ 13,750</u>

Table 9.3: Details of Other Current Liabilities

	As of December 31,	
	2024	2023
	<i>(in thousands)</i>	
Other accrued liabilities	\$ 829	\$ 1,427
Restructuring expenses accrual	37	400
Other	436	497
Other current liabilities	<u>\$ 1,302</u>	<u>\$ 2,324</u>

10. DEBT AND OTHER OBLIGATIONS

Revolving Credit Facility

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

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

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

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

On February 9, 2023, the customer notified us that it would not exercise the first option period under the DO. The MPA provides that, if the customer terminates the DO for non-renewal and the Buyer reasonably concludes that the customer's actions constitute grounds for filing a claim with the customer's contracting officer, Buyer and Telos will cooperate in preparing such a claim, which would be filed in Telos' name. During the third quarter of 2024, the Buyer, through Telos, filed a claim against the customer.

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. The Company reported a gain of \$1.4 million, which was recorded as "Other income" in the consolidated statements of operations during the year ended December 31, 2023. No gain was reported for the fiscal year ended December 31, 2024.

11. STOCKHOLDERS' EQUITY

Capital Stock

Our authorized capital stock consists of 250,000,000 shares of common stock, \$0.001 par value per share, and 10,000,000 shares of preferred stock, \$0.01 par value per share.

As of December 31, 2024, and 2023, there were 72,514,652 and 70,239,890 shares of common stock issued and outstanding, respectively. There were no shares of preferred stock issued and outstanding on either date.

Shares 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 repurchases during the year ended December 31, 2024, and 2023. As of December 31, 2024, there was \$38.7 million of the authorization remaining for future common stock repurchases under the SRP.

Accumulated Other Comprehensive Loss

Table 11.1: Details of Changes in Accumulated Other Comprehensive Loss by Category

	Foreign currency translation adjustment	Pension liability adjustment	Total
	<i>(in thousands)</i>		
Balance as of December 31, 2022	\$ (162)	\$ 107	\$ (55)
Other comprehensive loss, net of tax	(5)	—	(5)
Balance as of December 31, 2023	(167)	107	(60)
Other comprehensive loss, net of tax	(8)	(61)	(69)
Balance as of December 31, 2024	<u>\$ (175)</u>	<u>\$ 46</u>	<u>\$ (129)</u>

12. STOCK-BASED COMPENSATION

On May 8, 2023, the Company amended the 2016 LTIP with an additional 6,000,000 shares available for issuance, increasing the total number of shares available to 13,459,913. Further, on May 21, 2024, the Company authorized an additional 8,500,000 shares to be available under the Amended and Restated 2016 LTIP, increasing the total number of shares available for issuance under the 2016 LTIP to 21,959,913 shares. As of December 31, 2024, approximately 1.0 million shares of our common stock were reserved for future grants under the 2016 LTIP, as amended.

The Company records stock-based compensation related to accrued compensation in which it 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, as it has the right to dictate the form of these payments up until the date they are paid.

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

Table 12.1: Details of Stock Compensation Expense by Category

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Cost of sales - services	\$ 828	\$ 900
Research and development	(121)	1,989
General and administrative ⁽¹⁾	20,704	21,507
Total	<u>\$ 21,411</u>	<u>\$ 24,396</u>

⁽¹⁾ Stock-based compensation expense related to stock options was \$0.1 million and \$0.3 million for the years ended December 31, 2024 and 2023.

Restricted Stock

Table 12.2: Restricted Stock Unit Activity

	Service-Based RSU	Performance-Based RSU	Total	Weighted-Average Grant Date Fair Value
Unvested outstanding units as of December 31, 2023	2,132,613	43,800	2,176,413	\$ 5.07
Granted	1,844,223	10,730,226	12,574,449	3.47
Vested	(1,910,651)	—	(1,910,651)	4.41
Forfeited, cancelled, or expired	(114,082)	(90,796)	(204,878)	9.25
Unvested outstanding units as of December 31, 2024	<u>1,952,103</u>	<u>10,683,230</u>	<u>12,635,333</u>	\$ 3.52

On May 16, 2024, the Company granted PSUs that could be settled in up to 1,335,281 shares of its common stock to certain senior executives and employees that will vest upon achieving certain operational milestones prior to January 1, 2027.

On May 28, 2024, the Company granted PSUs to certain senior executives and employees that could settle in up to 2,499,945 shares of its common stock. These PSUs may vest only if the Company achieves certain financial performance targets for fiscal year 2025. The Company also granted PSUs containing market conditions to certain executives that could settle in up to 6,875,000 shares of its common stock. These PSUs with market conditions may vest, in whole or in part, only if the Company's closing common stock price remains at or above certain specified stock prices for 50 consecutive calendar days prior to January 1, 2027.

Our key assumptions used to calculate the grant date fair value of the PSU awards with market condition granted in fiscal year 2024 include a performance period of 2.59 years, an expected volatility of 83.9%, and a risk-free rate of 4.70%. The fair value for these market condition PSUs at the grant date ranges between \$2.62 - \$3.75, and the derived service periods ranges between 0.63 - 1.31 years.

On December 1, 2024, the Company granted PSUs to an employee that could settle in up to 20,000 shares of its common stock and may vest upon achieving certain operational milestones prior to January 1, 2028.

As of December 31, 2024, the intrinsic value of the RSUs and PSUs outstanding, exercisable, and vested or expected to vest was \$43.2 million. Total unrecognized compensation cost related to unvested RSUs and PSUs was \$17.0 million as of December 31, 2024, of which \$2.0 million relates to PSUs that were not probable of achievement. The remaining \$15.0 million of unrecognized compensation cost is expected to be recognized on a straight-line basis over a weighted-average remaining vesting period of 0.7 years.

In the second quarter of 2024, the performance targets for outstanding PSUs granted prior to 2024 were not probable of being achieved. Therefore, the Company recorded a cumulative catch-up adjustment for the change in its probability assessment, resulting in a \$1.2 million decrease in stock-based compensation expense. This was recorded as a stock-based compensation adjustment under R&D expenses and SG&A expenses in the Company's statements of operations for the year ended December 31, 2024. The performance period for these PSUs ended during the third quarter of 2024.

Stock Options

Table 12.3: 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	—	—		
Exercised	(113,000)	1.80		
Forfeited, cancelled, or expired	—	—		
Outstanding option balance as of December 31, 2024	<u>287,000</u>	\$ 1.80	8.4	\$ 464,940
Exercisable stock option as of December 31, 2024	<u>287,000</u>	\$ 1.80	8.4	\$ 464,940

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.
- *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.

Our key assumptions used to calculate the fair value of the stock options granted in fiscal year 2023 include an expected term ranging from 5.5 to 10 years, expected volatility between 30.7% - 35.1%, and a risk-free rate of 3.5%. The weighted-average fair value of the underlying stock options at the grant date was \$1.06. There were no new stock options granted in fiscal year 2024.

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 December 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 December 31, 2024, there were no unrecognized compensation costs related to non-vested stock options.

13. LEASES

We lease office space facilities and equipment under non-cancelable operating and finance leases with various expiration dates, some of which contain renewal options. The Company's lease portfolio is comprised of two major classes. The lease of the Ashburn facility is accounted for as a finance lease. Under this lease agreement, the basic rent increases by a fixed 2.5% escalation annually, expiring on May 28, 2029. The other office spaces and equipment leased are accounted for as operating leases.

Table 13.1: Details of Lease Costs

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Operating lease cost	\$ 277	\$ 541
Short-term lease cost ⁽¹⁾	53	55
Finance lease cost		
Amortization of finance lease assets	1,221	1,221
Interest on finance lease liabilities	527	611
Total finance lease cost	1,748	1,832
Total lease costs	<u>\$ 2,078</u>	<u>\$ 2,428</u>

⁽¹⁾ Leases that have terms of 12 months or less.

Table 13.2: Future Minimum Lease Payments

	Operating Leases	Finance Leases
	<i>(in thousands)</i>	
Year Ending December 31, 2025	\$ 245	\$ 2,314
Year Ending December 31, 2026	252	2,372
Year Ending December 31, 2027	166	2,431
Year Ending December 31, 2028	26	2,492
Year Ending December 31, 2029	—	1,049
Thereafter	—	—
Total minimum lease payments	689	10,658
Less: Imputed interest	(61)	(1,140)
Total lease obligations	628	9,518
Less: Current portion of lease obligations	(210)	(1,877)
Long-term lease obligations	<u>\$ 418</u>	<u>\$ 7,641</u>

Table 13.3: Weighted-Average Remaining Lease Terms and Discount Rates

	For the Year Ended December 31,	
	2024	2023
Weighted average remaining lease term (in years):		
Finance leases	4.3 years	5.3 years
Operating leases	2.8 years	3.4 years
Weighted average discount rate:		
Finance leases	5.04%	5.04%
Operating leases	6.04%	5.75%

Table 13.4: Supplemental Cash Flow Information Related to Leases

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows related to operating leases	\$ 275	\$ 585
Operating cash flows related to finance leases	528	611
Financing cash flows related to finance leases	1,730	1,592

14. EMPLOYEE BENEFIT PLAN

Telos sponsors a defined contribution employee savings plan (the "Plan") under which substantially all full-time employees are eligible to participate. As of December 31, 2024, the Plan held 1,609,480 shares of Telos common stock. We matched one-half of employee contribution to the Plan up to a maximum of 4% of such employee's eligible annual base salary. Prior to September 2023, Telos' contributions vested at the rate of 20% each year, with full vesting occurring after completion of five years of service. Effective September 1, 2023, we changed our Telos-contributed matching funds to a two-year vesting schedule: 20% vesting after one year of service, and fully vesting after the completion of two years of service. Telos intends to fund the employer matching contribution in Telos stock, but will have the discretion to fund the match in cash or a combination of stock and cash. The Telos employer matching contribution is funded in the first quarter of the subsequent year.

Our total contributions to the Plan for 2024 and 2023 were \$2.1 million for both periods.

15. INCOME TAXES

Table 15.1: Components of Provision for Income Taxes

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Current provision		
Federal	\$ —	\$ —
State	21	(19)
Foreign	5	—
Total current	26	(19)
Deferred tax expense		
Federal	46	32
State	(46)	23
Total deferred	—	55
Provision for income taxes	\$ 26	\$ 36

Table 15.2: Reconciliation of Statutory Tax Rate to Actual Tax Rate

	For the Year Ended December 31,	
	2024	2023
Computed expected income tax provision	21.0 %	21.0 %
State income taxes, net of federal income tax benefit	3.3	3.6
Change in valuation allowance for deferred tax assets	(23.1)	7.5
Cumulative deferred adjustments	1.0	—
Provision to return adjustments	—	(0.1)
Other permanent differences	(0.1)	(0.2)
Stock-based compensation	(0.7)	(41.2)
Section 162(m) limitation - covered employees	(3.9)	9.5
Uncertain tax positions	(0.5)	0.5
R&D credit	2.9	(0.7)
Effective tax rate	(0.1 %)	(0.1 %)

Table 15.3: Components of Deferred Tax Assets and Liabilities

	As of December 31,	
	2024	2023
	<i>(in thousands)</i>	
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts	\$ 14	\$ 70
Allowance for inventory obsolescence and amortization	60	203
Accrued liabilities not currently deductible	763	1,133
Stock-based compensation	2,734	1,352
Accrued compensation	783	2,457
Lease liabilities	2,594	2,906
Goodwill	28,122	30,947
Capitalized research and development costs	10,116	2,992
Net operating loss carryforwards - federal	15,101	8,402
Net operating loss carryforwards - state	2,672	1,522
R&D tax credit	4,856	3,647
Amortization and depreciation	—	252
Total gross deferred tax assets	67,815	55,883
Less valuation allowance	(67,117)	(54,999)
Total deferred tax assets, net of valuation allowance	698	884
Deferred tax liabilities:		
Right-of-use assets	(1,510)	(1,697)
Amortization and depreciation	(1)	—
Total deferred tax liabilities	(1,511)	(1,697)
Net deferred tax liabilities	\$ (813)	\$ (813)

Table 15.4: Valuation Allowance Activity

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Balance at beginning of year	\$ 54,999	\$ 57,559
Additions (reductions)	12,118	(2,560)
Balance at end of year	\$ 67,117	\$ 54,999

We establish a valuation allowance for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income. We considered projected future taxable income, tax planning strategies, and reversal of taxable temporary differences in making this assessment.

Based on available evidence, we have determined that a valuation allowance is required as of December 31, 2024, and 2023 against the net of our deferred tax assets and liabilities to the extent that only a deferred tax liability related to indefinite-lived goodwill remains on our consolidated balance sheets on December 31, 2024, and 2023.

On December 31, 2024, for federal income tax purposes, there was approximately a \$71.9 million net operating loss available to be carried forward to offset future taxable income. Approximately \$10.6 million of these net operating loss carryforwards expire in 2037, the remaining will be carried forward indefinitely. As of December 31, 2024, there was approximately \$6.1 million of R&D credit carryover which begins to expire in 2033. Certain tax attributes of the Company, including net operating losses and credits, would be subject to a limitation should an ownership change as defined under Section 382 of the Internal Revenue Code of 1986, as amended, occur. The limitations resulting from a change in ownership could affect the Company's ability to utilize its tax attributes. A study was completed in 2020 which confirmed that no limitation applies to the Company's tax attributes as of December 31, 2020. We believe that ownership activity since December 31, 2020, would not result in limitation sufficient to result in the expiration of unused attributes.

Under the provisions of ASC 740, we determined that there were approximately \$1.5 million and \$1.2 million of unrecognized tax benefits as of December 31, 2024, and 2023, respectively. There was no tax benefit included on the unrecognized tax benefits as of December 31, 2024. There was \$0.01 million of tax benefits included in the balance of unrecognized tax benefits as of December 31, 2023, that if recognized, would impact the effective tax rate. Also included in the balance of unrecognized tax benefits as of December 31, 2024, and 2023 were \$1.5 million and \$1.2 million, respectively, of tax benefits that, if recognized, would not impact the effective tax rate due to the Company's valuation allowance. We report interest and penalties as a component of income tax expense. There was no accrued interest and penalties related to the unrecognized tax benefits as of December 31, 2024. The Company had accrued interest and penalties related to the unrecognized tax benefits of \$0.01 million, which was recorded in other liabilities as of December 31, 2023. We believe that the total amounts of unrecognized tax benefits will not significantly increase or decrease within the next 12 months. The period for which tax years are open with regards to unrecognized tax benefits, 2013 to 2024, has not been extended beyond the applicable statute of limitations.

We file income tax returns in the U.S. federal jurisdiction and are subject to the continuous examination of our income tax returns by the Internal Revenue Service ("IRS") and other tax authorities. The applicable statute of limitations is no longer open for audit or examination for the years before 2021 for federal income taxes in the U.S. We were notified by the IRS in September 2024 regarding an audit of our 2021 federal income tax return. As of the date of these financial statements, the audit is still ongoing and no final determination or audit report has been issued.

Table 15.5: Reconciliation of the Beginning and Ending Amounts of Unrecognized Tax Benefit

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Balance at beginning of year	\$ 1,228	\$ 1,357
Increase (decrease) in prior year tax positions	123	(169)
Increase related to current year tax positions	177	131
Decrease related to lapse of statutes	(13)	(91)
Balance at end of year	<u>\$ 1,515</u>	<u>\$ 1,228</u>

16. LOSS PER SHARE

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

Table 16.1: Potentially Dilutive Securities

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Unvested restricted stock and restricted stock units	834	687
Total	<u>834</u>	<u>687</u>

As of December 31, 2024, and 2023, PSUs of 10,683,230 and 43,800, respectively, have been excluded in the calculation of the potentially dilutive securities above because issuance of such shares are contingent upon the satisfaction of certain conditions which were not satisfied by the end of the reporting period.

17. RELATED PARTY TRANSACTIONS

Emmett J. Wood, the brother of our Chairman and CEO, had been an employee of ours since 1996. In January 2023, he tendered his resignation as an employee effective February 7, 2023. The amounts paid to him as total compensation in 2023, including stock awards and other benefits, was \$0.2 million.

One of the Company's directors served as a consultant to the Company under a consultancy agreement that expired on December 31, 2023. The Company, at its election, paid the director a fixed amount, in the form of RSUs, for his services from January 1 through June 30, 2023. On January 3, 2023, the Company granted the director 16,859 RSUs, one-half of which vested on March 3, 2023, and the other half vested on May 18, 2023. From July 1 through December 31, 2023, the director was paid a firm-fixed monthly retainer fee, plus additional fees and contingent bonus payments upon achievement of certain contract goals, payable in cash. Cash payments made for his consulting services were \$0.1 million for the year ended December 31, 2023.

18. SEGMENT INFORMATION

As noted in [Note 2 – Significant Accounting Policies](#), we conduct our operations through two reportable and operating segments: Security Solutions and Secure Networks.

- Our Security Solutions segment is primarily focused on cybersecurity, cloud and identity solutions, and secure messaging through Xacta, Telos Automated Message Handling System ("AMHS") and Telos ID offerings. We recognize revenue on contracts from providing various system platforms in the cloud, on-premises, and in hybrid cloud environments, as well as software sales or software-as-a-service. Revenue associated with the segment's custom solutions is recognized as work progresses or upon delivery of services and products. Fluctuation in revenue from period to period is the result of the volume of software sales, and the progress or completion of cloud and/or cybersecurity solutions during the period. Other segment expenses relate to labor, material, and overhead costs. Software sales generally yield 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 18.1: Results of Operations by Business Segment

	For the Year Ended December 31,					
	2024			2023		
	Security Solutions	Secure Networks	Total	Security Solutions	Secure Networks	Total
	<i>(in thousands)</i>					
Revenues	\$ 76,760	\$ 31,512	\$ 108,272	\$ 77,416	\$ 67,962	\$ 145,378
Cost of sales						
Impairment loss on intangible assets ⁽¹⁾	5,333	—	5,333	—	—	—
Depreciation and amortization ⁽¹⁾	6,396	8	6,404	3,532	12	3,544
Stock-based compensation expense ⁽¹⁾	667	161	828	668	232	900
Other segment items ⁽²⁾	36,685	24,593	61,278	33,602	54,390	87,992
Total cost of sales	49,081	24,762	73,843	37,802	54,634	92,436
Gross profit	27,679	6,750	34,429	39,614	13,328	52,942
Operating expenses						
Research and development expenses			8,442			11,760
Selling, general and administrative expenses			75,487			81,010
Impairment loss on intangible assets			6,373			487
Total operating expenses			90,302			93,257
Operating loss			(55,873)			(40,315)
Other income			4,023			6,715
Interest expense			(644)			(786)
Loss before income taxes			(52,494)			(34,386)
Provision for income taxes			(26)			(36)
Net loss			\$ (52,520)			\$ (34,422)

⁽¹⁾ The significant segment expense categories and amounts align with the segment-level information regularly provided to the CODM.

⁽²⁾ Other segment items for each reportable segment include direct labor, direct subcontractor costs, direct materials and inventory, other direct non-labor costs, fringes, overhead, and facility costs.

We measure each segment's profitability based on gross profit. The CODM evaluates the segment's performance based on metrics, such as segment revenues and gross profit, to align with our strategies and objectives, and provide a framework to allocate resources between the segments.

We account for inter-segment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices, if any. There were no inter-segment sales and transfers during fiscal years 2024 and 2023. 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, nor provide segment asset information to the CODM, 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.

19. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

Management does not believe that there are any litigation or claims that would have a material adverse effect on the business, or the consolidated financial statements of the Company as of December 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.

20. SUPPLEMENTAL CASH FLOW INFORMATION

Table 20.1: Details of Cash, Cash Equivalent, and Restricted Cash

	As of December 31,	
	2024	2023
	<i>(in thousands)</i>	
Cash and cash equivalents	\$ 54,578	\$ 99,260
Restricted cash ⁽¹⁾	139	136
Cash, cash equivalents, and restricted cash	<u>\$ 54,717</u>	<u>\$ 99,396</u>

⁽¹⁾ Restricted cash consists of a commercial money market account held as a deposit on the Ashburn lease and is recorded under "Other assets" on the Consolidated Balance Sheets.

Table 20.2: Supplemental Cash Flow Information

	For the Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Cash paid during the year for:		
Interest	\$ 563	\$ 693
Income taxes	132	147
Non-cash investing and financing activities:		
Operating lease ROU assets obtained in exchange for operating lease liabilities	\$ 626	\$ 125
Capital expenditure activity in accounts payable and other accrued liabilities	309	341
Issuance of common stock for 401K match	1,619	1,943
Intangible assets transferred to extinguish other financing obligations	—	7,089

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer (our Chairman and Chief Executive Officer) and principal financial officer (our Executive Vice President and Chief Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2024. Based upon that evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Our internal control over financial reporting includes those policies and procedures that:

- a. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- b. Provide reasonable assurance that transactions are recorded properly to allow for the preparation of financial statements in accordance with U.S. GAAP and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- c. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2024, based on the framework established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has assessed in its evaluation the effectiveness of our internal control over financial reporting as of December 31, 2024, and has concluded that our internal control over financial reporting was effective.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited our consolidated financial statements and our internal control over financial reporting, and the firm's report on our internal control over financial reporting are included in [Item 8](#) of this Annual Report on Form 10-K.

Although our management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, because of inherent limitations, our management does not expect that our internal controls over financial reporting will prevent or detect all errors and all fraud. Also, projections of any evaluation of effectiveness in such assessment to future periods are subject to the risk that controls may be inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during the quarter ended December 31, 2024, that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting.

Item 9B. Other Information

(a) None.

(b) During the three months ended December 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 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K since we intend to file our definitive proxy statement for our 2025 Annual Meeting of Stockholders, or the Proxy Statement, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information to be included in the Proxy Statement is incorporated herein by reference.

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item regarding executive officers, insider trading policies and procedures, directors and nominees for directors, including information with respect to our audit committee and audit committee financial expert, will be included under Election of Directors, Executive Officers, Corporate Governance, Corporate Governance Guidelines, Independence of Directors, Board of Directors Nomination Process, Information Security and Risk Oversight, Meetings of the Board of Directors, Compensation of Directors, and Committees of the Board of Directors, as well as Management Development and Compensation Committee Report, and Insider Trading Policy in the Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be included in our Proxy Statement under the Advisory Vote on Executive Compensation and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be included in our Proxy Statement under Approval of the Amendment to the Amended and Restated 2016 Omnibus Long-Term Incentive Plan and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included in our Proxy Statement under Certain Relationships and Related Transactions, and Independence of Directors and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this item will be included in our Proxy Statement under Ratification of Independent Registered Public Accounting Firm and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Documents filed as part of this report are as follows:

1. Financial Statements. The Company's consolidated financial statements are included in Item 8. Financial Statements and Supplementary Data.
2. Financial Statement Schedules. All schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements.
3. Exhibits. The exhibit listed in the Exhibit Index immediately below are filed as part of this Annual Report on Form 10-K, or are incorporated by reference herein.

Exhibit Number	Description of Exhibit	Incorporated by Reference Herein		
		Form/ Schedule	Date Filed	Exhibit Number
3.1	Second Articles of Amendment and Restatement of Telos Corporation dated November 12, 2020	8-K	November 16, 2020	3.2
3.2	Fourth Amended and Restated Bylaws of Telos Corporation, effective as of November 7, 2023	8-K	November 9, 2023	3.1
4.1	Description of our Capital Stock	10-K	March 28, 2022	4.13
10.1	* Form of Indemnification Agreement between the Company and its directors and executive officers	10-Q	May 17, 2021	10.1
10.2	* Employment Agreement, dated as of September 17, 2012, between the Company and Mark Griffin	10-K	April 1, 2013	10.23
10.3	* Second Amended Employment Agreement, dated as of November 12, 2012, between the Company and John B. Wood	10-Q	November 14, 2012	10.1
10.4	* Executive Employment Agreement between Mark Bendza and the Company, dated as of July 19, 2021	10-Q	August 16, 2021	10.1
10.5	* Executive Employment Agreement between E. Hutchinson Robbins, Jr. and the Company, dated as of February 1, 2022	10-K	March 16, 2023	10.5
10.6	* + Executive Employment Agreement between Malcolm Cooke and the Company, dated as of February 20, 2025			
10.7	* Annual Incentive Plan for 2022	8-K	February 28, 2022	99.1
10.8	* Annual Incentive Plan, as amended	8-K	September 20, 2023	99.1
10.9	* Amended and Restated 2016 Omnibus Long-Term Income Plan	8-K	May 22, 2024	10.1
10.10	* Form of Notice of Grant of Restricted Stock	10-Q	August 15, 2016	10.4
10.11	* Form of Restricted Share Unit Award Notice and Restricted Share or Restricted Share Unit Agreement (Time-Based)	8-K	February 3, 2021	99.1
10.12	* Form of Restricted Share Unit Award Notice and Restricted Share or Restricted Share Unit Agreement (Performance-Based)	8-K	February 3, 2021	99.2
10.13	* Form of Telos Corporation Notice of Grant of Option	10-Q	August 9, 2023	10.1
10.14	* Form of Telos Corporation Notice of Grant of Restricted Shares and/or Restricted Share Units (Time-based)	10-Q	August 9, 2023	10.2
10.15	Credit Agreement between, among others, Telos Corporation and JP Morgan Chase Bank	8-K	January 5, 2023	99.1
10.16	First Amendment to Credit Agreement between, among others, Telos Corporation and JP Morgan Chase Bank, dated April 12, 2023	10-Q	May 10, 2023	10.1
19.1	+ Insider Trading Policy			

* constitutes a management contract or compensatory plan or arrangement

+ filed herewith

^ furnished herewith

Table of Contents

Exhibit Number		Description of Exhibit	Incorporated by Reference Herein		
			Form/ Schedule	Date Filed	Exhibit Number
21.1	+	List of subsidiaries of Telos Corporation			
23.1	+	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm			
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			
32.1	^	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
97.1		Policy Relating to Recovery of Erroneously Awarded Compensation	10-K	March 15, 2024	97.1
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			
101.CAL	+	XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	+	XBRL Taxonomy Extension Definition Linkbase			
101.LAB	+	XBRL Taxonomy Extension Label Linkbase			
101.PRE	+	XBRL Taxonomy Extension Presentation Linkbase			
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 herewith
^ furnished herewith

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Telos Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELOS CORPORATION

/s/ John B. Wood

March 10, 2025

By: John B. Wood
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Telos Corporation and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John B. Wood</u> John B. Wood	Chief Executive Officer (Principal Executive Officer) Chairman of the Board and Director	<u>March 10, 2025</u>
<u>/s/ Mark Bendza</u> Mark Bendza	Chief Financial Officer (Principal Financial Officer)	<u>March 10, 2025</u>
<u>/s/ Victoria Harding</u> Victoria Harding	Controller and Chief Accounting Officer (Principal Accounting Officer)	<u>March 10, 2025</u>
<u>/s/ David Borland</u> David Borland	Director	<u>March 10, 2025</u>
<u>/s/ Bonnie Carroll</u> Bonnie Carroll	Director	<u>March 10, 2025</u>
<u>/s/ Fredrick D. Schaufeld</u> Fredrick D. Schaufeld	Director	<u>March 10, 2025</u>
<u>/s/ John W. Maluda</u> John W. Maluda, Major Gen., USAF (Ret)	Director	<u>March 10, 2025</u>
<u>/s/ Brad Jacobs</u> Brad Jacobs	Director	<u>March 10, 2025</u>
<u>/s/ Derrick D. Dockery</u> Derrick D. Dockery	Director	<u>March 10, 2025</u>

EMPLOYMENT AGREEMENT

THIS **EMPLOYMENT AGREEMENT** (“Agreement”) is made and entered into as of this February 20, 2025 by and between Telos Corporation, a Maryland corporation, for itself and its subsidiary companies, divisions, affiliates and operating entities (the “Company”) and **Malcolm G. Cooke** (the “Executive”).

WHEREAS, the Company and the Executive desire to enter into this Agreement pertaining to the employment of the Executive by the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below and other good and valuable consideration, the receipt of which is hereby acknowledged, the Executive and the Company hereby agree as follows:

1. **Performance of Services.** The Executive’s employment with the Company shall be subject to the following:
 - (a) Subject to the terms of this Agreement, the Company hereby agrees to employ the Executive as its Vice President, Chief Information Technology Officer, during the Agreement Term (as defined below).
 - (b) During the Agreement Term, the Executive shall devote full time (paid time off and other authorized leave excepted) and best efforts, energies and talents to serving the Company as an employee.
 - (c) The Executive agrees to perform his duties faithfully, efficiently and with integrity subject to the direction of the Company. The Executive will have such authority, power, responsibilities and duties as are inherent in such position and necessary to carry out such responsibilities and the duties required hereunder, as well as any additional duties and authority granted to him by the Company’s Chief Executive Officer and/or Board of Directors (the “Board of Directors”).
 - (d) Notwithstanding the foregoing, during the Agreement Term, the Executive may devote reasonable time to activities other than those required under this Agreement, including activities involving professional, charitable, educational, religious and similar types of organizations, speaking engagements, membership on the boards of directors of other profit or not-for-profit organizations, and similar activities, to the extent that such other activities do not, in the judgment of the Company, inhibit or prohibit the performance of the Executive’s duties under this Agreement or conflict in any material way with the Company’s business.
 - (e) The Executive shall not be required to perform services under this Agreement during any period in which Executive is determined to be Disabled (as defined below).
 - (f) The “Agreement Term” shall be the period beginning on February 20, 2025 for a one-year period, and thereafter automatically renewing for consecutive one-year periods unless terminated in accordance with the provisions hereof.
2. **Compensation and Benefits.** While the Executive is employed by the Company pursuant to this Agreement, the Company shall compensate him for his services as follows:
 - (a) **Base Salary.** The Executive shall receive an annual base salary of Two Hundred Sixty-One Thousand Eight Hundred Sixty-Seven Dollars and Five Cents (\$261,867.05), effective as of the commencement of employment (the “Salary”), plus any salary increases authorized during the Agreement Term, if any, payable in accordance with the Company’s payroll cycle.

- (b) Annual Bonus. The Executive shall have the opportunity to participate in the Company's annual incentive (or bonus) plan or plans, under the terms and conditions as defined by the Company and in those plans as they may exist from time to time. Any bonus for the Executive shall be subject to the then-existing requirements of the Company governing internal recommendation and approval of such a bonus. Any such annual bonus shall be paid to the Executive as soon as practicable following achievement of the requirements for the bonus, in accordance with the terms of the annual incentive plan or plans.
- (c) Equity Awards. The Executive shall be eligible to receive equity awards under the Company's long-term equity incentive plans under the terms and conditions as defined by the Company and in those plans as they may exist from time to time, and in an amount determined by the Management Development and Compensation Committee, subject to any approval required by the Board of Directors.
- (d) Expense Reimbursement. While the Agreement is in effect, the Company will reimburse the Executive for all reasonable and necessary expenses incurred by the Executive in connection with the performance of his duties for the Company. Such reimbursement is subject to the submission to the Company by the Executive of appropriate documentation and/or vouchers, and will be made in accordance with the customary procedures of the Company for expense reimbursement, as may from time to time be established.
- (e) Other Benefits. The Executive shall be eligible to participate in any and all plans maintained by the Company to provide benefits for its salaried senior executives, and, including, without limitation, any vacation plan, pension, profit sharing or other retirement plan, any life, accident, disability, medical, hospital or similar group insurance program and any other benefit plan, subject to the normal terms and conditions of such plans.
- (f) Clawback. All payments made to the Executive pursuant to this Agreement are subject to clawback by the Company to the extent required by applicable law or the policies of the Company as in effect from time to time.

Termination. The Executive's employment with the Company pursuant to this Agreement may terminate under the following circumstances (hereinafter referred to as a "Termination").

- (a) Death. The Executive's employment hereunder shall terminate upon his death (referred to hereafter as "Death").
- (b) Disability. If the Executive becomes Disabled, the Company may terminate Executive's employment. For purposes of this Agreement, the Executive shall be deemed to be "Disabled" if (i) eligible for disability benefits under the Company's long-term disability plan, or (ii) has a physical or mental disability which renders Executive incapable, after reasonable accommodation, of performing substantially all of Executive's duties hereunder for a period of 180 days (which need not be consecutive) in any 12-month period. In the event of a dispute as to whether the Executive is Disabled, the Company may, at its expense, refer Executive to a licensed practicing physician of the Company's choice and the Executive agrees to submit to such tests and examination as such physician shall deem customary and appropriate.

- (c) Cause. The Company may terminate the Executive's employment hereunder immediately and at any time for Cause by written notice to the Executive detailing the basis for the Cause Termination. For purposes of this Agreement, "Cause" means (i) gross negligence or willful and continued failure by the Executive to substantially perform his duties as an employee of the Company (other than any such failure resulting from incapacity due to physical or mental illness); (ii) Executive's dishonesty, fraudulent misrepresentation, willful misconduct, malfeasance, violation of fiduciary duty relating to the business of the Company; or (iii) conviction of a felony.
 - (d) Without Cause. The Company may terminate the Executive's employment hereunder immediately and at any time without Cause (referred to hereafter as "Without Cause") by written notice to the Executive.
 - (e) Termination by Executive. The Executive may terminate his employment hereunder at any time for any reason by giving the Company prior written notice not less than thirty (30) days prior to such Termination.
 - (f) Mutual Agreement. This Agreement may be terminated at any time by mutual written agreement of the parties.
 - (g) Termination within Twelve (12) Months of Change in Control. Termination because of a Change in Control (as defined in paragraph 4(d) below) occurs when the Executive's employment is terminated by the Company or its successor Without Cause within twelve (12) months after a Change in Control.
 - (h) Date of Termination. "Date of Termination" means the last day that the Executive is employed by the Company under the terms of this Agreement, provided that Executive's employment is terminated in accordance with one of the foregoing provisions.
4. Rights Upon Termination. The Executive's right to payments and benefits under this Agreement for periods after Termination shall be determined in accordance with the following:
- (a) If the Executive's Termination occurs for Cause, if the Executive terminates the Agreement in accordance with paragraph 3(e) above, if the Executive's Termination occurs by mutual agreement, the Company shall pay to the Executive:
 - (i) A lump-sum payment equivalent to the remaining unpaid portion of the Executive's Salary for the period ending on the Date of Termination.
 - (ii) A lump-sum payment for all accrued and unused vacation days.
 - (iii) Any other payments or benefits to be provided to the Executive by the Company pursuant to any employee benefit plans or arrangements adopted by the Company, to the extent such payments and benefits are earned and vested as of the Date of Termination, or are required by law to be offered for periods following the Executive's Date of Termination. In addition, any bonus which has been earned by Executive and approved by the appropriate corporate authorities but which remains unpaid as of the date of Executive's Termination, shall be paid to Executive at such time and in such manner as if Executive had continued to be employed by the Company.

- (b) If the Company terminates the Executive's employment Without Cause as referenced in paragraph 3(d) above, or Termination occurs due to Disability in accordance with paragraph 3(b) above, the Company shall pay or provide to the Executive the following: The amounts payable under paragraph 4(a), and in addition, the Executive shall be entitled to monthly payments over a 12-month period of an amount equal to the monthly salary which the Executive was being paid as of the Date of Termination. Such payments will commence as of the month following the date that the Executive incurs a separation from service, as such term is defined in the context of Section 409A of the Code (as defined below). Such payments will continue over the 12-month period in accordance with the Company's normal payroll cycle. In the event that the Executive dies prior to the completion of the 12-month payment cycle, any amounts remaining unpaid as of the date of Executive's death will be paid to Executive's estate in lump sum.
- (c) If the Executive's employment is terminated due to Death in accordance with paragraph 3(a), the Executive's estate shall be entitled to the amounts payable under paragraph 4(a), and in addition, the Executive's estate shall be entitled to a lump-sum payment of an amount equal to the amount of monthly salary which the Executive was being paid as of the Date of Termination times 12 months.
- (d) Upon Termination of the Executive's employment within 12 months after a Change in Control in accordance with paragraph 3(g), Executive shall be entitled to the amounts payable under paragraph 4(a), and in addition, the Executive shall be entitled to a lump-sum payment of amounts equal to the following: (i) the amount of monthly salary which the Executive was being paid as of the Date of Termination times 12 months; plus (ii) one (1) times the Average Bonus Amount (as defined below). For purposes of this Agreement, "Average Bonus Amount" shall equal the average amount of the bonus to be earned for the then-current year (i.e., the year in which the Change in Control occurs) and the bonuses received for the two immediately prior years. For purposes of calculating the Average Bonus Amount, the amount of the bonus for the then-current year shall equal the amount earned or scheduled to be earned by the Executive as if the bonus targets set in the bonus plan have been met. The Average Bonus Amount, which is payable in lump sum, shall be paid contemporaneously with the Date of Termination. "Change in Control" means an occasion upon which (i) any one person, or more than one person acting as a group (as defined in Treasury Regulation Section 1.409A-3(i)(5)(v)(B)), other than a member of the Board of Directors or fiduciary holding securities under an employee benefit plan of the Company or a corporation controlled by the Company, acquires (either directly and/or through becoming the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act)), directly or indirectly, securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities (or has acquired securities representing 50% or more of the combined voting power of the Company's then outstanding securities during the 12-month period ending on the date of the most recent acquisition of Company securities by such person); or (ii) during any period of twelve (12) consecutive months, a majority of the members of the Board of Directors is replaced by directors whose appointment or election is not endorsed by a majority of the members of the Board of Directors before the date of the appointment or election; or (iii) any one person, or more than one person acting as a group (as defined in Treasury Regulation Section 1.409A-3(i)(5)(v)(B)) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) all, or substantially all, of the Company's assets. Each Change in Control event described in this paragraph is intended to constitute a change in ownership or effective control of the Company or in the ownership of a substantial portion of the Company's assets within the meaning of Section 409A(a)(2)(A)(v) of the Internal Revenue Code of 1986, as amended ("Code"), and the IRS guidance issued thereunder and this Agreement shall be interpreted accordingly. For the sake of clarity, and notwithstanding anything to the contrary set forth in this Agreement, the Executive shall not be entitled to any payments under paragraphs 4(b) or 4(c) upon Termination if the Executive receives the payments under this paragraph 4(d) upon a Change in Control.

- (e) In the event that the Executive's employment is terminated for any reason discussed in paragraphs 4(b), 4(c) or 4(d), in addition to the amounts payable under paragraphs 4(b), 4(c) or 4(d) as applicable, the Executive or the Executive's estate shall be entitled to the following:
- (i) Executive's equity and equity-based awards will continue to be subject to the terms of the applicable grant notice and award agreement, which may provide for immediate vesting of the unvested portion of the award under certain circumstances. In addition, if the Company terminates the Executive's employment due to Death as referenced in paragraph 3(a) above, Disability as referenced in paragraph 3(b) above, or Without Cause as referenced in paragraph 3(d) above, all equity and equity-based awards, including but not limited to, Restricted Shares and/or Restricted Share Units, that have not yet vested shall vest immediately on the Date of Termination.
 - (ii) Cash payments equal to twelve (12) months of premium payments for medical and dental coverage. The amount of the monthly payments shall be equal to the amount of the "applicable premium" as determined pursuant to the terms of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") (without regard to whether or not the Executive elects COBRA continuation coverage) based on the Executive's choices under the Company's plan as of the Date of Termination and further based upon the current premiums as of the Date of Termination, less the amount that the Executive was contributing for coverage. The Company benefits package in which the Executive participated will cease as of the Date of Termination.
 - (iii) Cash payments equal to twelve (12) months of benefit premiums based upon the premium rate at the Date of Termination under the terms of the Company's Group Life Policy which allows the option to convert to an individual policy for basic life and accidental death and dismemberment (AD&D) coverage. However, the cash payments shall be no more than the amount of the premiums that the Company was paying as if the Executive was still employed. This paragraph shall not apply if the Executive's employment is terminated per paragraph 4(c).
 - (iv) Cash payments equal to the employer matching contribution, as if the Executive was still a plan participant that would otherwise have been contributed on Executive's behalf to the Code Section 401(k) program maintained by the Company with respect to the 12-month period commencing on the Date of Termination under the following assumptions:
 - (a) Executive would have made a voluntary salary reduction contribution to the Code Section 401(k) program with respect to the 12-month period based upon the salary reduction election in effect on behalf of the Executive as of the Date of Termination.
 - (b) No additional "constructive matching" payments will be made under this provision with respect to a calendar year once the combination of the actual matching contributions made on behalf of Executive to the Code Section 401(k) program for such calendar year plus the "constructive matching" payments made to Executive pursuant to this provision for such calendar equal the maximum amount of matching contributions that could have been allocated to Executive's account under the terms of the Code Section 401(k) program with respect to such calendar year.
 - (c) Except as otherwise contemplated by paragraph 4(e)(vi) below, the "constructive matching" payments will be made at such times as the Company remits the actual matching contributions to the Code Section 401(k) program.

- (v) If the Executive's employment is terminated per paragraph 4(b), all payments under paragraph this 4(e) shall be made on a periodic basis on the same schedule as such benefits otherwise would have been payable as if the Executive was still employed at the Company. If the Executive's employment is terminated per paragraph 4(c) or paragraph 4(d), all payments under this paragraph 4(e) shall be paid in a lump-sum payment at the same time the lump sum payment is paid in accordance with paragraph 4(c) or paragraph 4(d).
- (vi) If the Executive was receiving other benefits as of the Date of Termination that are not listed above, and to the extent such payments or benefits are earned and vested or are required by law to be offered to the Executive for the 12-month period following the Date of Termination, then the cash equivalent or arrangements for continuing coverage will be determined at that time. However, the cash payments shall be no more than the amount that the Company was paying as if the Executive was still employed.
- (vii) If any of the benefits listed above are no longer available to the Executive as of the Date of Termination, then there will be no such payments made to continue the benefits after the Date of Termination or its cash equivalent. The undertakings of the Company in connection with paragraphs b(i), b(ii) and b(iii), above, are contingent upon Executive's compliance with the non-compete, confidentiality, and non-solicitation provisions of paragraphs 5, 6 and 7. Should the Company determine that the Executive has committed an infraction of any component of paragraph 5, paragraph 6 or paragraph 7, the Company shall notify the Executive of its determination and provide the Executive with 10 business days to cure the infraction or present convincing evidence that no infraction has occurred. Should the infraction not be subject to cure, or should Executive otherwise fail to cure such infraction within 5 business days of such notice, then the Company may discontinue the payment referenced in paragraph b(i) and the continuation of benefits referenced in paragraph b(iii) and any otherwise unexercised stock option will be forfeited.
- (f) To the extent required by Section 409A of the Code, if the Executive separates from service with the Company for any reason other than death and the Executive constitutes a "specified employee" as defined in Section 409A(2)(B)(i) of the Code at the time of separation from service, then payment to the Executive of any amounts pursuant to paragraph b(i) and payment of any cash amounts pursuant to paragraph b(iii) shall not commence until a date that is six months following the date of the Executive's separation from service with the Company. Upon the date which is six months following the date of Executive's separation from service, all previously accrued monthly amounts shall be payable in a lump sum and future amounts will continue to be paid pursuant to the remaining term of the 12-month payment cycle. The above-referenced six-month delay in payment shall only apply to the extent required by Section 409A of the Code, such that such delay shall not apply to payments made in connection with an involuntary termination of employment provided such payments fall within the dollar threshold described in Treas. Reg. § 1.409A-1(b)(9)(iii).
- (g) If the Executive becomes entitled to any amount in the nature of compensation payable by the Company (including benefits under this Agreement) that is contingent on a change in ownership, effective control, or substantial ownership of a substantial portion of the Company's assets within the meaning of Section 280G of the Code, and that is subject to the excise tax imposed by Section 4999 of the Code, then the Company shall reduce the compensation payable to the minimum amount necessary to avoid the excise tax, except as follows. No reduction applies if after accounting for the excise tax and all other income and employment taxes due on the compensation payable by the Company, the net amount that the Executive would retain would be greater than the amount the Executive would receive after reduction under this paragraph 4(g). Any reduction applies in the following order: first, cash payments; second, equity awards; and third, noncash benefits, in each

case, in reverse chronological order. The extent to which any reduction is necessary is determined by the Company's independent accountants.

5. Non-Competition. During the Agreement Term and for a period of 12 months subsequent to the Date of Termination, the Executive shall not, without the prior written consent of the Company, directly or indirectly, (i) own or acquire in any manner any interest (other than the ownership solely for investment purposes of not more than five percent of the shares of any corporation, the shares of which are publicly and regularly traded on a national securities exchange or in the over-the-counter market) in any person, firm, partnership, company, association or other entity that competes with the Company in the business of enterprise security solutions and services to customers in the United States government and industry (the "Business"), (ii) be employed by, or serve as an employee, agent, officer, director of, any person, firm, partnership, corporation or provider of services competitive with the Business of the Company, or (iii) provide financial, technical, marketing or other assistance or act as a representative, broker, director, officer, employee, advisor, consultant or agent of any person or entity that is competitive with the Business of the Company.

6. Confidentiality. The Executive promises that he will receive, develop and hold Confidential Information (as defined below) in strict confidence and will not use or disclose Confidential Information, or make copies of any documents containing Confidential Information, except in furtherance of the Business of the Company, unless the Chief Executive Officer provides prior written consent. The Executive further agrees to use reasonable efforts to safeguard the Confidential Information and protect it from disclosure, misuse, loss or theft. The foregoing promises of confidentiality shall not apply if and to the extent that the Executive is ordered by a court or other governmental agency to disclose Confidential Information, provided the Executive has given the Company prompt written notice of the order or subpoena and provides all reasonable cooperation necessary to limit such disclosure and to protect the confidentiality of any Confidential Information so disclosed. "Confidential Information" means all nonpublic information (whether or not specifically labeled or identified as confidential), that has been or is disclosed to, developed or learned by the Executive as a result of employment with the Company and that relates to the business, finances, products, services, customers, research or development of the Company or third parties with whom the Company does business or from whom the Company receives information. The definition of Confidential Information includes, but is not limited to, the following: access codes, security devices and naming conventions used in software and hardware systems; databases of information; other proprietary software; proprietary specifications for hardware and software platforms, the identity and transactions with customers, clients and suppliers; marketing product and service plans, objectives and strategies; tactical objectives, approaches, and competitive advantages; internal financial information; specialized marketing programs related to products and services offered or under development by the Company (or any parent or affiliate of the Company); data and reports related to marketing programs; proprietary systems and operations manuals; proprietary training manuals; proprietary technical and scientific know-how, data and strategies; the Company's information gathering processes and compilations of information; and information disclosed to the Company by its business partners, licensees, customers and clients in reliance on promises that its confidentiality will be preserved.

7. Non-Solicitation.

(a) The Executive recognizes that the Company incurs significant expense in training employees to provide services in accordance with the Company's Business and that the Company will disclose Confidential Information to each such employee. The Executive promises that, during the Agreement Term and for a period of 12 months after expiration of the Agreement Term, the Executive will not, without the prior written consent of the Company, knowingly hire, directly or indirectly, any person then employed by the Company, or knowingly solicit, directly or indirectly, such a person either to terminate or diminish employment with the Company, or to work for any other person or entity, whether or not a competitor, and the Executive shall not approach any such employee for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(b) The Executive also acknowledges that the Company incurs significant expense in developing business partners, licensees, customers and clients. The Executive promises that, during the Agreement Term and for a period of 18 months after the Agreement Term ends, the Executive will not, without the prior written consent of the Company, knowingly directly or indirectly, solicit any customer, business partner, licensee or client of the Company to terminate or diminish its business relationship with the Company or to purchase any product or service that is or may be used as a substitute for any product or service of the Company, and the Executive shall not knowingly approach any such customer, supplier, lessor or lessee for such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

8. Restrictions Reasonable. Executive agrees that the restrictions set forth in paragraphs 5 (Non-Competition), 6 (Confidentiality), and 7 (Non-Solicitation) are reasonable, proper and necessitated by the legitimate business interests of the Company, and do not constitute an unlawful or unreasonable restraint upon Executive's ability to earn a living. Executive acknowledges that it may be impossible to assess the monetary damages occurred by Executive's violation of paragraphs 6, 7 or 8 of this Agreement, that violations of those paragraphs will be material breaches of this Agreement and will cause irreparable injury to the Company. Accordingly, Executive agrees that Company will be entitled, in addition to all other rights and remedies which may be available, to an injunction enjoining and restraining Executive and any other involved party from committing a violation of this Agreement, and Executive consents to the issuance and entry of such injunction. In addition, Company will be entitled to such damages as it can demonstrate that it sustained by reason of the violation of this Agreement by the Executive and/or others. The parties agree that in the event of any litigation to enforce or interpret this Agreement, the prevailing party will be entitled to recover all costs, including reasonable attorney's fees, from the non-prevailing party. In the event Company enforces this paragraph 8 through a Court Order, Executive agrees that the restriction on Executive following Termination of employment set forth in this Agreement shall remain in effect for a period of one year from the date of the final Court Order enforcing this Agreement.

9. Protected Rights. Executive understands that nothing in this Agreement limits Executive's ability to file, cooperate in or participate in a charge, complaint or proceeding with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission, or any other federal, state or local governmental agency or commission ("Government Agencies") or to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information (including Confidential Information), without notice to the Company.

10. Return of Materials. Upon the Executive's Date of Termination, or at any time upon the Company's request, the Executive (or if deceased, the Executive's personal representative) shall promptly deliver to the Company without retaining copies, all tangible things that are or contain Confidential Information. The Executive or such personal representative shall also promptly deliver to the Company all computer print-outs, books, software manuals and directions, floppy disks and other such media for storing software and information, work papers, files, customer lists, supplier lists, employee lists, telephone and/or address books, Rolodex or equivalent cards, memoranda, appointment books, calendars, employee manuals, sales aides, keys and other tangible things provided to the Executive by the Company, or authored in whole or in part by the Executive within the scope of his employment by the Company, even if they do not contain Confidential Information; provided that the Executive shall not be required to deliver personal files and personal information unrelated to the Company's business. At the time of such deliveries, the Executive shall disclose to the Company any passwords or other knowledge required to access and use any of the foregoing. The Executive acknowledges that he does not have, and will not acquire, any ownership rights in such materials and things.

11. Nonalienation. The interests of the Executive under this Agreement are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by the Executive's creditors or beneficiaries.

12. Successors. This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

13. Notices. Notices and all other communications provided for in this Agreement shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid, or sent by facsimile or prepaid overnight courier to the parties at the addresses set forth below (or such other addresses as shall be specified by the parties by like notice):

To the Company:

Telos Corporation
19886 Ashburn Road
Ashburn, VA 20147
Attn.: General Counsel

To the Executive:

Mr. Malcolm G. Cooke
21535 Plymouth Place
Ashburn, VA 20147

14. Severability. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, and this Agreement will be construed as if such invalid or unenforceable provision were omitted (but only to the extent that such provision cannot be appropriately reformed or modified).

15. Waiver of Breach. No waiver of either party hereto of a breach of any provision of this Agreement by the other party will operate or be construed as a waiver of any subsequent breach by such other party. The failure of either party to take any action by reason of such breach will not deprive such party of the right to take action at any time while such breach continues.

16. Amendment. This Agreement may be amended or canceled only by mutual agreement of the parties in writing without the consent of any other person. So long as the Executive lives, no person, other than the Executive and the Company, shall have any rights under or interest in this Agreement or the subject matter hereof.

17. Choice of Law and Forum Selection. This Agreement shall be governed by the laws of the Commonwealth of Virginia as to its validity, interpretation and enforcement. Should it be necessary for the Company to file suit, exclusive jurisdiction will lie in the courts of the Commonwealth of Virginia.

18. Survival of Agreement. Except as otherwise expressly provided in this Agreement, the rights and obligations of the parties to this Agreement shall survive the Termination of the Executive's employment with the Company.

19. Entire Agreement. This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and supersedes all prior and contemporaneous agreements, if any, between the parties relating to the subject matter hereof.

20. Acknowledgement by Executive. The Executive represents to the Company that he is knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, that he has read this Agreement and that he understands its terms. The Executive acknowledges that, prior to assenting to the terms of this Agreement, he has been given a reasonable time to review it, to consult with counsel of his choice, and to negotiate at arm's-length with the Company as to the contents. The Executive and the Company agree that the language used in this Agreement is the language chosen by the parties to express their mutual intent, and that no rule of strict construction is to be applied against either party hereto.

21. Section 409A. Regardless of intent, neither party is required to prevent, minimize, or offset any negative consequences to the other party because a payment or benefit due under this Agreement is subject to Section 409A. To the extent that any payment or benefit is subject to Section 409A, the following terms apply:

(a) The parties hereby designate that any right to a series of installment payments be treated as the right to a series of separate payments.

(b) If payment under this agreement is conditioned on termination of employment, termination of employment (however referred to) means a "separation from service" (as defined under Section 409A).

(c) Any payment or benefit due upon separation from service is payable after the Executive's release of claims becomes irrevocable. If a new calendar year begins during the period when the Executive may sign a release of claims, payment will be made or begin in the new calendar year, regardless of when the release becomes irrevocable.

IN WITNESS WHEREOF, the Executive has hereunto set his hand, and the Company has caused these presents to be executed in its name and on its behalf, as of the date above first written.

EXECUTIVE

TELOS CORPORATION,
a Maryland corporation

/s/ Malcolm G. Cooke

Malcolm G. Cooke

VP, Chief Information Technology Officer

/s/ John B. Wood

John B. Wood

Chairman & CEO



TELOS CORPORATION INSIDER TRADING POLICY

The Insider Trading Policy (“Policy”) describes the requirements of Telos Corporation, a Maryland corporation, and its subsidiaries (collectively, the “Company” or “Telos”) related to trading, and causing the trading of, the Company’s securities or securities of certain other publicly traded companies while in possession of “material” and “non-public” information. This Policy applies to all officers of the Company, all members of the Company’s Board of Directors and all employees of the Company. The Company may also determine that other persons should be subject to this Policy, such as contractors or consultants who have access to material nonpublic information. This Policy also applies to family members, other members of a person’s household and entities controlled by a person covered by this Policy, as described below.

1. GENERAL

A major purpose of the Federal securities law is to prohibit “insider trading”. Insider trading occurs when a person uses material non-public information obtained through involvement with a company to make decisions to purchase, sell, give away, otherwise trade that company’s securities, or provide that information to others outside the company. The prohibitions against insider trading apply to trades, tips, and recommendations by virtually any person, including all persons associated with the subject company, when “material” and “non-public” information is involved. Anyone violating the insider trading prohibition is subject to personal liability and could face criminal penalties.

Telos takes seriously its obligation, and that of its associates, to prevent insider trading violations. In light of the severity of the possible sanctions, both to individuals and to the Company, Telos has established this Policy to assist all Company personnel in understanding and complying with these obligations. Violations of this Policy or any other Company policy could subject the violator to disciplinary action, up to and including termination of employment or any relationship with the Company. This Policy does not supersede or replace each person’s responsibility to understand and comply with the legal prohibitions on insider trading. For answers to specific questions regarding this Policy or applicable law, contact the Compliance Officer.

For purposes of this Policy, Telos securities includes the Company’s common stock, options to purchase common stock, or any other type of securities that the Company may issue, including (but not limited to) preferred stock, convertible debentures and warrants, as well as derivative securities that are not issued by the Company, such as exchange-traded put or call options or swaps relating to Telos securities.

2. STATEMENT OF POLICY

It is the policy of the Company that no director, officer or other employee of the Company (or any other person designated by this Policy or by the Compliance Officer as subject to this Policy) may, directly or indirectly through family members or other persons or entities:

- Buy or sell Telos securities at any time while possessing Material Non-Public Information (defined in Section 5) relating to Telos, except as otherwise specified in this Policy.
- Buy or sell securities of another company with which Telos has business dealings at any time while possessing Material Non-Public Information about that company. Examples of these other companies include, without limitation, Telos customers, vendors and suppliers.

- Disclose Telos Material Non-Public Information to persons within the Company whose jobs do not require them to have that information or outside of the Company to other persons, including, but not limited to, family, friends, business associates, investors and expert consulting firms, unless any such disclosure is made in accordance with the Company's policies regarding the protection or authorized external disclosure of information regarding the Company.
- Disclose ("tip") Material Non-Public Information to any other person, including family members, if the person may use that information to their benefit by trading in the related securities.
- Make positive or negative recommendations or express opinions on the basis of Material Non-Public Information with regard to trading in Telos securities.
- Comment on stock price movements or on rumors or stories about Company developments that the investing public may consider significant, unless it is part of that employee's job (e.g., in an Investor Relations role) or the Chief Executive Officer or Chief Financial Officer has specifically authorized that employee to speak on behalf of the Company in that instance.

It is also the policy of the Company that Insiders (as defined in Section 5) may not buy or sell Telos securities during any of the four "Quiet Periods" that occur each fiscal year (see Section 5(a)). An Insider who terminates their employment or other relationship with the Company remains subject to this Policy until the end of the first Quiet Period following the termination of employment or other relationship.

Insiders may not engage in the following types of transactions in the Company's securities unless the Compliance Officer grants advance written approval:

- o *Short-term trading.* Insiders who purchase Company securities may not sell any Company securities of the same class for at least six (6) months after the purchase, and vice versa.
- o *Short sale.* Insiders may not sell the Company's securities short.
- o *Options trading.* Insiders may not buy or sell puts, calls, or other option types, or otherwise trade in derivative securities related to the Company's securities.
- o *Trading on margin or pledging.* Insiders may not trade Company securities on margin, hold Company securities in a margin account, or pledge Company securities as collateral for a loan, without pre-clearance from the Compliance Officer.
- o *Hedging.* Insiders may not enter into hedging, monetization transactions, or similar arrangements with respect to Company securities.

There are no exceptions to this Policy, except as specifically noted herein. Transactions that may be necessary or justifiable for independent reasons (such as the need to raise money for an emergency expenditure), or small transactions, are not excepted from this Policy. The securities laws do not recognize any mitigating circumstances, and, in any event, even the appearance of an improper transaction must be avoided to preserve the Company's reputation for adhering to the highest standards of conduct.

3. CERTAIN EXCEPTIONS

- (a) *Certain Stock Option and Restricted Stock Unit Transactions.* This Policy's restrictions on transactions in Telos securities do not apply to the cash or "net" exercise of stock options, or to the surrender or the retention and withholding from delivery of shares to cover taxes owed due to vesting of restricted stock or restricted stock units ("RSUs") in a manner permitted by the applicable equity award agreement or the Company's long term incentive plan pursuant to which the restricted stock or RSUs were granted. The restrictions do apply to an Insider's subsequent sale of any shares issued in connection with an option exercise or vesting of restricted stock or RSUs, however.
- (b) *10b5-1 Trading Plan Exception.* These trading restrictions do not apply to transactions effectuated on behalf of an Insider under a pre-existing written plan, contract, instruction, or arrangement that complies with Rule 10b5-1 under the Securities Exchange Act of 1934 (the "1934 Act") and all of the requirements set forth in the Company's "Guidelines for Rule 10b5-1 Plans" attached to this Policy as Appendix A.

4. PRE-CLEARANCE OF TRADES AND SPECIAL SITUATIONS

The Insider must obtain "pre-clearance" at any time prior to buying or selling Telos securities. The requesting person must complete a Request for Pre-Clearance form and submit it to the Compliance Officer and then await the Compliance Officer's written approval before executing the intended transaction.

- (a) *Section 16 Individuals.* "Section 16 Individuals" include all members of the Telos Board of Directors, the Company's executive officers, and certain strategic business unit leaders who must report transactions in Company securities pursuant to Section 16 of the 1934 Act. Section 16 Individuals are always Insiders for purposes of this Policy. The Compliance Officer will notify those who the Company has identified as subject to the Section 16 requirements. The individuals must comply with the pre-clearance requirement during, and for six (6) months after the termination of, their status as a Section 16 Individual.
- (b) *Other Restricted Persons.* Certain Telos employees, consultants, agents, joint venture partners (or others who regularly receive or have access to Telos Material Non-Public Information), may be deemed Insiders for purposes of this Policy. Examples of persons who are most likely to be subject to this Policy by virtue of their jobs are members of the executive leadership team and their administrative staff and members of the Legal, Investor Relations, Finance and Business Development departments. The Compliance Officer will notify the individuals who will be subject to this Policy.

Telos may determine that other persons should be considered Insiders, subject to this Policy, for a period of time if Telos believes that in the normal course of their duties during that time period they are likely to have access to Material Non-Public Information. The Compliance Officer will notify these individuals of the time periods during which they are subject to the Policy.

Individuals who are notified that they are Insiders subject to this Policy, whether on a permanent or temporary basis, are referred to as "Other Restricted Persons" in this Policy.

- (c) *Time Limit on Pre-Clearance.* When the Compliance Officer issues pre-clearance for an Insider's proposed trade, the pre-clearance is valid for three (3) calendar days. If the requesting Insider does not execute the trade within this timeframe, they must resubmit the pre-clearance request.

- (d) *Event-Specific Trading Restrictions.* From time to time, an event may occur that is material to the Company and is known by only a few directors, officers, employees, or others. The Compliance Officer may determine that it is necessary to re-define the class of persons who may not trade Telos securities while the event remains Material Non-Public Information. In addition, the Company's financial results may be sufficiently material for a particular fiscal quarter that, in the judgment of the Compliance Officer, either a broad class of persons should be prohibited from trading in Telos securities or the quarterly Quiet Period should commence earlier than usual, or both. In these situations, the Compliance Officer will notify the affected Insiders and Other Restricted Persons regarding the additional restrictions on trading Telos securities, without disclosing the reason for the restriction. The existence of an event-specific trading restriction period or extension of a Quiet Period will not be announced to the Company as a whole, and should be treated as confidential information not to be communicated to any other person.
- (e) *Suspension of Trading.* From time to time, the Compliance Officer may recommend that all Insiders should suspend trading in Telos securities because of Material Non-Public Information or events. The Compliance Officer will communicate the suspension to all Insiders, including any additional individuals who have been designated Other Restricted Persons. All those affected may not trade in Telos securities while the suspension is in effect and should not disclose to others that Telos has suspended trading for certain individuals.
- (f) *Standing and Limit Orders, Margin Accounts, and Security Pledges.* Standing and limit orders (except standing and limit orders under an approved Rule 10b5-1 Plan), the use of margin accounts, and the pledging of Company securities as collateral for a loan, each create heightened risks for insider trading violations. There can be little or no control over the timing of purchases or sales that result from standing trade instructions to a broker, and as a result the broker could execute a transaction when an Insider is in possession of Material Non-Public Information. Similarly, a margin call under a margin account or the sale of Company securities by a secured creditor could result in an involuntary sale of Company securities at a time when an Insider may be in possession of Material Non-Public Information. The Company therefore discourages placing long-term standing or limit orders on Company securities, the holding of Company securities in a margin account, and the pledging of Company securities as collateral for a loan.

If an Insider determines that they must use a standing order or limit order, trade company securities on margin, hold Company securities in a margin account, or pledge Company securities as collateral for a loan, they must disclose the circumstances to the Compliance Officer and comply with all restrictions and pre-clearance procedures outlined in this Policy.

5. DEFINITIONS

- (a) *Quiet Periods.* The four quarterly Quiet Periods begin on March 15th, June 15th, September 15th, and December 15th of each year, and end when one full trading day has passed on the NASDAQ Stock Market after Telos announces its results for the preceding fiscal quarter. If the fifteenth day of the month falls on a weekend, the Quiet Period will start at the close of business on the last trading day prior to the weekend.

Assuming NASDAQ is open each day, below is an example of when trading can begin:

- If the Company's earnings announcement is released before NASDAQ opens on Monday, the earliest trading day is Tuesday.
- If the Company's earnings announcement is released while NASDAQ is open on Monday, the earliest trading day is Wednesday.
- If the Company's earnings announcement is released after NASDAQ closes on Monday, the earliest trading day is Wednesday.

- (b) *Insiders*. Insiders are (i) members of the Board of Directors of the Company and executive officers (including, but not limited to, Section 16 Individuals); (ii) identified Company employees whose job requirements involve them in the preparation of financial reporting, board interactions, or investor relations, or otherwise expose them to Material Non-Public Information; (iii) any other individual designated in writing by the Compliance Officer as an Insider and notified of such status including, but not limited to, employees, consultants, and other persons associated with the Company who receive or have access to the Company's Material Non-Public Information; and (iv) household and immediate family members (parent, child, spouse, sibling) of those listed in (i) through (iii).
- (c) *Material Information*. Information is deemed to be material if there is a reasonable likelihood that it would be considered important to an investor in making a decision regarding the purchase or sale of securities. While it is not possible to define all categories of material information, there are various categories of information that are particularly sensitive and, as a general rule, should always be considered material. Examples of such information include:
- Unpublished financial results
 - Pending restatements of previously disclosed financial results
 - Projections of future earnings or losses
 - News of a pending or proposed merger
 - Establishment of a repurchase program for Telos securities
 - Acquisitions or divestitures
 - Purchase or sale of substantial assets
 - Impending bankruptcy or financial liquidity problems
 - Extraordinary borrowings
 - Defaults under agreements or actions by creditors, customers, or suppliers relating to a company's credit standing
 - Gain or loss of a substantial contract, customer or supplier
 - Changes in dividend policy
 - New product announcements of a significant nature
 - Significant pricing changes
 - Stock splits or stock dividends
 - New equity or debt offerings
 - Significant litigation exposure due to actual or threatened litigation
 - Major changes in senior management
 - Cybersecurity risks and incidents

Either positive or negative information may be material. If unsure whether information is material, consult the Compliance Officer before making any decision to disclose such information or to trade in or recommend securities to which that information relates. Assume that the information is material until there is clear reason to believe otherwise.

- (d) *Non-Public Information*. Non-Public Information is information that has not been disclosed to the general public and is not available to the general public. Non-Public Information generally will be deemed to be public after one full trading day has passed on NASDAQ following the date when the information is disclosed publicly. To show that information is public, a person should be able to point to some evidence that is widely disseminated. Information would generally be deemed widely disseminated if it has been disclosed, for example, in the Dow Jones broad tape or news wire services such as Bloomberg, Business Wire, AP, UPI, or Reuters; radio or television; newspapers or magazines; or in widely circulated public disclosure documents filed with the SEC, such as prospectuses, current reports on Form 8-K, quarterly reports on Form 10-Q, or annual reports on Form 10-K. As with questions of materiality, if unsure whether information is considered public, either consult with the Compliance Officer or assume that the information is non-public and treat it as confidential.

6. SAFEGUARDING CONFIDENTIAL INFORMATION

Determinations of materiality are complex and difficult and depend upon an analysis of complex facts and circumstances. A person should assume that any confidential information they possess, about Telos or any other public company qualifies as Non-Public Information and is material.

In order to safeguard Company confidential information, and to minimize the possibility that any employee will violate the law or this Policy, the following procedures have been adopted:

- All confidential information relating to Company business is Non-Public Information and should be handled on a need-to-know basis. Such information should not be discussed with any person who does not need to know such information for purposes of conducting Company business. Friends and relatives are among the persons with whom confidential information should not be discussed.
- Whenever confidential information must be disclosed to an employee or third party, the recipient of such information should be informed of the confidential nature of the information and that it qualifies as Non-Public Information pursuant to the Policy.
- Confidential information should not be discussed in hallways, elevators, or other public places (such as airplanes, restaurants, or public restrooms) where conversations might be overheard, and inadvertent disclosure should not be made through speaker phone discussions that can be overheard by others.
- In order to prevent unauthorized access, confidential documents should be stored appropriately when not being used, and other appropriate precautions should be taken. These may include storage in locked drawers, use of sealed envelopes, marking documents “Confidential”, shredding documents, and using secret access codes and other appropriate computer security measures.
- Persons who have any doubt about whether they possess Non-Public Information regarding Telos or any other company should not disseminate such information to anyone outside the Company until after consulting the Compliance Officer and receiving clearance.

7. POTENTIAL CRIMINAL AND CIVIL LIABILITY; DISCIPLINARY ACTION

(a) *Individual Responsibility.* Each person is individually responsible for complying with the securities laws and this Policy, regardless of whether Telos has notified that person of a trading prohibition. The fact that no Quiet Period or suspension period is currently in effect should not be considered a “safe harbor” for trading. Each person must still consider whether they are then in possession of Material Non-Public Information before executing a trade. The matters set forth in this Policy are guidelines only, and each person must exercise appropriate judgment in connection with all securities trading. Any Insider who believes that a violation of this Policy has taken place must report that violation to the Compliance Officer.

(b) *Potential Sanctions.*

(1) *Liability for Insider Trading.* Insiders may be subject to significant financial penalties and jail terms for trading in securities when they have Material Non-Public Information. In addition to the potential civil and criminal liabilities, in certain circumstances, the Company may be able to recover all profits made by an Insider who traded illegally and collect other damages. Further, the Company (and its directors and executive officers) could face significant civil penalties as a result of an employee’s violation and/or a criminal penalty for failing to take steps to prevent insider trading.

- (2) *Liability for Tipping.* Insiders may also be liable for improper transactions by any person to whom they have disclosed Material Non-public Information (commonly referred to as a “tippee”), or to whom they have made recommendations or expressed opinions on the basis of such information about trading securities. The Securities and Exchange Commission (“SEC”) has imposed large penalties even when the disclosing person did not profit from the trading. The SEC, the stock exchanges, the Financial Industry Regulatory Authority, and law enforcement bodies all use sophisticated electronic surveillance techniques to uncover insider trading and other illegal activity.
- (3) *Possible Disciplinary Action.* Individuals who violate this Policy will be subject to disciplinary action, which may include up to ineligibility for future participation in Telos equity incentive plans or termination of employment or other relationship with Telos.

8. COMPLIANCE OFFICER

- (a) *Identity of Compliance Officer.* The Compliance Officer is its General Counsel. Telos may, in its sole discretion, change the Compliance Officer from time to time.
- (b) *Duties of the Compliance Officer.* The duties of the Compliance Officer, or their designee, which may be executed on the advice of counsel, shall include, but not be limited to:
- o Determining who the Section 16 Individuals are and notifying them.
 - o Determining who the Other Restricted Persons are and notifying them.
 - o Pre-clearing all securities transactions by Insiders to determine compliance with this Policy, insider trading laws, and other applicable securities laws and regulations.
 - o Assisting Section 16 Individuals in the preparation and filing of Section 16 reports (Form 3, 4 and 5).
 - o Serving as the Company’s designated recipient of copies of reports that Section 16 Individuals file with the SEC.
 - o Reminding all Section 16 Individuals periodically of their reporting obligations.
 - o Performing periodic cross-checking of available materials, which may include Forms 3, 4 and 5, Forms 144, Schedules 13D and 13G, D&O questionnaires, and reports received from the Company’s stock administrator and transfer agent, to determine insider trading activity.
 - o Circulating this Policy or a summary to all employees, including Insiders such as Section 16 Individuals and Other Restricted Persons, and providing this Policy and other appropriate materials to new directors, officers, and other employees who have, or may have, access to Material Non-Public Information.
 - o Assisting the Company’s Board of Directors in implementation of this Policy.
 - o Compliance activities with respect to Rule 144 sales of Telos securities.

9. ADDITIONAL INFORMATION – FOR SECTION 16 INDIVIDUALS

Section 16 Individuals must also comply with the reporting obligations and limitations on “short-swing” transactions set forth in the Federal securities laws. The practical effect of these provisions is that Section 16 Individuals who both purchase and sell the Company’s securities within a six-month period must refund all profits from the sale to the Company, whether or not they had knowledge of any Material Non-Public Information.

Under these provisions, and so long as certain other criteria are met, the receipt of options under the Company’s option plans and the exercise of that option is not subject to these restrictions; however, the sale of any such shares is subject to this six-month rule. Additionally, Section 16 Individuals may never make a short sale of the Company’s securities.

Appendix A

Guidelines for Rule 10b5-1 Plans

These guidelines apply to the entry of Rule 10b5-1 plans by directors and officers of Telos Corporation, a Maryland corporation, and its subsidiaries (collectively, the “Company” or “Telos”). Rule 10b5-1 under the Securities Exchange Act of 1934 (the “1934 Act”) provides a defense from insider trading liability under Rule 10b5. In order to be eligible to rely on this defense, a person must enter into a Rule 10b5-1 plan for transactions in Telos securities (as defined in the Telos Corporation Insider Trading Policy (the “Policy”)) that meets certain conditions specified in the Rule (a “Rule 10b5-1 Plan”). If the plan meets the requirements of Rule 10b5-1, transactions in Telos securities may occur without regard to certain insider trading restrictions. In general, a Rule 10b5-1 Plan must be entered into at a time when the person entering into the plan is not aware of Material Non-Public Information (as defined in the Policy). Once the plan is adopted, the person must not exercise any influence over the amount of securities to be traded, the price at which they are to be traded or the date of the trade. The plan must either specify the amount, pricing and timing of transactions in advance or delegate discretion on these matters to an independent third party.

A Rule 10b5-1 plan must include a cooling-off period before trading can commence that, for directors or officers, ends on the later of 90 days after the adoption of the Rule 10b5-1 plan or two business days following the disclosure of the financial results in a periodic report filed with the Securities and Exchange Commission (“SEC”) for the fiscal quarter in which the plan was adopted (but in any event, the required cooling-off period is subject to a maximum of 120 days after adoption of the plan), and for persons other than directors or officers, 30 days following the adoption or modification of a Rule 10b5-1 plan. A person may not enter into overlapping Rule 10b5-1 plans (subject to certain exceptions) and may only enter into one single-trade Rule 10b5-1 plan during any 12-month period (subject to certain exceptions). Directors and officers must include a representation in their Rule 10b5-1 plan certifying that: (i) they are not aware of any Material Nonpublic Information; and (ii) they are adopting the plan in good faith and not as part of a plan or scheme to evade the prohibitions in Rule 10b5. All persons entering into a Rule 10b5-1 plan must act in good faith with respect to that plan.

As specified in the Policy, a Rule 10b5-1 Plan must be approved by the Compliance Officer and meet the requirements of Rule 10b5-1 and these guidelines. Any Rule 10b5-1 Plan must be submitted for approval five days prior to the entry into the Rule 10b5-1 Plan. No further pre-approval of transactions conducted pursuant to the Rule 10b5-1 Plan will be required.

The following guidelines apply to all Rule 10b5-1 Plans:

- You may not enter into, modify or terminate a Rule 10b5-1 Plan during a Quiet Period (as defined in the Policy), an event-specific trading restriction period or otherwise while you are aware of Material Nonpublic Information.
- All Rule 10b5-1 Plans must have a duration of at least six months and no more than two years.
- For officers and directors, no transaction may take place under a Rule 10b5-1 Plan until the later of (a) 90 days after adoption or modification (as specified in Rule 10b5-1) of the Rule 10b5-1 Plan or (b) two business days following the disclosure of the Company’s financial results in a Form 10-Q or Form 10-K for the fiscal quarter (the Company’s fourth fiscal quarter in the case of a Form 10-K) in which the Rule 10b5-1 Plan was adopted or modified (as specified in Rule 10b5-1). In any event, the cooling-off period is subject to a maximum of 120 days after adoption of the plan.
- For persons other than officers and directors, no transaction may take place under a Rule 10b5-1 Plan until 30 days following the adoption or modification (as specified in Rule 10b5-1) of a Rule 10b5-1 Plan.
- Subject to certain limited exceptions specified in Rule 10b5-1, you may not enter into more than one Rule 10b5-1 Plan at the same time.

- Subject to certain limited exceptions specified in Rule 10b5-1, you are limited to only one Rule 10b5-1 designed to effect an open market purchase or sale of the total amount of securities subject to the Rule 10b5-1 Plan as a single transaction in any 12-month period.
- You must act in good faith with respect to a Rule 10b5-1 Plan. A Rule 10b5-1 Plan cannot be entered into as part of a plan or scheme to evade the prohibition of Rule 10b5. Therefore, although modifications to an existing Rule 10b5-1 Plan are not prohibited, a Rule 10b5-1 Plan should be adopted with the intention that it will not be amended or terminated prior to its expiration.
- Officer and directors must include a representation to the Company at the time of adoption or modification of a Rule 10b5-1 Plan that (i) the person is not aware of Material Non-Public Information and (ii) the person is adopting the plan in good faith and not as part of plan or scheme to evade the prohibitions of Rule 10b5.

The Company and the Company's officers and directors must make certain disclosures in SEC filings concerning Rule 10b5-1 Plans. Officers and directors of the Company must undertake to provide any information requested by the Company regarding Rule 10b5-1 Plans for the purpose of providing the required disclosures or any other disclosures that the Company deems to be appropriate under the circumstances.

Each director, officer and other Section 16 Individual (as defined in the Policy) understands that the approval or adoption of a pre-planned selling program in no way reduces or eliminates such person's obligations under Section 16 of the 1934 Act, including such person's disclosure and short-swing trading liabilities thereunder. If any questions arise, such person should consult with their own counsel in implementing a Rule 10b5-1 Plan.

LIST OF SUBSIDIARIES

Active Subsidiaries of the Company as of December 31, 2024

Name of Subsidiary	State/Country of Incorporation
ubIQiquity.com, inc.	Delaware
Xacta Corporation	Delaware
Teloworks, Inc.	Delaware
Telos Identity Management Solutions, LLC (DBA Telos ID)	Delaware
Teloworks Philippines, Inc.	Philippines

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-252400) of Telos Corporation of our report dated March 10, 2025 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Washington, District of Columbia
March 10, 2025

CERTIFICATION

I, John B. Wood, certify that:

1. I have reviewed this annual report on Form 10-K 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 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: March 10, 2025

/s/ John B. Wood

John B. Wood

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION

I, Mark Bendza, certify that:

1. I have reviewed this annual report on Form 10-K 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 annual 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 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: March 10, 2025

/s/ Mark Bendza

Mark Bendza

Chief Financial Officer (Principal Financial Officer)

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

In connection with the Annual Report of Telos Corporation (the "Company") on Form 10-K for the year ended December 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 the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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: March 10, 2025

/s/ John B. Wood

John B. Wood

Chief Executive Officer (Principal Executive Officer)

Date: March 10, 2025

/s/ Mark Bendza

Mark Bendza

Chief Financial Officer (Principal Financial Officer)